

ARC DOCUMENT SOLUTIONS, INC.

FORM 8-K (Current report filing)

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Address	1981 N. BROADWAY, SUITE 385 WALNUT CREEK, CA 94596
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Industry	Business Services
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report: August 06, 2013
(Date of earliest event reported)

ARC Document Solutions, Inc.
(Exact name of registrant as specified in its charter)

CA
(State or other jurisdiction
of incorporation)

001-32407
(Commission File
Number)

20-1700361
(IRS Employer
Identification Number)

1981 N. Broadway, Walnut Creek, CA
(Address of principal executive offices)

94596
(Zip Code)

(925) 949-5100
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

Second Quarter 2013 Financial Results

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 [Press Release of ARC Document Solutions, Inc. dated August 06, 2013](#)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 06, 2013

ARC DOCUMENT SOLUTIONS, INC.

By: /s/ K. Suriyakumar
K. Suriyakumar
Chief Executive Officer and President

<u>Exhibit No.</u>	Exhibit Index	<u>Description</u>
99.1		Press Release of ARC Document Solutions, Inc. dated August 06, 2013

ARC Document Solutions Reports Results for Second Quarter 2013

WALNUT CREEK, CA -- (Marketwired - August 06, 2013) - ARC Document Solutions, Inc. (NYSE: ARC), the nation's leading document solutions company for the architecture, engineering, and construction (AEC) industry, today reported its financial results for the second quarter ended June 30, 2013.

Business Highlights:

- Q2 adjusted earnings per share of \$0.04 vs. \$0.02 in Q2 2012
- Gross margin for the second quarter was 34.0%, a year-over-year increase of 220 basis points
- Cash from operations was \$20.0 million for the six months ended June 30, 2013, vs. \$16.9 million for the same period last year
- Repurchased \$7.0 million of ARC bonds in July; results in full-year annual interest savings of more than \$700,000
- Revises 2013 fully-diluted annual adjusted earnings per share forecast to be in the range \$0.06 to \$0.09 and maintains projected 2013 annual cash from operating activities to be in the range of \$38-\$45 million

Financial Highlights:

(All dollar figures in millions, except EPS)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net Revenue	\$ 104.6	\$ 106.2	\$ 204.7	\$ 209.8
Gross Margin	34.0%	31.8%	33.2%	31.3%
Net Income (Loss) attributable to ARC	\$ 0.7	\$ (1.1)	\$ 1.1	\$ (6.0)
Adjusted Net Income (Loss) attributable to ARC	\$ 1.6	\$ 0.8	\$ 2.2	\$ 0.9
EPS	\$ 0.02	\$ (0.02)	\$ 0.02	\$ (0.13)
Adjusted EPS	\$ 0.04	\$ 0.02	\$ 0.05	\$ 0.02
Cash from Operations	\$ 8.1	\$ 4.5	\$ 20.0	\$ 16.9
Capital Expenditures	\$ 4.4	\$ 5.5	\$ 10.0	\$ 9.3
Debt & Capital Leases (including current)			\$ 220.8	\$ 224.4

Management Commentary:

"The company continues to gain strength and momentum as a technology-enabled document solutions provider," said K. "Suri" Suriyakumar, Chairman, President and CEO of ARC Document Solutions. "While nonresidential construction is still recovering, the addressable market for ARC continues to grow with new offerings fuelled by our investments in technology. This is clearly demonstrated by our growth in managed print services, which is powered by our proprietary Abacus software."

"In addition, as the markets improve and our revenues stabilize, our performance is clearly having the desired effect on our margins, and strong cash generation has opened up opportunities to de-lever and lower our annual interest costs," Mr. Suriyakumar said. "While we will continue to drive margin expansion through the rest of the year, we remain committed to developing new technology solutions, which will allow us to solidify our position as a leader in the document solutions space."

"With just a one percent year-over-year decline in North American daily sales during the quarter, and continuing strength in our MPS and color sales, we've made significant progress in reversing the revenue trends that have characterized our performance since the early days of the recession," said John Toth, ARC Document Solution's Chief Financial Officer. "Between our margin expansion and these early steps in our deleveraging program, we are building a strong foundation from which to build in the years ahead."

2013 Second Quarter Supplemental Information:

Net sales were \$104.6 million, a 1.5% decrease compared to the second quarter of 2012.

Daily sales for North America decreased 1.0% year-over year with 64 days in the period, compared to 64 days in 2Q 2012.

There were 54 days sales outstanding in Q2 2013 compared to 51 days in Q2 2012.

AEC customers comprised approximately 75% of our total net sales, while non-AEC customers made up 25% of our total net sales.

Total number of Onsite Services contracts was approximately 7,300, a gain of more than 175 contracts in Q2 2013.

Sales from Services and Product Lines as a Percentage of

Net Sales	Three Months Ended	
	June 30	
Services and Product Line	2013	2012
Traditional Reprographics	29.2%	32.3%
Onsite Services	29.2%	25.9%
Color Services	20.9%	19.3%
Digital Services	8.3%	9.0%
Equipment and Supplies Sales	12.4%	13.6%

Sales Reporting Format

In February 2013, ARC Document Solutions announced that in its statement of operations the Company would begin reporting net sales under "Service sales" and "Equipment and supplies sales" to better identify and report its individual services and product lines. The two new categories replace the three categories previously used to report net sales of "Reprographics services," "Facilities management," and "Equipment and supplies sales."

"Service sales" includes traditional reprographics services, onsite services, color printing services, and digital services. "Equipment and supplies sales" is self-explanatory. Net sales for the individual services and product lines that comprise each category are reported and reconciled in the Company's "Net Sales by Services and Product Line" table included herein. For historical comparisons, please consult the Company's 2012 annual report on Form 10-K.

Outlook:

ARC Document Solutions revised its annual adjusted earnings per share forecast for 2013 to be in the range of \$0.06 to \$0.09 on a fully-diluted basis, and maintains its annual cash flow from operations to be in the range of \$38 million to \$45 million.

Teleconference and Webcast:

ARC Document Solutions will host a conference call and audio webcast today at 2:00 P.M. Pacific Time (5:00 P.M. Eastern Time) to discuss results for the Company's second quarter of 2013. The conference call can be accessed by dialing (888) 265-9177. The conference ID number is 15526230.

A live Webcast will also be made available on the investor relations page of ARC's website at www.e-arc.com. A replay will be available approximately one hour after the call for seven days following the call's conclusion. To access the replay, dial (855) 859-2056. The conference ID number to access the replay is 15526230. A Web archive will be made available at <http://www.e-arc.com> for approximately 90 days following the call's conclusion.

About ARC Document Solutions (NYSE: ARC)

ARC Document Solutions is a leading document solutions company serving businesses of all types, with an emphasis on the non-residential segment of the architecture, engineering and construction industries. The Company helps more than 90,000 customers reduce costs and increase efficiency in the use of their documents, improve document access and control, and offers a wide variety of ways to print, produce, and store documents. ARC provides its solutions onsite in more than 7,000 of its customers' offices, offsite in service centers around the world, and digitally in the form of proprietary software and web applications. For more information please visit www.e-arc.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on current opinions, estimates and assumptions of management regarding future events and the future financial performance of the Company. Words such as "expected," "consider" "intended," and similar expressions identify forward-looking statements and all statements other than statements of historical fact, including, but not limited to, any projections regarding earnings, revenues and financial performance of the Company, could be deemed forward-looking statements. We caution you that such statements are only predictions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. In addition to matters affecting the construction, managed print services, document management or reprographics industries, or the economy generally, factors that could cause actual results to differ from expectations stated in forward-looking statements include, among others, the factors described in the caption entitled "Risk Factors" in Item 1A in ARC Document Solution's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, Quarterly Reports on Form 10-Q, and other periodic filings and prospectuses. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

ARC Document Solutions, Inc.
Consolidated Balance Sheets
(Dollars in thousands, except per share data)
(Unaudited)

	June 30,	December 31,
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,377	\$ 28,021
Accounts receivable, net of allowances for accounts receivable of \$2,736 and \$2,634	63,111	51,855
Inventories, net	13,717	14,251
Deferred income taxes	386	--
Prepaid expenses	3,993	3,277
Other current assets	3,318	6,819
Total current assets	116,902	104,223
Property and equipment, net of accumulated depreciation of \$201,643 and \$197,830	56,552	56,471
Goodwill	212,608	212,608
Other intangible assets, net	31,021	34,498
Deferred financing costs, net	3,658	4,219
Deferred income taxes	1,350	1,246
Other assets	2,275	2,574
Total assets	\$ 424,366	\$ 415,839
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 24,824	\$ 21,215
Accrued payroll and payroll-related expenses	9,834	6,774
Accrued expenses	21,958	22,321
Current portion of long-term debt and capital leases	12,061	13,263
Total current liabilities	68,677	63,573
Long-term debt and capital leases	208,722	209,262
Deferred income taxes	30,319	28,936
Other long-term liabilities	3,137	3,231
Total liabilities	310,855	305,002
Commitments and contingencies		
Stockholders' equity:		
ARC Document Solutions, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding	--	--
Common stock, \$0.001 par value, 150,000 shares authorized; 46,356 and 46,274 shares issued and 46,316 and 46,262 shares outstanding	46	46
Additional paid-in capital	103,840	102,510
Retained earnings	1,832	695
Accumulated other comprehensive income	411	689

	106,129	103,940
Less cost of common stock in treasury, 40 and 12 shares	134	44
Total ARC Document Solutions, Inc. stockholders' equity	105,995	103,896
Noncontrolling interest	7,516	6,941
Total equity	113,511	110,837
Total liabilities and equity	\$ 424,366	\$ 415,839

ARC Document Solutions, Inc.
Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Service sales	\$ 91,628	\$ 91,783	\$ 179,428	\$ 181,455
Equipment and supplies sales	12,994	14,445	25,230	28,346
Total net sales	104,622	106,228	204,658	209,801
Cost of sales	69,011	72,475	136,668	144,170
Gross profit	35,611	33,753	67,990	65,631
Selling, general and administrative expenses	24,891	23,973	48,664	47,430
Amortization of intangible assets	1,699	2,805	3,446	7,398
Restructuring expense	636	-	1,108	-
Income from operations	8,385	6,975	14,772	10,803
Other income, net	(35)	(24)	(61)	(54)
Interest expense, net	6,076	7,255	12,117	14,693
Income (loss) before income tax provision	2,344	(256)	2,716	(3,836)
Income tax provision	1,467	619	1,156	1,929
Net income (loss)	877	(875)	1,560	(5,765)
Income attributable to the noncontrolling interest	(155)	(178)	(423)	(195)
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	\$ 722	\$ (1,053)	\$ 1,137	\$ (5,960)
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	\$ 0.02	\$ (0.02)	\$ 0.02	\$ (0.13)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.02	\$ (0.13)

Weighted average common shares
outstanding:

Basic	45,901	45,667	45,832	45,604
Diluted	46,058	45,667	45,884	45,604

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of cash flows provided by operating activities to EBIT,

EBITDA and Adjusted EBITDA

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cash flows provided by operating activities (1)	\$ 8,110	\$ 4,455	\$ 19,991	\$ 16,850
Changes in operating assets and liabilities, net of business acquisitions	4,314	6,928	2,558	4,783
Non-cash expenses, including depreciation amortization and restructuring	(11,547)	(12,258)	(20,989)	(27,398)
Income tax provision	1,467	619	1,156	1,929
Interest expense	6,076	7,255	12,117	14,693
Net income attributable to the noncontrolling interest	(155)	(178)	(423)	(195)
EBIT	8,265	6,821	14,410	10,662
Depreciation and amortization	8,719	9,866	17,421	21,521
EBITDA	16,984	16,687	31,831	32,183
Restructuring expense	636	-	1,108	-
Stock-based compensation	729	459	1,321	903
Adjusted EBITDA	\$ 18,349	\$ 17,146	\$ 34,260	\$ 33,086

(1) For the three and six months ended June 30, 2013 cash flows provided by operating activities includes \$1.0 million and \$2.6 million, respectively, in cash payments related to restructuring.

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income (loss) attributable to ARC to unaudited

adjusted net income attributable to ARC

(Dollars in thousands, except per share data)

(Unaudited)

Three Months Ended

Six Months Ended

	June 30,		June 30,	
	2013	2012	2013	2012
Net income (loss) attributable to ARC	\$ 722	\$ (1,053)	\$ 1,137	\$ (5,960)
Change in trade name impact to amortization	-	790	-	3,158
Restructuring expense	636	-	1,108	-
Interest rate swap related costs	-	1,015	-	2,271
Income tax benefit, related to above items	(252)	(694)	(431)	(2,049)
Deferred tax valuation allowance and other discrete tax items	542	788	388	3,433
Unaudited adjusted net income attributable to ARC	\$ 1,648	\$ 846	\$ 2,202	\$ 853

Actual:

Earnings (loss) per share attributable to ARC

Document Solutions, Inc. shareholders:

Basic	\$ 0.02	\$ (0.02)	\$ 0.02	\$ (0.13)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.02	\$ (0.13)

Weighted average common shares outstanding:

Basic	45,901	45,667	45,832	45,604
Diluted	46,058	45,667	45,884	45,604

Adjusted:

Earnings per share attributable to ARC Document

Solutions, Inc. shareholders:

Basic	\$ 0.04	\$ 0.02	\$ 0.05	\$ 0.02
Diluted	\$ 0.04	\$ 0.02	\$ 0.05	\$ 0.02

Weighted average common shares outstanding:

Basic	45,901	45,667	45,832	45,604
Diluted	46,058	45,726	45,884	45,618

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income (loss) attributable to ARC Document Solutions to EBIT, EBITDA and Adjusted EBITDA

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss) attributable to ARC Document Solutions	\$ 722	\$ (1,053)	\$ 1,137	\$ (5,960)
Interest expense, net	6,076	7,255	12,117	14,693
Income tax provision	1,467	619	1,156	1,929
EBIT	8,265	6,821	14,410	10,662
Depreciation and amortization	8,719	9,866	17,421	21,521
EBITDA	16,984	16,687	31,831	32,183
Restructuring expense	636	-	1,108	-
Stock-based compensation	729	459	1,321	903
Adjusted EBITDA	\$ 18,349	\$ 17,146	\$ 34,260	\$ 33,086

ARC Document Solutions, Inc.
Net Sales by Product Line
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Service sales				
Traditional reprographics	\$ 30,516	\$ 34,284	\$ 60,074	\$ 67,607
Color	21,846	20,501	42,751	40,504
Digital	8,690	9,508	17,051	19,198
Subtotal (1)	61,052	64,293	119,876	127,309
Onsite services (2)	30,576	27,490	59,552	54,146
Total service sales	91,628	91,783	179,428	181,455
Equipment and supplies sales	12,994	14,445	25,230	28,346
Total net sales	\$ 104,622	\$ 106,228	\$ 204,658	\$ 209,801

(1) For comparison purposes this subtotal agrees with reprographics services historically reported prior to the 2012 Annual Report on Form 10-K.

(2) Represents work done at our customer sites which includes Facilities Management ("FM") and Managed Print Services ("MPS").

Non-GAAP Financial Measures.

EBIT, EBITDA and related ratios presented in this report are supplemental measures of our performance that are not required by or presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These measures are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, income from operations, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating, investing or financing activities as a

measure of our liquidity.

EBIT represents net income before interest and taxes. EBITDA represents net income before interest, taxes, depreciation and amortization. EBIT margin is a non-GAAP measure calculated by dividing EBIT by net sales. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

We present EBIT, EBITDA and related ratios because we consider them important supplemental measures of our performance and liquidity. We believe investors may also find these measures meaningful, given how our management makes use of them. The following is a discussion of our use of these measures.

We use EBIT and EBITDA to measure and compare the performance of our operating segments. Our operating segments' financial performance includes all of the operating activities except debt and taxation which are managed at the corporate level for U.S. operating segments. As a result, we believe EBIT is the best measure of operating segment profitability and the most useful metric by which to measure and compare the performance of our operating segments. We also use EBIT to measure performance for determining operating segment-level compensation and we use EBITDA to measure performance for determining consolidated-level compensation. In addition, we use EBIT and EBITDA to evaluate potential acquisitions and potential capital expenditures.

EBIT, EBITDA and related ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

- They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBIT, EBITDA, and related ratios should not be considered as measures of discretionary cash available to us to invest in business growth or to reduce our indebtedness. We compensate for these limitations by relying primarily on our GAAP results and using EBIT, EBITDA and related ratios only as supplements. For more information, see our interim Condensed Consolidated Financial Statements and related notes on our 2013 second quarter report on Form 10-Q. Additionally, please refer to our 2012 Annual Report on Form 10-K.

Our presentation of adjusted net income and adjusted EBITDA over certain periods is an attempt to provide meaningful comparisons to our historical performance for our existing and future investors. The unprecedented changes in our end markets over the past several years have required us to take measures that are unique in our history and specific to individual circumstances. Comparisons inclusive of these actions make normal financial and other performance patterns difficult to discern under a strict GAAP presentation. Each non-GAAP presentation, however, is explained in detail in the reconciliation tables above.

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and six months ended June 30, 2013 and 2012 to reflect the exclusion of amortization impact related specifically to the change in useful lives of trade names, restructuring expense, interest rate swap related costs, and changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and six months ended June 30, 2013 and 2012. We believe these charges were the result of the current macroeconomic environment, our capital restructuring, or other items which are not indicative of our actual operating performance.

We presented adjusted EBITDA in three and six months ended June 30, 2013 and 2012 to exclude stock-based compensation expense and restructuring expense. The adjustment of EBITDA for non-cash adjustments is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

ARC Document Solutions
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

Three Months Ended June 30,		Six Months Ended June 30,	
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2013	2012	2013	2012

Cash flows from operating activities				
Net income (loss)	\$ 877	\$ (875)	\$ 1,560	\$ (5,765)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Allowance for accounts receivable	301	164	446	404
Depreciation	7,020	7,061	13,975	14,123
Amortization of intangible assets	1,699	2,805	3,446	7,398
Amortization of deferred financing costs	278	281	561	536
Amortization of bond discount	167	150	332	297
Stock-based compensation	729	459	1,321	903
Deferred income taxes	1,145	(179)	736	(504)
Deferred tax valuation allowance	154	944	174	2,912
Restructuring expense, non-cash portion	235	-	293	-
Amortization of derivative, net of tax effect	-	636	-	1,422
Other noncash items, net	(181)	(63)	(295)	(93)
Changes in operating assets and liabilities, net of effect of business acquisitions:				
Accounts receivable	(2,666)	(493)	(11,849)	(6,127)
Inventory	234	(1,064)	280	(1,585)
Prepaid expenses and other assets	(619)	(140)	3,090	(406)
Accounts payable and accrued expenses	(1,263)	(5,231)	5,921	3,335
Net cash provided by operating activities	8,110	4,455	19,991	16,850
Cash flows from investing activities				
Capital expenditures	(4,430)	(5,457)	(10,042)	(9,262)
Other	182	(375)	539	(184)
Net cash used in investing activities	(4,248)	(5,832)	(9,503)	(9,446)
Cash flows from financing activities				
Proceeds from stock option exercises	-	79	-	79
Proceeds from issuance of common stock under Employee Stock Purchase Plan	9	7	9	28
Share repurchases, including shares surrendered for tax withholding	(90)	-	(90)	-
Proceeds from borrowings on long-term debt agreements	402	-	402	-
Payments on long-term debt agreements and capital leases	(3,075)	(4,078)	(6,407)	(8,466)
Net borrowings (repayments) under revolving credit facilities	929	(935)	(210)	(383)

Payment of deferred financing costs	-	(127)	-	(839)
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Net cash used in financing activities	(1,825)	(5,054)	(6,296)	(9,581)
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Effect of foreign currency translation on cash balances	121	(65)	164	58
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Net change in cash and cash equivalents	2,158	(6,496)	4,356	(2,119)
Cash and cash equivalents at beginning of period	30,219	29,814	28,021	25,437
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Cash and cash equivalents at end of period	\$ 32,377	\$ 23,318	\$ 32,377	\$ 23,318
	=====	=====	=====	=====

Supplemental disclosure of cash flow information

Noncash investing and financing activities

Noncash transactions include the following:

Capital lease obligations incurred	\$ 2,992	\$ 2,884	\$ 4,246	\$ 6,730
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Contact Information:

David Stickney
VP Corporate Communications
925-949-5114