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FORM 10-Q
(Quarterly Report)

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Symbol	ARC
SIC Code	7330 - Mailing, Reproduction, Commercial Art And
Industry	Business Services
Sector	Services
Fiscal Year	12/31

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AMERICAN REPROGRAPHICS CO

FORM 10-Q
(Quarterly Report)

Filed 8/14/2006 For Period Ending 6/30/2006

Address	700 NORTH CENTRAL AVENUE SUITE 550
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Industry	Business Services
Sector	Services
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly Period Ended June 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-32407

AMERICAN REPROGRAPHICS COMPANY
(Exact name of Registrant as specified in its Charter)

Delaware	**20-1700361**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

700 North Central Avenue, Suite 550
Glendale, California 91203
(818) 500-0225

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

As of July 31, 2006, there were 45,252,469 shares of the Registrant's common stock outstanding.

AMERICAN REPROGRAPHICS COMPANY
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN REPROGRAPHICS COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2005	June 30, 2006
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 22,643	$ 23,099
Accounts receivable, net	71,062	87,688
Inventories, net	6,817	8,801
Deferred income taxes	4,272	9,664
Prepaid expenses and other current assets	6,425	6,276
Total current assets	111,219	135,528
Property and equipment, net	45,773	55,347
Goodwill	245,271	256,010
Other intangible assets, net	21,387	29,739
Deferred financing costs, net	923	856
Deferred income taxes	16,216	11,532
Other assets	1,573	1,661
Total assets	$ 442,362	$ 490,673
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,811	$ 24,651
Accrued payroll and payroll-related expenses	15,486	15,468
Accrued expenses	18,684	37,064
Current portion of long-term debt and capital leases	20,441	18,907
Total current liabilities	75,422	96,090
Long-term debt and capital leases	253,371	249,521
Total liabilities	328,793	345,611
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $.001 par value, 25,000,000 shares authorized; zero and zero shares issued and outstanding	—	—
Common stock, $.001 par value, 150,000,000 shares authorized; 44,598,815 and 44,984,551 shares issued and outstanding	44	45
Additional paid-in capital	56,825	64,982
Deferred stock-based compensation	(1,903)	(1,620)
Retained earnings	58,561	81,363

Accumulated other comprehensive income	42	292
Total stockholders' equity	113,569	145,062
Total liabilities and stockholders' equity	$ 442,362	$ 490,673

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REPROGRAPHICS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Reprographics services	$ 94,708	$ 114,658	$ 182,403	$ 219,475
Facilities management	21,076	24,691	40,248	47,623
Equipment and supplies sales	9,776	12,178	19,375	25,231
Total net sales	125,560	151,527	242,026	292,329
Cost of sales	71,906	85,713	140,047	166,156
Gross profit	53,654	65,814	101,979	126,173
Selling, general and administrative expenses	28,140	33,112	55,021	64,598
Litigation reserve	—	11,262	—	11,262
Amortization of intangible assets	431	867	815	1,652
Income from operations	25,083	20,573	46,143	48,661
Other income	106	472	224	801
Interest expense, net	(6,194)	(7,001)	(14,518)	(11,460)
Income before income tax provision (benefit)	18,995	14,044	31,849	38,002
Income tax provision (benefit)	7,612	5,617	(15,097)	15,200
Net income	$ 11,383	$ 8,427	$ 46,946	$ 22,802
Earnings per share:				
Basic	$ 0.26	$ 0.19	$ 1.13	$ 0.51
Diluted	$ 0.25	$ 0.18	$ 1.10	$ 0.50
Weighted average common shares outstanding:				
Basic	43,931,154	44,932,873	41,690,494	44,779,662
Diluted	44,861,155	45,510,158	42,771,754	45,312,592

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REPROGRAPHICS COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Members' Deficit	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Deferred Compensatio	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2005	$ —	44,598,815	$ 44	$ 56,825	$ (1,903)	$ 58,561	$ 42	$ 113,569
Amortization of stock-based compensation	—	—	—	—	283	—	—	283
Stock-based compensation	—	—	—	742	—	—	—	742
Issuance of common stock under Employee Stock Purchase Plan	—	6,530	—	238	—	—	—	238
Issuance of common stock in connection with accrued bonuses	—	80,652	—	2,160	—	—	—	2,160
Stock options exercised	—	298,554	1	1,664	—	—	—	1,665
Tax benefit from exercise of stock options	—	—	—	3,353	—	—	—	3,353
Comprehensive Income:								
Net income	—		—	—	—	22,802	—	22,802
Foreign currency translation adjustments	—	—	—	—	—	—	(31)	(31)
Fair value adjustment of derivatives, net of tax effects	—	—	—	—	—	—	281	281
Comprehensive income								23,052
Balance at June 30, 2006	$ —	44,984,551	$ 45	$ 64,982	$ (1,620)	$ 81,363	$ 292	$ 145,062

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REPROGRAPHICS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2005	**2006**
Operating activities		
Net income	$ 46,946	$ 22,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of yield on redeemable preferred member units	449	—
Allowance for doubtful accounts	723	790
Reserve for inventory obsolescence	90	(127)
Depreciation	8,074	10,354
Amortization of intangible assets	815	1,652
Amortization of deferred financing costs	823	151
Write-off of deferred financing costs	1,631	57
Stock-based compensation	308	1,025
Deferred income taxes	(25,571)	(3,315)
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable, net	(7,527)	(12,675)
Inventory	200	(25)
Prepaid expenses and other assets	720	570
Accounts payable and accrued expenses	(3,092)	21,141
Net cash provided by operating activities	24,589	42,400
Investing activities		
Capital expenditures	(2,476)	(3,808)
Payments for businesses acquired, net of cash acquired and including other cash payments associated with acquisitions	(4,076)	(16,106)
Other	(209)	(202)
Net cash used in investing activities	(6,761)	(20,116)
Financing activities		
Proceeds from initial public offering, net of underwriting discounts	92,690	—
Direct costs of initial public offering	(1,487)	—
Proceeds from stock option exercises	—	1,665
Proceeds from issuance of common stock under Employee Stock Purchase Plan	—	238
Redemption of preferred member units	(28,263)	—
Excess tax benefit related to stock options exercised	—	3,353
Proceeds from borrowings	13,000	5,000
Payments on debt	(86,636)	(31,943)
Payment of loan fees	(123)	(141)
Member distributions	(8,244)	—
Net cash used in financing activities	(19,063)	(21,828)
Net (decrease) increase in cash and cash equivalents	(1,235)	456
Cash and cash equivalents at beginning of period	13,826	22,643
Cash and cash equivalents at end of period	$ 12,591	$ 23,099
Supplemental disclosure of cash flow information		

Noncash investing and financing activities				
Noncash transactions include the following:				
Capital lease obligations incurred	$	6,104	$	12,222
Issuance of subordinated notes in connection with the acquisition of businesses	$	1,974	$	8,815
Change in fair value of derivatives	$	19	$	281

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REPROGRAPHICS COMPANY
Notes to Consolidated Financial Statements
(Unaudited)

1. Description of Business and Basis of Presentation

American Reprographics Company (ARC or the Company) is the leading reprographics company in the United States providing business-to-business document management services to the architectural, engineering and construction industry, or AEC industry. ARC also provides these services to companies in non-AEC industries, such as technology, financial services, retail, entertainment, and food and hospitality that require sophisticated document management services. The Company conducts its operations through its wholly-owned operating subsidiary, American Reprographics Company, L.L.C., a California limited liability company (Opco), and its subsidiaries.

Reorganization and Initial Public Offering

Prior to the consummation of the Company's initial public offering on February 9, 2005, the Company was reorganized (the Reorganization) from a California limited liability company (American Reprographics Holdings, L.L.C. or Holdings) to a Delaware corporation (American Reprographics Company). In connection with the Reorganization, the members of Holdings exchanged their common member units for common stock of ARC. Each option issued to purchase Holdings' common member units under Holding's equity option plan was exchanged for an option exercisable for shares of ARC's common stock with the same exercise prices and vesting terms as the original grants. In addition, all outstanding warrants to purchase common units of Holdings were exchanged for shares of ARC's common stock.

On February 9, 2005, the Company closed an initial public offering (IPO) of its common stock at $13.00 per share, consisting of 7,666,667 newly issued shares sold by the company and 5,683,333 outstanding shares sold by the selling stockholders.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in conformity with the requirements of the Securities and Exchange Commission. As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management's opinion, the interim consolidated financial statements presented herein reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim consolidated financial statements. All material intercompany accounts and transactions have been eliminated in consolidation. The operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We evaluate our estimates and assumptions on an ongoing basis and rely on historical experience and various other factors that we believe to be reasonable under the circumstances to determine such estimates. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

These interim consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's 2005 Annual Report on Form 10-K. The accounting policies used in preparing these interim consolidated financial statements are the same as those described in our 2005 Annual Report on Form 10-K.

2. Stock-Based Compensation

The Company adopted the American Reprographics Company 2005 Stock Plan, or Stock Plan, in connection with the Company's IPO in February 2005. The Stock Plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock purchase awards, restricted stock awards, and restricted stock units to employees, directors and consultants of the Company. The Stock Plan authorizes the Company to issue up to 5,000,000 shares of common stock. This amount will automatically increase annually on the first day of the Company's fiscal year, from 2006 through and including 2010, by the lesser of (i) 1.0% of the Company's outstanding shares on the date of the increase; (ii) 300,000 shares; or (iii) such smaller number of shares determined by the Company's board of directors. At June 30, 2006, 3,049,330 shares remain available for grant under the Stock Plan.

Options granted under the Stock Plan generally expire no later than ten years from the date of grant (five years in the case of an incentive stock option granted to a 10% stockholder). Options generally vest and become fully exercisable over a period of four or five years, except options granted to non-employee directors may vest over a shorter time period. The exercise price of options must be equal to at least 100% (110% in the case of an incentive stock option granted to a 10% stockholder) of the fair market value of the Company's common stock as of the date of grant.

In addition, the Stock Plan provides for automatic grants, as of each annual meeting of the Company's stockholders commencing with the first such meeting, of non-statutory stock options to directors of the Company who are not employees of, or consultants to, the Company or any affiliate of the Company (non-employee directors). Each non-employee director automatically will receive a non-statutory stock option with a fair market value, as determined under the Black-Scholes option pricing formula, equal to $50,000 (or 55.56%) of such non-employee director's annual cash compensation (exclusive of committee fees). Each non-statutory stock option will cover the non-employee director's service since either the previous annual meeting or the date on which he or she was first elected or appointed. Options granted to non-employee directors vest in 1/16 increments for each month from the date of grant. The Company's board of directors approved a one time discretionary grant of 9,854 options to purchase shares of common stock to each of the Company's five non-employee directors as part of their compensation for 2005 service since no annual meeting of the Company's stockholders was held in 2005.

Prior to the January 1, 2006 adoption of Financial Accounting Standards Board (FASB) Statement No. 123(R), "Share-Based Payment" (SFAS 123R), the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, because the stock option grant price equaled the market price on the date of grant, no compensation expense was recognized for Company-issued stock options issued prior to fiscal year 2004. As permitted by SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123), stock-based compensation was included as a pro forma disclosure in the Notes to the Consolidated Financial Statements.

During 2004, the Company granted 307,915 options to purchase common membership units to employees with exercise prices ranging from $5.62 to $6.85 per unit. The fair market value of the Company's common member units on the date of grant was $16 per unit. In connection with the issuances, the Company recorded a deferred compensation charge of $3.1 million because the exercise price of the units was less than the estimated fair market value of the Company's membership units as of the date of grant after giving consideration to the anticipated fair value of the membership units during the one-year period preceding the Company's initial public offering which was consummated on February 9, 2005. The Company will amortize the deferred compensation charge over the vesting period of the options, generally five years. As of June 30, 2006, the Company has cumulatively amortized $1.5 million of the deferred compensation charge.

Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. Under this transition method, stock-based compensation was recognized for: (i) expense related to the remaining unvested portion of all stock option awards granted in 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and (ii) expense related to all stock option awards granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with SAB 107, the remaining unvested options issued by the company prior to its initial public offering are not included in its SFAS 123R option pool. As a result unless subsequently modified, repurchased or cancelled, such unvested options will not be included in stock-based compensation. We apply the Black-Scholes valuation model in determining the fair value share-based payments to employees, which is then amortized on a straight-line basis over the requisite service period.

Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on our historical experience and future expectations. Prior to the adoption of SFAS 123R, the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

As a result of adopting SFAS 123R, the impact to the Consolidated Statement of Operations for the three months ended June 30, 2006 on income before income taxes and net income was $.4 million and $.3 million, respectively , and $0.006 on basic and diluted earnings per share . The impact to the Consolidated Statement of Operations for the six months ended June 30, 2006 on income before income taxes and net income was $.7 million and $.5 million, respectively , and $0.01on basic and diluted earnings per share . In addition, upon the adoption of SFAS 123R the tax benefit resulting from the exercise of stock options, which were previously presented as operating cash inflows in the Consolidated Statement of Cash Flows, are classified as financing cash inflows.

The pro forma table below reflects net income and basic and diluted net income per share for the three and six months ended June 30, 2005, had we applied the fair value recognition provisions of SFAS 123 (in thousands, except per share data):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(Unaudited) (Dollars in thousands, except per share data)	
Net income:		
As reported	$ 11,383	$ 46,946
Equity-based employee compensation cost, net of related tax effects, included in as reported net income	83	182
Equity-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(106)	(244)
Pro forma	$ 11,360	$ 46,884
Basic earnings per share:		
As reported	$ 0.26	$ 1.13
Equity-based employee compensation cost, net of related tax effects, included in as reported net income	—	—
Equity-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied	—	(0.01)
Pro forma	$ 0.26	$ 1.12
Diluted earnings per share:		
As reported	$ 0.25	$ 1.10
Equity-based employee compensation cost, net of related tax effects, included in as reported net income	—	—
Equity-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied	—	(0.01)
Pro forma	$ 0.25	$ 1.09

Pro forma disclosure for the three and six months ended June 30, 2006 are not presented because the amounts are recognized in the consolidated financial statements.

The weighted average fair value at the grant date for options issued in the six months ended June 30, 2006 was $9.90. There were no options granted during the six months ended June 30, 2005. The fair value of options at date of grant was estimated using the following weighted average assumptions for the six months ended June 30, 2006 (a) no dividend yield on our stock, (b) expected stock price volatility of 26.17% **,** (c) a risk-free interest rate of 4.6% and 5.0% and (d) an expected option term of 6.25 years for options vesting over a 4 year period, 6.5 years for options vesting over a 5 year period, and 5.5 years for options vesting over a 1 year period under the “simplified” method as provided in Staff Accounting Bulletin (SAB) 107.

For fiscal 2006, expected stock price volatility is based on a combined weighted average expected stock price volatility of three publicly traded peer companies deemed to be similar entities whose share or option prices are publicly available. Until such time that the Company has enough historical data, it will continue to rely on peer companies’ volatility and will ensure that the selected peer companies are still appropriate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The Company has not paid dividends in the past and does not currently plan to pay dividends in the near future.

The following is a summary of the Company's stock option activity during the six month period ended June 30, 2006.

	Six Months Ended June 30, 2006			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsi Value
Outstanding at beginning of the period	1,422,585	$ 5.9		
Granted	514,985	26.32		
Exercised	(298,554)	(5.58)		
Outstanding at end of the period	1,639,016	$ 12.38	7.2	$ 39,120
Exercisable at end of the period	901,319	$ 6.05	4.3	$ 27,218

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on June 30, 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all the option holders exercised their options on June 30, 2006. This amount changes based on the fair market value of our stock. Total intrinsic value of options exercised for the six months ended June 30, 2006 was $8.4 million. As of June 30, 2006, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $6.4 million, which is expected to be recognized over a weighted average period of approximately 4.2 years

3. Employee Stock Purchase Plan

The Company adopted the American Reprographics Company 2005 Employee Stock Purchase Plan (the ESPP) in connection with the consummation of its IPO in February 2005. Under the ESPP, purchase rights may be granted to eligible employees subject to a calendar year maximum per eligible employee of the lesser of (i) 400 shares of common stock, or (ii) a number of shares of common stock having an aggregate fair market value of $10,000 as determined on the date of purchase.

Prior to the adoption of SFAS 123R, the Company amended its ESPP such that common stock purchases by employees in fiscal 2006 will not give rise to recognizable compensation cost. The purchase price of common stock offered under the Amended ESPP is equal to 95% of the fair market value of such shares of common stock on the purchase date. Accordingly, no compensation cost was recognized for employee stock purchases under the ESPP during the six months ended June 30, 2006.

4. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2005	June 30, 2006
		(Unaudited)
	(Dollars in thousands)	
Borrowings from senior secured First Priority — Revolving Credit Facility; variable interest payable quarterly (8.25% and 9% interest rate at December 31, 2005 and June 30, 2006,repectively);any unpaid principal and interest due December 18, 2008	$ 5,000	$ —
Borrowings from senior secured First Priority — Term Loan Credit Facility; variable interest payable quarterly (weighted average 6.2% and 7.1% interest rate at December 31, 2005 and June 30, 2006, respectively); principal payable in varying quarterly installments; any unpaid principal and interest due June 18, 2009	230,423	216,487
Various subordinated notes payable; interest ranging from 5% to 7%; principal and interest payable monthly through July 2011	11,262	17,994
Various capital leases; interest rates ranging to 15.9%; principal and interest payable monthly through May 2012	27,127	33,947
	273,812	268,428
Less current portion	(20,441)	(18,907)
	$ 253,371	$ 249,521

In December 2005, the Company entered into a Second Amended and Restated Credit and Guaranty Agreement (the Second Amended and Restated Credit Agreement). The Second Amended and Restated Credit Agreement provided the Company a $310,600 Senior Secured

Credit Facility, comprised of a $280,600 term loan facility and a $30,000 revolving credit facility. The proceeds from the incremental new term loan, in the amount of $157,500, were used to prepay in full all principal and interest payable under the Second Lien Credit and Guaranty Agreement. The remaining balance of the increased term loan facility of $50,000 is available for our use, subject to the terms of the Second Amended and Restated Credit Agreement.

Interest or borrowings under the credit facilities bear interest at one of two floating rates, at our option. The floating rates may be priced as either an Index Rate Loan or as an Eurodollar Rate Loan. Term loans that are Index Rate Loans bear interest at the Index Rate plus .75%. The Index Rate is defined as the higher of (i) the rate of interest publicly quoted from time to time by The Wall Street Journal as the base rate on corporate loans posted by the nation's largest banks and (ii) the Federal Reserve reported overnight funds rate plus .5%. Term Loans which are Eurodollar Rate Loans bear interest at the Adjusted Eurodollar Rate plus 1.75%

Revolving Loans which are Index Rate Loans bear interest at the Index Rate plus an Applicable Margin. Revolving Loans which are Eurodollar Rate Loans bear interest at the Adjusted Eurodollar Rate plus an Applicable Margin. The Applicable Margin is determined by a grid based on the ratio of the consolidated indebtedness of the Company and its subsidiaries to the consolidated adjusted EBITDA (as defined in the credit facilities) of the Company and its subsidiaries for the most recently ended four fiscal quarters and range between 2.00% to 2.75% for Eurodollar Rate Loans and range between 1.00% and 1.75% for Index Rate Loans.

On July 17, 2006 the Company entered into a First Amendment to Second Amended and Restated Credit and Guaranty Agreement (the First Amendment) in order to facilitate the consummation of certain proposed acquisitions. The First Amendment provided the Company with a $30 million increase to its T erm Loan Facility in addition to amending certain other terms including the following:

- An increase in the aggregate purchase price limitation for business acquisitions commencing with fiscal year ending December 31, 2006;
- An increase in the threshold for capital expenditures during any trailing twelve-month period;
- Reset the Incremental Term Loan amount at $50 million; and
- Permit the Company to issue certain shares of its common stock in connection with certain proposed acquisitions.

Except as described above, all other material terms and conditions, including the maturity dates of the Company's existing senior secured credit facilities remained similar to those as described in Note 5-"Long Term Debt" to our consolidated financial statements included in our 2005 Annual Report on Form 10-K.

During the six months ended June 30, 2006, the Company made payments totaling $12.4 million, exclusive of contractually scheduled payments, on its $230 million senior secured credit facility. As a result of this prepayment, the Company wrote off $57 thousand of deferred financing costs during the six months ended June 30, 2006 which is included in interest expense in the accompanying consolidated financial statements.

5. Income Taxes

Prior to the consummation of the Company's IPO on February 9, 2005, the Company was reorganized from a California limited liability company (American Reprographics Holdings, LLC or Holdings) to a Delaware Corporation (American Reprographics Company). As a result of the reorganization to a Delaware corporation, our total earnings are subject to federal, state and local taxes at a combined statutory rate of approximately 40% excluding a one-time tax benefit of $27.7 million due to the reorganization.

6. Commitments and Contingencies

Our future contractual obligations as of June 30, 2006, by fiscal year are as follows:

	Six Months Ending December 31, 2006	Twelve Months Ending December 31, 2007	2008	2009	2010	Thereafter
	(Dollars in thousands)					
Debt obligations	$ 3,097	$ 6,030	$ 117,239	$ 103,937	$ 3,311	$ 867
Capital lease obligations	6,297	11,498	8,659	4,033	2,217	1,243
Operating lease obligations	16,772	25,965	18,037	12,450	8,713	28,380
Total	$ 26,166	$ 43,493	$ 143,935	$ 120,420	$ 14,241	$ 30,490

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of our business .

Contingent Transaction Consideration. The Company entered into earnout agreements in connection with prior acquisitions. If the acquired businesses generate operating profits in excess of predetermined targets, the Company is obligated to make additional cash payments in accordance with the terms of such earnout agreements. As of June 30, 2006, the Company has potential future earnout obligations aggregating $7.4 million through 2010 if the operating profits exceed the predetermined targets. Earnout payments are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable and consist of a combination of cash and notes payable issued to the seller.

State Sales Tax. The Company was involved in a state tax authority dispute related to unresolved sales tax issues which arose from such state tax authority's audit findings from their sales tax audit of certain of the company's operating divisions for the period from October 1998 to September 2001. Those unresolved issues relate to the application of sales taxes on certain discounts that were granted to customers. Based on the position taken by the state tax authority on these unresolved issues, they claimed that an additional $1.2 million of sales taxes are due for the period in question, plus $489,000 of interest. At an appeals conference held on December 14, 2004, the appeals board ruled that the Company was liable in connection with one component of the dispute involving approximately $40,000, which was previously paid. The Company paid the tax in May of 2005 but strongly disagreed with the state tax authority's position and filed a petition for redetermination requesting an appeals conference to resolve these issues. The Company was granted another appeals conference in April 2006 to resolve the remaining issues. The Company lost on appeal. Accrued expenses in the Company's consolidated balance sheet as of June 30, 2006 include $489,000 of accrued interest related to this matter which was paid in July of 2006.

Louis Frey case. On July 28, 2006, a decision was rendered against the Company in the previously disclosed Louis Frey bankruptcy litigation in the United States Bankruptcy Court, Southern District of New York. The judge determined that damages should be awarded to the plaintiff in the amount of $11.06 million, interest expense of $2.28 million through June 30, 2006, and $0.20 million in preference claims. The Company continues to believe its position is meritorious, and remains committed to vigorously defending the Company's position through the appellate process. In accordance with generally accepted accounting principles (GAAP), the Company has accounted for the judgment by recording a one-time, non-recurring litigation charge of $13.54 million that includes a $11.26 million litigation reserve ($11.06 million in awarded damages and $0.20 million in preference claims), and interest expense of $2.28 million. These charges are offset by a corresponding tax benefit of $5.42 million, resulting in a net impact of $8.12 million to the net income during the three and six months ended June 30, 2006.

The Company may be involved in litigation and other legal matters from time to time in the normal course of business. Management does not believe that the outcome of any of these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

7. Comprehensive Income

Comprehensive income includes changes in the fair value of certain financial derivative instruments which qualify for hedge accounting. The differences between net income and comprehensive income for the three and six months ended June 30, 2005 and 2006 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
	(Unaudited) (Dollars in thousands)		(Unaudited) (Dollars in thousands)	
Net income	$ 11,383	$ 8,427	$ 46,946	$ 22,802
Foreign currency translation adjustments	—	(31)	—	(31)
Increase (Decrease) in fair value of financial derivative instruments, net of tax effects	(289)	181	19	281
Comprehensive income	$ 11,094	$ 8,577	$ 46,965	$ 23,052

8. Earnings Per Share

The Company accounts for earnings per share in accordance with SFAS No. 128, "Earnings per Share". Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common stock equivalents are excluded from the computation if their effect is anti-dilutive. There are no common stock equivalents excluded for anti-dilutive effects for the three and six months ended June 30, 2005. There are 19,985 common stock equivalents excluded for anti-dilutive effects for the three and six months ended June 30, 2006. The Company's common stock equivalents consist of stock options issued under the Company's equity option plan, as well as warrants to purchase common stock issued during 2000 to certain creditors of the Company. All of such warrants were exchanged for shares of common stock of the Company in connection with the Company's reorganization in February 2005.

Basic and diluted earnings per share were calculated using the following common shares for the three and six months ended June 30, 2005 and 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
	(Unaudited)		(Unaudited)	
Weighted average common shares outstanding during the period — basic	43,931,154	44,932,873	41,690,494	44,779,662
Effect of dilutive stock options	930,001	577,285	930,001	532,930
Effect of dilutive warrants	—		151,259	—
Weighted average common shares outstanding during the period — diluted	44,861,155	45,510,158	42,771,754	45,312,592

9. Recent Accounting Pronouncements

In April 2005, the United States Securities and Exchange Commission (SEC) approved a new rule that delayed the effective date of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment. Except for this deferral of the effective date, the guidance in SFAS No. 123R was unchanged. Under the SEC's rule, SFAS No. 123R became effective for the Company for annual, rather than interim, periods that began after June 15, 2005. The Company began applying this Statement to all awards granted on or after January 1, 2006 and to awards modified, repurchased, or cancelled after that date. The implementation of this standard is further discussed in Note 2, Stock-Based Compensation.

Also, in November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3 (FSP 123R-3), Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP 123R-3 provides an elective

alternative transition method for calculating the pool of excess tax benefits available to absorb tax short falls recognized subsequent to the adoption of FAS 123R. Companies may take up to one year from the effective date of FSP 123R-3 to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods.

On July 13, 2006, the FASB issued Interpretation No. 48 (FIN No. 48) "Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006, or fiscal year 2007 for the Company. The Company is assessing the impact the adoption of FIN No. 48 will have on the Company's consolidated financial position and results of operations.

10. Goodwill and Other Intangibles

In connection with its acquisitions subsequent to July 1, 2001, the Company has applied the provisions of SFAS No. 141 “Business Combinations”, using the purchase method of accounting. The assets and liabilities assumed were recorded at their estimated fair values. The excess purchase price over those fair values was recorded as goodwill and other intangible assets.

The changes in the carrying amount of goodwill from December 31, 2005 through June 30, 2006 are summarized as follows:

		Goodwill
Balance at December 31, 2005	$	245,271
Additions		10,739
Balance at June 30, 2006	$	256,010

The additions to goodwill include the excess purchase price over fair value of net assets acquired in the amount of $10,005, adjustments to acquisition costs in the amount of $224 and certain earnout payments in the amount of $510.

Other intangible assets that have finite useful lives are amortized over their useful lives. An impaired asset is written down to fair value. Intangible assets with finite useful lives consist primarily of not-to-compete covenants, trade names, and customer relationships and are amortized over the expected period of benefit which ranges from two to twenty years using the straight-line and accelerated methods. Customer relationships are amortized under an accelerated method which reflects the related customer attrition rates and trade names are amortized using the straight-line method. At December 31, 2005 and June 30, 2006, customer relationships and the related accumulated amortization consist of $25,588 and $34,302, and $6,241 and $7,798, respectively. Trade names and the related accumulated amortization consist of $2,369 and $3,659, and $329 and $424 at December 31, 2005 and June 30, 2006, respectively.

The estimated future amortization expense of other intangible assets as of June 30, 2006 are as follows:

2006	$	2,140
2007		3,451
2008		3,079
2009		2,782
2010		2,518
Thereafter		15,769
	$	29,739

11. Subsequent Events

Subsequent to June 30, 2006, the Company completed the acquisition of three reprographics companies, including Reliable Graphics which is located in Southern California. At the time of the acquisition, Reliable Graphics had trailing twelve months revenue of approximately $19 million.

On July 28, 2006, a decision was rendered against the Company in the previously disclosed Louis Frey bankruptcy litigation in the United States Bankruptcy Court, Southern District of New York. The judge determined that damages should be awarded to the plaintiff in the amount of $11.06 million, interest expense of $2.28 million through June 30, 2006, and $0.20 million in preference claims. The Company continues to believe its position is meritorious, and remains committed to vigorously defending the Company's position through the appellate process. In accordance with generally accepted accounting principles (GAAP), the Company has accounted for the judgment by recording a one-time, non-recurring litigation charge of $13.54 million that includes a $11.26 million litigation reserve ($11.06 million in awarded damages and $0.20 million in preference claims), and interest expense of $2.28 million. These charges are offset by a corresponding tax benefit of $5.42 million, resulting in a net impact of $8.12 million to the net income during the three and six months ended June 30, 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this report as well as Management's Discussion and Analysis included in our 2005 Annual Report on Form 10-K, our final prospectus for our recent secondary offering dated April 5, 2006, and our 2006 first quarter report on Form 10-Q dated May 15, 2006.

In addition to historical information, this report on Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or future financial performance, and include statements regarding the Company's business strategy, timing of, and plans for, the introduction of new products and enhancements, future sales, market growth and direction, competition, market share, revenue growth, operating margins and profitability. All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements, expressed or implied, by these forward looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. These statements are only predictions and are based upon information available to the Company as of the date of this report. We undertake no on-going obligation, other than that imposed by law, to update these forward-looking statements.

Actual results could differ materially from our current expectations. Factors that could cause actual results to differ materially from current expectations, include among others, the following: (i) general economic conditions, such as changes in non-residential construction spending, GDP growth, interest rates, employment rates, office vacancy rates, and government expenditures; (ii) a downturn in the architectural, engineering and construction industry; (iii) competition in our industry and innovation by our competitors; (iv) our failure to anticipate and adapt to future changes in our industry; (v) failure to continue to develop and introduce new products and services successfully; (vi) our inability to charge for value-added services we provide our customers to offset potential declines in print volume; (vii) adverse developments affecting the State of California, including general and local economic conditions, macroeconomic trends, and natural disasters; (viii) our inability to successfully identify and manage our acquisitions or open new branches; (ix) our inability to successfully monitor and manage the business operations of our subsidiaries and uncertainty regarding the effectiveness of financial and management policies and procedures we established to improve accounting controls; (x) adverse developments concerning our relationships with certain key vendors; (xi) the loss of key personnel and qualified technical staff; (xii) and failure to prevail upon appeal.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the "Risk Factors" section of our 2005 Annual Report on Form 10-K and our first quarter report on Form 10-Q dated May 15, 2006. You are urged to carefully consider these factors. All forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statements.

Executive Summary

American Reprographics Company is the leading reprographics company in the United States. We provide business-to-business document management services to the architectural, engineering and construction industry, or AEC industry, through a nationwide network of independently branded service centers. The majority of our customers know us as a local reprographics provider, usually with a local brand and a long history in the community. We also serve a variety of clients and businesses outside the AEC industry in need of sophisticated document management services.

Our services apply to time-sensitive and graphic-intensive documents, and fall into four primary categories:

- Document management;
- Document distribution & logistics;
- Print-on-demand; and
- On-site services, frequently referred to as facilities management, or FMs, (any combination of the above services supplied at a customer's location).

We deliver these services through our specialized technology, more than 775 sales and customer service employees interacting with our customers every day, and more than 2,500 on-site services facilities at our customers' locations. All of our local service centers are connected by a digital infrastructure, allowing us to deliver services, products, and value to approximately 73,000 companies throughout the country.

Our divisions operate under local brand names. Each brand name typically represents a business or group of businesses that has been acquired in our 17-year history. We coordinate these operating divisions and consolidate their service offerings for large regional or national customers through a corporate-controlled "Premier Accounts" division.

A significant component of our growth has come from acquisitions. In the first six months of 2006, we paid $24.3 million for seven new acquisitions. In 2005, we acquired 14 businesses for $32.1 million. We acquired six businesses in 2004 for $3.7 million, and acquired five businesses for $.9 million in 2003. Each acquisition was accounted for using the purchase method, and as such, our consolidated income statements reflect sales and expenses of acquired businesses only for post-acquisition periods. All acquisition amounts include acquisition-related costs.

As part of our growth strategy, in 2003 we began opening and operating branch service centers, which we view as a relatively low cost, rapid form of market expansion. Our branch openings require modest capital expenditures and are expected to generate operating profit within 12 months from opening. We opened 19 new branches in key markets in 2005. We opened ten new branches, including acquisitions, during the first six months of 2006. Including acquisitions, the Company expects to open approximately 15 branches in 2006. To date, we believe that each branch that has been open at least 12 months has generated operating profit.

In the following pages, we offer descriptions of how we manage and measure financial performance throughout the company. Our comments in this report represent our best estimates of current business trends and future trends that we think may affect our business. Actual results, however, may differ from what is presented here.

Evaluating our Performance. We measure our success in delivering value to our shareholders by:

- Creating consistent, profitable growth;
- Maintaining our industry leadership as measured by our geographical footprint, market share and revenue generation;
- Continuing to develop and invest in our products, services, and technology to meet the changing needs of our customers;
- Maintaining the lowest cost structure in the industry; and
- Maintaining a flexible capital structure that provides for both responsible debt service and pursuit of acquisitions and other high-return investments.

Primary Financial Measures We use net sales, costs and expenses and operating cash flow to operate and assess the performance of our business.

Net Sales . Net sales represent total sales less returns, discounts and allowances. These sales consist of document management services, document distribution and logistics services, print-on-demand services, reprographics equipment, and reprographics equipment and supplies sales. We generate sales by individual orders through commissioned sales personnel and, in some cases, through national contracts.

The distinctions in our reportable revenue categories are based primarily on the similarities in their gross margins and other economic similarities. They are categorized as reprographics services, facilities management, and equipment and supplies. Our current service segmentation is likely to change in the future if our digital services revenue commands a greater and more distinctive role in our service mix. Digital services now comprise less than five percent of our overall revenue. We believe digital services will likely exceed 10% of our revenue mix by the end of 2007.

Software licenses and membership fees are derived over the term of the license or the membership agreement. Licensed technology includes PlanWell online planrooms, PlanWell Electronic Work Order (EWO), PlanWell BidCaster and MetaPrint. Revenues from these agreements are separate from digital services. Digital services include digital document management tasks, scanning and archiving digital documents, posting documents to the web and other related work performed on a computer. Software licenses, membership fees and digital services are categorized and reported as a part of “Reprographics services”.

Revenue from reprographics services is produced from document management, document distribution and logistics, and print-on-demand services, including the use of PlanWell by our customers. These services are typically invoiced to a customer as part of a combined per-square-foot printing cost and, as such, it is impractical to allocate revenue levels for each item separately. We include revenues for these services under the caption “Reprographics services”.

On-site services, or facilities management, revenues are generated from providing reprographics services in our customers’ locations using machines that we own or lease. Generally, this revenue is derived from a single cost per square foot of printed material, similar to our reprographics services.

Revenue from equipment and supplies is derived from the resale of such items to our customers. We do not manufacture such items but rather purchase them from our vendors at wholesale costs.

During the three and six months ended June 30, 2006, our reprographics services represented 75.7% and 75.1% of net sales, facilities management 16.3% and 16.3%, and sales of reprographics equipment and supplies 8.0% and 8.6%. Of the 75.1% of reprographics services during the six month period ended June 30, 2006, 6.4% was derived from digital services revenue. Software license revenue of $1.2 million during the six months period ended June 30, 2006, including PlanWell, and PEiR memberships have not, to date, contributed significant revenue. While we achieve modest cost recovery through membership, licensing and maintenance fees charged by the PEiR Group, we measure success in this area primarily by the adoption rate of our programs and products.

We identify reportable segments based on how management internally evaluates financial information, business activities and management responsibility. On that basis, we operate in a single reportable business segment.

While large orders involving thousands of documents and hundreds of recipients are common, the bulk of our customer orders consist of organizing, printing or distributing less than 200 drawings at a time. Such “short-run” orders are usually recurring, despite their tendency to arrive with no advance notice and a short turnaround requirement. Since we do not operate with a backlog, it is difficult to predict the number, size and profitability of reprographics work that we expect to undertake more than a few weeks in advance.

Costs and Expenses . Our cost of sales consists primarily of paper, toner and other consumables, labor, and expenses for facilities and equipment. Facilities and equipment expenses include maintenance, repairs, rents, insurance, and depreciation. Paper is the largest component of our material cost. However, paper pricing typically does not affect our operating margins because changes are generally passed on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

We maintain low levels of inventory and other working capital. Capital expenditure requirements are also low; most facilities and equipment are leased, with overall cash capital spending averaging approximately 1.2% of annual net sales over the last three years. Since we typically lease our reprographics equipment for a three to five year term, we are able to upgrade equipment in response to rapid changes in technology.

Technology development costs consist mainly of the salaries, leased building space, and computer equipment that comprise our data storage and development centers in Silicon Valley, California and Calcutta, India.

Our selling expenses generally include salaries and commissions paid to our sales professionals, along with promotional, travel and entertainment costs. Our general and administrative expenses generally include salaries and benefits paid to support personnel at our reprographics businesses and our corporate staff, as well as office rent, utilities, insurance, communications expenses, and various professional services.

Operating Cash . Operating Cash or "Cash Flow from Operations" includes net income less common expenditures requiring cash and is used as a measure to control working capital.

Other Common Financial Measures **.** We also use a variety of other common financial measures as indicators of our performance, including:

- Net income and earnings per share;
- EBIT;
- EBITDA;
- Revenue per geographical region;
- Material costs as a percentage of net sales; and
- Days Sales Outstanding/Days Sales Inventory/Days Accounts Payable.

In addition to using these financial measures at the corporate level, we monitor some of them daily and location-by-location through use of our proprietary company intranet and reporting tools. Our corporate operations staff also conducts a monthly variance analysis on the income statement, balance sheet, and cash flow statement of each operating division.

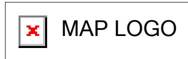
Not all of these financial measurements are represented directly on the Company's consolidated financial statements, but meaningful discussions of each are part of our quarterly disclosures and presentations to the investment community.

Measuring revenue by other means. We also measure revenue generation by geographic region to manage the performance of our local and regional business units. This offers us operational insights into the effectiveness of our sales and marketing efforts and alerts us to significant business trends.

We estimate approximately 80% of our net sales come from the AEC market, while 20% come from non-AEC sources. We believe this mix is optimal because it offers us the advantages of diversification without diminishing our focus on our core competencies.

Our six geographic operating regions are:

- East Coast - includes New England and the Mid-Atlantic states;
- Midwest - includes Canadian operations as well as commonly considered Midwestern states;
- Southern - our broadest region, spans Florida to Texas and north into Las Vegas;
- Southern California - with the Monterey Bay area as a rough dividing line;
- Northern California - includes Silicon Valley, the San Francisco Bay Area and the Greater Sacramento/Central Valley area; and
- Pacific Northwest - includes Oregon, Washington and British Columbia, Canada.



Acquisitions. Our disciplined approach to complementary acquisitions has led us to acquire reprographic businesses that fit our profile for performance potential and meet strategic criteria for gaining market share. In most cases, performance of newly acquired businesses improves almost immediately due to the application of financial best practices, significantly greater purchasing power, and productivity-enhancing technology.

According to the International Reprographics Association (IRgA), the reprographics industry is highly-fragmented and comprised primarily of small businesses of less than $5 million in annual sales. Our own experience in acquiring reprographic businesses over the past ten years reflects this estimate. Although none of the individual acquisitions we made in the past three years are material to our overall business, each was strategic from a marketing and regional market share point of view.

When we acquire businesses, our management typically uses the previous year's sales figures as an informal basis for estimating future revenues for our company. We do not use this approach for formal accounting or reporting purposes but as an internal benchmark with which to measure the future effect of operating synergies, best practices and sound financial management on the acquired entity.

We also use previous year's sales figures to assist us in determining how the company will be integrated into the overall management structure of our company. We categorize newly acquired businesses in one of two ways:

1. *Standalone Acquisitions* . Post-acquisition, these businesses maintain their existing local brand and act as strategic platforms for the company to acquire market share in and around the specific geographical location.

2. *Branch/Fold-in Acquisitions* . These are equivalent to our opening a new or "greenfield" branch. They support an outlying portion of a larger market and rely on a larger centralized production facility nearby for strategic management, load balancing, for providing specialized services, and for administrative and other "back office" support. We maintain the staff and equipment of these businesses to a minimum to serve a small market or a single large customer, or we may physically integrate (fold-in) staff and equipment into a larger nearby production facility.

New acquisitions frequently carry a significant amount of goodwill in their purchase price, even in the case of a low purchase multiple. This goodwill represents the purchase price of an acquired business less tangible assets and identified intangible assets. We test our goodwill annually for impairment on September 30. The methodology for such testing is detailed further on page 31 of this report.

Recent Developments. In order to facilitate the consummation of certain proposed business acquisitions, in July 2006, we amended our Second Amended and Restated Credit and Guaranty Agreement by adding additional borrowings of $30 million under the term loan facility in addition to amending certain other terms including the following:

- An increase in the aggregate purchase price limitation for business acquisitions commencing with fiscal year ending December 31, 2006;
- An increase in the threshold for capital expenditures during any trailing twelve-month period;
- Reset the Incremental Term Loan amount at $50 million; and
- Permit the Company to issue certain shares of its common stock in connection with certain proposed business acquisitions.

Except as described above, all other material terms and conditions, including the maturity dates, of the Company's existing senior secured credit facility remained similar to those as described in Note 5-"Long Term Debt" to our consolidated financial statements included in our 2005 Annual Report on Form 10-K.

During the six months ended June 30, 2006, we completed the acquisition of seven reprographics companies in the United States for a total purchase price of $24.3 million.

Economic Factors Affecting Financial Performance. We estimate that sales to the AEC market accounted for 80% of our net sales for the year ended December 31, 2005, with the remaining 20% consisting of sales to non-AEC markets (based on our annual review of the top 30% of our customers, and designating customers as either AEC or non-AEC based on their primary use of our services). As a result, our operating results and financial condition can be significantly affected by economic factors that influence the AEC industry, such as non-residential construction spending, GDP growth, interest rates, employment rates, office vacancy rates, and government expenditures. Similar to the AEC industry, the reprographics industry typically lags a recovery in the broader economy.

Non-GAAP Measures

EBIT and EBITDA and related ratios presented in this report are supplemental measures of our performance that are not required by or presented in accordance with 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 flow 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 subtracting depreciation and amortization from EBITDA and dividing the result by net sales. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

We present EBIT and 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 to measure and compare the performance of our divisions. We operate our divisions as separate business units but manage debt and taxation at the corporate level. As a result, EBIT is the best measure of divisional profitability and the most useful metric by which to measure and compare the performance of our divisions. We also use EBIT to measure performance for determining division-level compensation and use EBITDA to measure performance for determining consolidated-level compensation. We also use EBITDA as a metric to manage cash flow from our divisions to the corporate level and to determine the financial health of each division. As noted above, because our divisions do not incur interest or income tax expense, the cash flow from each division should be equal to the corresponding EBITDA of each division, assuming no other changes to a division's balance sheet. As a result, we reconcile EBITDA to cash flow monthly as one of our key internal controls. We also use EBIT and EBITDA to evaluate potential acquisitions and to evaluate whether to incur capital expenditures.

EBIT, EBITDA and related ratios have limitations as analytical tools, and you should not consider them 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 and EBITDA only as supplements. For more information, see our consolidated financial statements and related notes elsewhere in this report. Additionally, please refer to our 2005 Annual Report on Form 10-K.

We have presented adjusted net income and adjusted earnings per share for the three and six months ended June 30, 2006 to reflect the exclusion of the one-time litigation charge related to the Louis Frey bankruptcy litigation. This presentation facilitates a meaningful comparison of the Company's operating results for the three and six months ended June 30, 2006 to the same period in 2005, excluding a one-time income tax benefit taken in February of 2005 (refer to the Income Taxes section of Part I, Item 2 of this report for more information).

The following is a reconciliation of cash flows provided by operating activities to EBIT, EBITDA, and net income:

	Three months Ended June 30,		Six months Ended June 30,	
	2005	2006	2005	2006
	(Dollars in thousands)		(Dollars in thousands)	
Cash flows provided by operating activities	$ 22,030	$ 27,222	$ 24,589	$ 42,400
Changes in operating assets and liabilities	(4,013)	(15,430)	9,699	(9,011)
Non-cash (expenses) income, including depreciation and amortization	(6,634)	(3,365)	12,658	(10,587)
Income tax provision (benefit)	7,612	5,617	(15,097)	15,200
Interest expense	6,194	7,001	14,518	11,460
EBIT	25,189	21,045	46,367	49,462
Depreciation and amortization	4,459	6,371	8,889	12,006
EBITDA	29,648	27,416	55,256	61,468
Interest expense	(6,194)	(7,001)	(14,518)	(11,460)
Income tax (provision) benefit	(7,612)	(5,617)	15,097	(15,200)
Depreciation and amortization	(4,459)	(6,371)	(8,889)	(12,006)
Net income	$ 11,383	$ 8,427	$ 46,946	$ 22,802

The following is a reconciliation of net income to EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
	(Dollars in thousands)		(Dollars in thousands)	
Net income	$ 11,383	$ 8,427	$ 46,946	$ 22,802
Interest expense, net	6,194	7,001	14,518	11,460
Income tax provision (benefit)	7,612	5,617	(15,097)	15,200
EBIT	25,189	21,045	46,367	49,462
Depreciation and amortization	4,459	6,371	8,889	12,006
EBITDA	$ 29,648	$ 27,416	$ 55,256	$ 61,468

The following is a reconciliation of our net income margin to EBIT margin and EBITDA margin:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Net income margin	9.1%	5.6%	19.4%	7.8%
Interest expense, net	4.9%	4.6%	6.0%	3.9%
Income tax provision (benefit)	6.1%	3.7%	(6.2)%	5.2%
EBIT margin	20.1%	13.9%	19.2%	16.9%
Depreciation and amortization	3.6%	4.2%	3.7%	4.1%
EBITDA margin	23.7%	18.1%	22.9%	21.0%

The following is a reconciliation of net income to adjusted net income and earnings per share to adjusted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Net Income	$ 11,383	$ 8,427	$ 46,946	$ 22,802
Litigation reserve		11,262		11,262
Interest expense due to litigation reserve		2,277		2,277
Income tax benefit due to litigation charge		(5,416)		(5,416)
Income tax benefit due to Reorganization	—	—	(27,701)	—
Unaudited pro forma incremental income tax provision	—	—	(333)	—
Unaudited adjusted net income	$ 11,383	$ 16,550	$ 18,912	$ 30,925
Earning Per Share (Actual):				
Basic	$ 0.26	$ 0.19	$ 1.13	$ 0.51
Diluted	$ 0.25	$ 0.18	$ 1.10	$ 0.50
Earning Per Share (adjusted):				

Basic	$ 0.26	$ 0.37	$ 0.45	$ 0.69
Diluted	$ 0.25	$ 0.36	$ 0.44	$ 0.68
Weighted average common shares outstanding:				
Basic	43,931,154	44,932,873	41,690,494	44,779,662
Diluted	44,861,155	45,510,158	42,771,754	45,312,592

Results of Operations for the Three Months and Six Months Ended June 30, 2006 and 2005

The following table provides information on the percentages of certain items of selected financial data compared to net sales for the periods indicated:

	As a Percentage of Net Sales			
	Three Months ended June 30,		Six Months ended June 30,	
	2005	2006	2005	2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.3	56.6	57.9	56.8
Gross profit	42.7	43.4	42.1	43.2
Selling, general and administrative expenses	22.4	21.8	22.7	22.1
Litigation reserve	—	7.4	—	3.9
Amortization of intangibles	0.3	0.6	0.3	0.6
Income from operations	20.0	13.6	19.1	16.6
Other income	0.1	0.3	0.1	0.3
Interest expense, net	(4.9)	(4.6)	(6.0)	(3.9)
Income before income tax provision (benefit)	15.2	9.3	13.2	13.0
Income tax provision (benefit)	6.1	3.7	(6.2)	5.2
Net income	9.1%	5.6%	19.4%	7.8%

Three and Six Months Ended June 30, 2006 Compared to Three and Six Months Ended June 30, 2005

	Three Months Ended June 30,		Increase (decrease)		Six Months Ended June 30,		Increase (decrease)	
	2005	2006	(In dollars)	(Percent)	2005	2006	(In dollars)	(Percent)
	(In millions)				(In millions)			
Reprographics services	$ 94.7	$ 114.6	$ 19.9	21.0%	$ 182.4	$ 219.5	$ 37.1	20.3%
Facilities management	21.1	24.7	3.6	17.1%	40.2	47.6	7.4	18.4%
Equipment and supplies sales	9.8	12.2	2.4	24.5%	19.4	25.2	5.8	29.9%
Total net sales	125.6	151.5	25.9	20.6%	242.0	292.3	50.3	20.8%
Gross profit	53.7	65.8	12.1	22.5%	102.0	126.2	24.2	23.7%
Selling, general and administrative expenses	28.1	33.1	5.0	17.8%	55.0	64.6	9.6	17.5%
Litigation reserve	—	11.3	11.3	100.0%	—	11.3	11.3	100.0%
Amortization of intangibles	0.4	0.9	0.5	125.0%	0.8	1.7	0.9	112.5%
Interest expense, net	6.2	7.0	0.8	12.9%	14.5	11.4	(3.1)	(21.4)%
Income taxes	7.6	5.6	(2.0)	(26.3)%	(15.1)	15.2	30.3	200.7%
Net income	11.4	8.4	(3.0)	(26.4)%	46.9	22.8	(24.1)	(51.4)%
EBITDA	29.6	27.4	(2.2)	(7.4)%	55.3	61.5	6.2	11.2%

Net Sales.

Net sales increased by 20.6% for the three months ended June 30, 2006 compared to the three months ended June 30, 2005. Net sales increased by 20.8% for the six months ended June 30, 2006 compared to the same period in 2005.

In the three months ended June 30, 2006, 10.4% of the 20.6% net sales increase was related to our standalone acquisitions since June 30, 2005. (See page 20 of this document for an explanation of acquisition types.)

In the six months ended June 30, 2006, 8.8% of the 20.8% net sales increase was related to our standalone acquisitions since June 30, 2005.

Reprographics services. Net sales during the three months ended June 30, 2006 increased compared to the same period in 2005 due to increased construction spending throughout the U.S. and the expansion of our market share through branch openings and acquisitions. We acquired five businesses during the three month period ended June 30, 2006, each with a primary focus on reprographics services. Significant sales increases were reported in both Southern and Northern California that were both market-driven and due to a continued focus on best sales practices.

During the six months ended June 30, 2006, we acquired a total of seven businesses, each with its primary focus on reprographics services. In addition to significant sales increases in California as noted above, Las Vegas also showed strong sales growth during the early part of 2006.

Company-wide, pricing remained at similar levels to the same period in 2005, with the exception of increased fuel and energy costs surcharges, indicating that revenue increases were due primarily to volume.

Facilities management . The increase in on-site or facilities management services continued to post solid dollar volume and period-over-period percentage gains in the three and six months ended June 30, 2006. This revenue is derived from a single cost per square foot of printed material, similar to our “Reprographics Services” revenue. As convenience and speed continue to characterize our customers’ needs, and as printing equipment continues to become smaller and more affordable, the trend of placing equipment (and sometimes staff) in an architectural studio or construction company office remains strong as evidenced by the eight-year compounded annual growth rate of 30% in new on-site services contracts. By placing such equipment on-site and billing on a per use and per project basis, the invoice continues to be issued by us, just as if the work were produced in one of our centralized production facilities. The resulting benefit is the convenience of on-site production with a pass-through or reimbursable cost of business that many customers continue to find attractive. The highly renewable nature of most on-site service contracts leads us to believe that this source of revenue will continue to increase in the near term.

Equipment and supplies sales. During the three month period ended June 30, 2006, our equipment and supplies sales increased by 24.5% as compared to the same period in 2005.

In the six month period ending June 30, 2006, equipment and supply sales increased by nearly 30%.

During the past four years, our facilities management sales efforts made steady progress against the outright sale of equipment and supplies by converting such sales contracts to on-site service agreements. Two acquisitions in the Midwest in 2005 and one late in 2004 continue to reverse this trend, as each possesses a strong equipment and supply business unit. Trends in smaller, less expensive and more convenient printing equipment are gaining popularity with customers who want the convenience of in-house production, but have no compelling reimbursable invoice volume to offset the cost of placing the equipment. In the future, we expect this market to grow and intend to target this type of customer through increased marketing and sales efforts.

Gross Profit.

Our gross profit and gross profit margin increased to $65.8 million and 43.4% during the three months ended June 30, 2006 compared to $53.7 million and 42.7% during the same period in 2005, on sales growth of $25.9 million.

During the six month period ended June 30, 2006, gross profit and gross profit margin increased to $126.2 million and 43.2% compared to $102.0 million and 42.1% for the six months ended June 30, 2005, on sales growth of $50.3 million.

Increases in revenues coupled with the fixed cost nature of some of our cost of goods sold expenses, such as machine cost and facility rent, contributed to increases in gross profit during the three and six months ended June 30, 2006. Gross margins reflected the added revenue and leverage benefit and increased during the three and six months ended June 30, 2006. These increases were partially offset by lower gross margins of acquired companies and new branch openings that tend to depress gross margins temporarily.

Facilities management revenues are a significant component of our gross margins. We believe that this service will continue to be a strong margin producer in the foreseeable future. Customers continue to view on-site services and digital equipment as a premium "convenience" offering, and we believe the market for this service will continue to expand. We believe that more customers will adopt these services as the equipment continues to become smaller and more affordable.

Our increased purchasing power as a result of our expanding geographical footprint continues to keep our material cost and purchasing costs low by industry standards. Production labor cost as a percentage of net sales decreased slightly from 22.9% in the six month period ended June 30, 2005 to 22.8% in the same period in 2006 due to our increased use of outsourced labor, particularly for our delivery services. Production overhead as a percentage of revenue decreased from 16.9% in the first six months of 2005 to 15.3% in 2006 due to the fixed cost nature of the expense coupled with the net sales increase.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses increased by $5.0 million or 17.8% during the second quarter of 2006 over the same period in 2005.

Selling, general and administrative expenses increased by $9.6 million, or 17.5% in the six months ended June 30, 2006, over the same period in 2005.

Increases during the three and six month period ended June 30, 2006 are attributable to the increase in our sales volume during the same period. Specifically, expenses rose primarily due to increases in sales salaries and commissions of $1.7 and $3.4 million, incentive payments and bonus accruals of $0.4 and $1.1 million that accompany sales growth, $0.3 and $0.8 million of advertising costs, and $0.5 and $1.0 million of legal and accounting fees due to compliance costs as a public company during the three and six months ended June 30, 2006, respectively. In April 2006, the company completed a secondary stock offering, primarily to facilitate the sale of shares owned by its financial sponsors, Code Hennessy & Simmons LLC, of Chicago. Administrative and legal fees for the secondary offering amounted to approximately $0.7 million. As a percentage of net sales, selling, general and administrative expenses declined from 22.4% in the second quarter of 2005 to 21.8% in the second quarter of 2006 and from 22.7% in the six months ended June 30, 2005 to 22.1% in the same period of 2006 as a result of continued regional consolidation of accounting and finance functions, and a maturing regional management structure. Our regional management structure, instituted in 2003, continues to bear positive results in the dissemination of best business practices, better administrative controls, and greater consolidation of common regional resources.

Litigation Reserve.

On July 28, 2006, a decision was rendered against us in the previously disclosed Louis Frey bankruptcy litigation in the United States Bankruptcy Court, Southern District of New York. The judge determined that damages should be awarded to the plaintiff in the amount of $11.06 million, interest expense of $2.28 million through June 30, 2006, and $0.20 million in preference claims. We continue to believe our position is meritorious, and remain committed to vigorously defending our position through the appellate process. In accordance with generally accepted accounting principles (GAAP), we have accounted for the judgment by recording a one-time, non-recurring litigation charge of $13.54 million that includes a $11.26 million litigation reserve ($11.06 million in awarded damages and $0.20 million in preference claims), and interest expense of $2.28 million. These charges are offset by a corresponding tax benefit of $5.42 million, resulting in a net impact of $8.12 million to the net income during the three and six months ended June 30, 2006. This one-time, non-recurring litigation reserve of $11.3 million represents 7.4% and 3.9% of net sales for the three and six months ended June 30, 2006.

Amortization of Intangibles.

Amortization of intangibles increased $0.5 million during the three months ended June 30, 2006 compared to the same period in 2005 primarily due to an increase in identified intangible assets such as customer relationships, and trade names associated with acquired businesses.

Amortization of intangibles increased $0.9 million during the six months ended June 30, 2006 primarily for the same reasons above.

Interest Expense, Net.

Net interest expense increased to $7.0 million during the three months ended June 30, 2006 compared to $6.2 million during the same period in 2005, an increase of 12.9%.

Net interest expense decreased to $11.4 million during the six months ended June 30, 2006 compared to $14.5 million during the same period in 2005, a decrease of 21.4%.

The increase during the three months ended June 30, 2006 reflects interest expense of approximately $2.3 million related to the Louis Frey bankruptcy litigation. The increase was partially offset by interest savings from the refinance of our second lien debt in December 2005.

The decrease in the six months ended June 30, 2006 was due primarily to the refinance of our second lien debt in December 2005, offset by approximately $2.3 million interest related to the Louis Frey bankruptcy litigation.

Income Taxes.

Our effective income tax rate increased from 39% to 40%, excluding our one-time benefit as a result of our reorganization in February 2005. The increase is due to our entire company being subject to corporate income taxation in 2006 as compared to 2005 in which a portion of our business was operated within a limited liability company and treated as a partnership for income tax purposes until February 3, 2005.

Net Income.

Net income decreased to $8.4 million during the three months ended June 30, 2006 compared to $11.4 million in the same period in 2005 due to the Louis Frey bankruptcy litigation charge, net of taxes, of $8.1 million. Excluding the litigation charge, net income increased to $16.6 million during the three months ended June 30, 2006 compared to $11.4 million in the same period in 2005 primarily due to the increase in sales.

Net income decreased to $22.8 million during the six months ended June 30, 2006, primarily due to a one time tax benefit of $27.7 million as a result of our reorganization in February 2005, and from the litigation charge associated with the Louis Frey bankruptcy litigation. Excluding the one-time tax benefit of $27.7, and the litigation charge, net of taxes, of $8.1 million, net income increased by $12.0 million during the six months ended June 30, 2006 compared to the same period in 2005 primarily due to increased sales as overall construction activity in the U.S. expanded in most regions and due to lower interest expense resulting from the refinance of our debt.

The litigation charge, net of taxes, of $8.1 million had a $0.18 adverse impact on basic and diluted earning per share during the three and six months ended June 30, 2006. For a reconciliation of net income to adjusted net income and adjusted earning per share, please see “Non-GAAP Measures” above.

EBITDA.

EBITDA margin decreased to 18.1% during the three months ended June 30, 2006 compared to 23.7% during the same period in 2005 due to the one-time, non-recurring litigation charge for the Louis Frey bankruptcy litigation case. The litigation charge had a 7.4% adverse effect on EBITDA margin during the three months ended June 30, 2006.

The EBITDA margin decreased to 21.0% during the six months ended June 30, 2006 compared to 22.9% during the same period in 2005 due to the litigation charge mentioned above. The litigation charge had a 3.9% adverse effect on EBITDA margin during the six months ended June 30, 2006.

Absent the litigation charge, the EBITDA increases in both periods are attributable to higher sales. For a reconciliation of EBITDA to net income, please see "Non-GAAP Measures" above.

Impact of Inflation

Inflation has not had a significant effect on our operations. Price increases for raw materials such as paper typically have been, and we expect will continue to be, passed on to customers in the ordinary course of business.

Liquidity and Capital Resources

Our principal sources of cash have been operations and borrowings under our bank credit facilities or debt agreements. Our historical uses of cash have been for acquisitions of reprographics businesses, payment of principal and interest on outstanding debt obligations, capital expenditures and tax-related distributions to members of Holdings. Supplemental information pertaining to our historical sources and uses of cash is presented as follows and should be read in conjunction with our consolidated statements of cash flows and notes thereto included elsewhere in this report.

	Six Months Ended June 30,	
	2005	2006
	(Unaudited) (Dollars in thousands)	
Net cash provided by operating activities	$ 24,589	$ 42,400
Net cash used in investing activities	$ (6,761)	$ (20,116)
Net cash used in financing activities	$ (19,063)	$ (21,828)

Operating Activities

Net cash of $42.4 million provided by operating activities for the six months ended June 30, 2006, represents a year-over-year increase primarily related to net income of $22.8 million. It also includes depreciation and amortization of $12.0 million and an increase in accounts payable and accrued expenses of $21.1 million primarily due to the litigation charge related to the Louis Frey bankruptcy case and the timing of payments on trade payables on several operating divisions. These timing of payments increased our days in accounts payable by approximately 9.8%. These factors were offset by the growth in accounts receivable, net of effect of business acquisitions, of $12.7 million, primarily related to increased sales.

Investing Activities

Net cash of $20.1 million for the six months ended June 30, 2006 used in investing activities primarily relates to the acquisition of businesses and capital expenditures at all our operating divisions. Payments for businesses acquired, net of cash acquired and including other cash payments and earnout payments associated with the acquisitions, amounted to $16.1 million during the six months ended June 30, 2006. We incurred capital expenditures totaling $3.8 million during the six months ended June 30, 2006.

Financing Activities

Net cash of $21.8 million used during the six months ended June 30, 2006 primarily relates to the net repayment of debt and capital lease obligations of $26.9 million, offset by net proceeds from issuance of common stock under our Employee Stock Purchase Plan and stock option exercises of $1.9 million. Also included in financing activities is a $3.4 million excess tax benefit related to stock options exercised.

Our cash position, working capital, and debt obligations as of June 30, 2006 are shown below and should be read in conjunction with our consolidated balance sheets and notes thereto elsewhere in this report.

	December 31, 2005	June 30, 2006
		(Unaudited)
	(Dollars in thousands)	
Cash and cash equivalents	$ 22,643	$ 23,099
Working capital	35,797	39,438
Borrowings from senior secured credit facilities	230,423	216,487
Other debt obligations	43,389	51,941
Total debt obligations	$ 273,812	$ 268,428

We expect a positive effect on our liquidity and results of operations going forward due to lower interest expense as net proceeds of approximately $92.7 million from our initial public offering were used to reduce our existing debt obligations. Our overall interest expense may also be reduced as rates applicable to future borrowings on our revolving credit facility may decrease since the margin for loans made under the revolving facility is based on the ratio of our consolidated indebtedness to our consolidated EBITDA (as defined in our credit facilities). The applicable margin on our revolving facility ranges between 2.00% and 2.75% for LIBOR rate loans and ranges between 1.00% and 1.75% for index rate loans.

These positive factors will be offset to a certain extent by the amendment consummated on July 17, 2006 that increases the Term Loan Facility by $30 million. The positive factors will also be partially offset by rising market interest rates on our debt obligations under our senior secured credit facilities, which are subject to variable interest rates. As discussed in “Quantitative and Qualitative Disclosure about Market Risk,” we had $268.4 million of total debt outstanding as of June 30, 2006, of which $216.5 million was bearing interest at variable rates. A 1.0% change in interest rates on our variable rate debt would have resulted in interest expense fluctuating by approximately $0.6 million and $1.1 million during the three and six months ended June 30, 2006, respectively.

We believe that our cash flow provided by operations will be adequate to cover our 2006 working capital needs, debt service requirements, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. However, we may elect to finance certain of our capital expenditure requirements through borrowings under our credit facilities or the issuance of additional debt.

We continually evaluate potential acquisitions. Absent a compelling strategic reason, we target potential acquisitions that would be cash flow accretive within six months. Currently, we are not a party to any agreements or engaged in any negotiations regarding a material acquisition **.** We expect to fund future acquisitions through cash flow provided by operations, additional borrowings, or the issuance of our equity. The extent to which we will be willing or able to use our equity or a mix of equity and cash payments to make acquisitions will depend on the market value of our shares from time to time, and the willingness of potential sellers to accept equity as full or partial payment .

Debt Obligations

Senior Secured Credit Facilities. On December 21, 2005, we entered into a Second Amended and Restated Credit and Guaranty Agreement (the Second Amended and Restated Credit Agreement), which replaced our Amended and Restated Credit and Guaranty Agreement dated as of June 30, 2005 (First Amended and Restated Credit and Guaranty Agreement). The Second Amended and Restated Credit Agreement provides for senior secured credit facilities aggregating up to $310,600,000, consisting of a $280,600,000 term loan facility and a $30,000,000 revolving credit facility. We used the proceeds from the incremental new term loan, in the amount of $157,500,000, to prepay in full all principal and interest payable under our then existing Second Lien Credit and Guaranty Agreement, dated December 18, 2003. The remaining balance of the increased term loan facility of $50,000,000 is available for our use, subject to the terms of the Second Amended and Restated Credit Agreement. Our obligations are guaranteed by our domestic subsidiaries and, subject to certain limited exceptions, are collateralized by first priority security interests granted in all of our and the guarantors’ personal and real property, and 65% of the assets of our foreign subsidiaries. Term loans are amortized over the term with the final payment due June 18, 2009. Amounts borrowed under the revolving credit facility must be repaid by December 18, 2008 .

Loans made under the credit facilities bear interest at one of two floating rates, at our option. The floating rates may be priced as either an Index Rate Loan or as Eurodollar Rate Loan. Term loans that are Index Rate Loans bear interest at the Index Rate plus .75%. The Index Rate is defined as the higher of (i) the rate of interest publicly quoted from time to time by *The Wall Street Journal* as the base rate on corporate loans posted by the nation's largest banks and (ii) the Federal Reserve reported overnight funds rate plus .5%. Term Loans which are Eurodollar Rate Loans bear interest at the Adjusted Eurodollar Rate plus 1.75% .

Revolving Loans that are Index Rate Loans bear interest at the Index Rate plus an Applicable Margin. Revolving Loans that are Eurodollar Rate Loans bear interest at the Adjusted Eurodollar Rate plus an Applicable Margin. The Applicable Margin is determined by a grid based on the ratio of the consolidated indebtedness of us and our subsidiaries to the consolidated adjusted EBITDA (as defined in the credit facilities) of us and our subsidiaries for the most recently ended four fiscal quarters and range between 2.00% and 2.75% for Eurodollar Rate Loans and range between 1.00% and 1.75% for Index Rate Loans .

In addition, under the revolving facility, we are required to pay a fee equal to 0.50% of the total unused commitment amount. We may also draw upon this credit facility through letters of credit, which carry specific fees.

On July 17, 2006 the Company entered into a First Amendment to Second Amended and Restated Credit and Guaranty Agreement (the First Amendment) in order to facilitate the consummation of certain proposed acquisitions. The First Amendment provided the Company with a $30 million increase to its Term Loan Facility in addition to amending certain other terms including the following:

- An increase in the aggregate purchase price limitation for business acquisitions commencing with fiscal year ending December 31, 2006;
- An increase in the threshold for capital expenditures during any trailing twelve-month period;
- Reset the Incremental Term Loan amount at $50 million; and
- Permit the Company to issue certain shares of its common stock in connection with certain proposed acquisitions.

Except as described above, all other material terms and conditions, including the maturity dates of the Company's existing senior secured credit facilities remained similar to those as described in Note 5-"Long Term Debt" to our consolidated financial statements included in our 2005 Annual Report on Form 10-K.

Seller Notes. As of June 30, 2006, we had $18 million of seller notes outstanding, with interest rates ranging between 5% and 7% and maturities between 2006 and 2011. These notes were issued in connection with prior acquisitions .

Off-Balance Sheet Arrangements

As of December 31, 2005 and June 30, 2006, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Other Commitments

Our future contractual obligations as of June 30, 2006, by fiscal year are as follows:

	Six Months Ending	Twelve Months Ending December 31,				
	December 31, 2006	2007	2008	2009	2010	Thereafter
	(Dollars in thousands)					
Debt obligations	$ 3,097	$ 6,030	$ 117,239	$ 103,937	$ 3,311	$ 867
Capital lease obligations	6,297	11,498	8,659	4,033	2,217	1,243
Operating lease obligations	16,772	25,965	18,037	12,450	8,713	28,380
Total	$ 26,166	$ 43,493	$ 143,935	$ 120,420	$ 14,241	$ 30,490

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of our business .

Contingent Transaction Consideration. We have entered into earnout agreements in connection with prior acquisitions. If the acquired businesses generate operating profits in excess of predetermined targets, we are obligated to make additional cash payments in accordance with the terms of such earnout agreements. As of June 30, 2006, we have potential future earnout obligations aggregating $7.4 million through 2010 if the operating profits exceed the predetermined targets. Earnout payments are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable and consist of a combination of cash and notes payable issued to the seller.

State Sales Tax. We were involved in a state tax authority dispute related to unresolved sales tax issues which arose from such state tax authority's audit findings from their sales tax audit of certain of our operating divisions for the period from October 1998 to September 2001. Those unresolved issues related to the application of sales taxes on certain discounts we granted to our customers. Based on the position taken by the state tax authority on these unresolved issues, they claimed that an additional $1.2 million of sales taxes were due from us for the period in question, plus $489,000 of interest. At an appeals conference held on December 14, 2004, the appeals board ruled that we were liable in connection with one component of the dispute involving approximately $40,000, which we had previously paid. We paid the tax in May of 2005 but we strongly disagreed with the state tax authority's position and filed a petition for redetermination requesting an appeals conference to resolve these issues. We were granted another appeals conference in April 2006 to resolve the remaining issues. We lost on appeal. Our accrued expenses in our consolidated balance sheet as of June 30, 2006 include $489,000 of accrued interest related to this matter, which was paid in July of 2006 **.**

Impact of Conversion from an LLC to a Corporation

Immediately prior to our initial public offering in February 2005, we reorganized from a California limited liability company to a Delaware corporation, American Reprographics Company. In the reorganization, the members of Holdings exchanged their common units and options to purchase common units for shares of our common stock and options to purchase shares of our common stock. As required by the operating agreement of Holdings, we used a portion of the net proceeds from our initial public offering to repurchase all of the preferred equity of Holdings upon the closing of our initial public offering. As part of the reorganization, all outstanding warrants to purchase common units were exchanged for shares of our common stock. We do not expect any significant effect on operations from the reorganization apart from an increase in our effective tax rate due to corporate-level taxes, which will be offset by the elimination of tax distributions to our members and the recognition of deferred income taxes upon our conversion from a California limited liability company to a Delaware corporation .

Income Taxes

Prior to February 3, 2005, a portion of our business was operated as a limited liability company that was taxed as a partnership. As a result, the Company owners paid income taxes on the earnings. Several of our divisions were treated as separate corporate entities for income tax purposes. These corporations paid income tax and record provisions for income taxes in their financial statements .

As a result of the reorganization to a Delaware corporation, our total earnings are subject to federal, state and local taxes at a combined statutory rate of approximately 40%. The unaudited pro forma incremental income tax provision and unaudited pro forma earnings per common member unit amounts three and six months ended June 30, 2005. were calculated as if our reorganization became effective on January 1, 2001 . These figures are shown in the non-GAAP measures section of Part I, Item 2 of this report.

Critical Accounting Policies

Our management prepares financial statements in conformity with accounting principles generally accepted in the United States. This requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We evaluate our estimates and assumptions on an ongoing basis and rely on historical experience and other factors that we believe are reasonable under the circumstances. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements. We believe the critical accounting policies and areas that require more significant judgments and estimates used in the preparation of our consolidated financial statements to be the following: goodwill and other intangible assets; allowance for doubtful accounts; and commitments and contingencies.

Goodwill and Other Intangible Assets

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," which requires, among other things, the use of a nonamortization approach for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and intangibles that have an indefinite life are not amortized but instead will be reviewed for impairment at least annually, or more frequently should an event occur or circumstances indicate that the carrying amount may be impaired. Such events or circumstances may be a significant change in business climate, economic and industry trends, legal factors, negative operating performance indicators, significant competition, changes in our strategy, or disposition of a reporting unit or a portion thereof. Goodwill impairment testing is performed at the reporting unit level .

SFAS 142 requires a two-step test for goodwill impairment. The first step identifies potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value exceeds its carrying amount, goodwill is not considered impaired and the second step of the test is unnecessary. If the carrying amount exceeds its fair value, the second step measures the impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess .

The goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to such reporting units, assignment of goodwill to such reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments, including estimation of future cash flows (which is dependent on internal forecasts), estimation of the long-term growth rate for our business, the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit .

We have selected September 30 as the date we will perform our annual goodwill impairment test. Based on our valuation of goodwill, no impairment charges related to the write-down of goodwill were recognized for the years ended December 31, 2003, 2004, and 2005 .

Other intangible assets that have finite useful lives are amortized over their useful lives. An impaired asset is written down to fair value. Intangible assets with finite useful lives consist primarily of not-to-compete covenants, trade names, and customer relationships and are amortized over the expected period of benefit, which ranges from two to twenty years using the straight-line and accelerated methods. Customer relationships are amortized under an accelerated method that reflects the related customer attrition rates, and trade names are amortized using the straight-line method .

Allowance for Doubtful Accounts

We perform periodic credit evaluations of the financial condition of our customers, monitor collections and payments from customers, and generally do not require collateral. Receivables are generally due within 30 days. We provide for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. We write off an account when it is considered uncollectible. We estimate our allowance for doubtful accounts based on historical experience, aging of accounts receivable, and information regarding the creditworthiness of our customers. To date, uncollectible amounts have been within the range of management's expectations .

Commitments and Contingencies

In the normal course of business, we estimate potential future loss accruals related to legal, tax and other contingencies. These accruals require management's judgment on the outcome of various events based on the best available information. However, due to changes in facts and circumstances, the ultimate outcomes could differ from management's estimates .

Recent Accounting Pronouncements

In April 2005, the United States Securities and Exchange Commission (SEC) approved a new rule that delayed the effective date of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment. Except for this deferral of the effective date, the guidance in SFAS No. 123R was unchanged. Under the SEC's rule, SFAS No. 123R became effective for the Company for annual, rather than interim, periods that began after June 15, 2005. The Company began applying this Statement to all awards granted on or after January 1, 2006 and to awards modified, repurchased, or cancelled after that date. The implementation of this standard is further discussed in Note 2, Stock-Based Compensation.

Also, in November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3 (FSP 123R-3), Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP 123R-3 provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax short falls recognized subsequent to the adoption of FAS 123R. Companies may take up to one year from the effective date of FSP 123R-3 to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods.

On July 13, 2006, the FASB issued Interpretation No. 48 (FIN No. 48) "Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006, or fiscal year 2007 for the Company. The Company is assessing the impact the adoption of FIN No. 48 will have on the Company's consolidated financial position and results of operations.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Our primary exposure to market risk is interest rate risk associated with our debt instruments. We use both fixed and variable rate debt as sources of financing. We have an interest rate collar agreement that will expire in December 2006. Except as set forth below, there have been no material changes in market risk from the information reported in Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in our 2005 Annual Report on Form 10-K.

In March 2006, we entered into an interest rate collar agreement that becomes effective on December 23, 2006 and has a fixed notional amount of $76.7 million until December 23, 2007, then decreases to $67.0 million until termination of the collar on December 23, 2008. The interest rate collar has a cap strike three month LIBOR rate of 5.50% and a floor strike three month LIBOR rate of 4.70%.

As of June 30, 2006, we had $268.4 million of total debt obligations of which $216.5 million was bearing interest at variable rates approximating 7.1% on a weighted average basis. A 1.0% change in interest rates on our variable rate debt would have resulted in interest expense fluctuating by approximately $.6 million and $1.1 million during the three and six months ended June 30, 2006, respectively.

We have not, and do not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of June 30, 2006, we had no other significant material exposure to market risk, including foreign exchange risk and commodity risks.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2006. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2006, these disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There were no significant changes to internal controls over financial reporting during the second quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II

Item 1. Legal Proceedings

On July 28, 2006, a decision was rendered against us in the previously disclosed Louis Frey bankruptcy litigation in the United States Bankruptcy Court, Southern District of New York. The judge determined that damages should be awarded to the plaintiff in the amount of $11.06 million, interest expense of $2.28 million through June 30, 2006, and $0.20 million in preference claims. We continue to believe our position is meritorious, and remain committed to vigorously defending our position through the appellate process. In accordance with generally accepted accounting principles (GAAP), we have accounted for the judgment by recording a one-time, non-recurring litigation charge of $13.54 million that includes a $11.26 million litigation reserve ($11.06 million in awarded damages and $0.20 million in preference claims), and interest expense of $2.28 million. These charges are offset by a corresponding tax benefit of $5.42 million, resulting in a net impact of $8.12 million to the net income during the three and six months ended June 30, 2006.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005, except for the addition of the following risk factor:

On July 28, 2006, a decision was rendered against us in the previously disclosed Louis Frey bankruptcy litigation in the United States Bankruptcy Court, Southern District of New York. The judge determined that damages should be awarded to the plaintiff in the amount of approximately $11.06 million, interest expense of $2.28 million through June 30, 2006 and $0.20 million in preference claims. In accordance with generally accepted accounting principles (GAAP), we have accounted for the judgment by recording a one-time, non-recurring litigation charge of $13.54 million that includes a $11.26 million litigation reserve ($11.06 million in awarded damages and $0.2 million in preference claims), and interest expense of $2.28 million. These charges are offset by a corresponding tax benefit of $5.42 million, resulting in a net impact of $8.12 million to the net income during the three and six months ended June 30, 2006.

We continue to believe our position is meritorious, and remain committed to vigorously defending our position through the appellate process. We cannot predict the final outcome of the appellate process. If we are unsuccessful in our appeal, it could have an adverse effect on the Company's financial position and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our senior secured credit facilities contain restrictive covenants which, among other things, provide limitations on capital expenditures, restrictions on indebtedness and dividend distributions to our stockholders. Additionally, we are required to meet debt covenants based on certain financial ratio thresholds, including minimum interest coverage, maximum leverage and minimum fixed charge coverage ratios. The credit facilities also limit our ability and the ability of our domestic subsidiaries to, among other things, incur liens, make certain investments, sell certain assets, engage in reorganizations or mergers, or change the character of our business. We are in compliance with all such covenants as of June 30, 2006.

Item 4. Submission of Matters to a Vote of Security Holders

On May 22, 2006, the annual meeting of the stockholders of the Company was held in Glendale, California. There were 44,658,115 shares of common stock outstanding on the record date and entitled to vote at the annual meeting. At the annual meeting, the stockholders voted as indicated below on the following matters:

(a) Election of the following directors to serve until the next annual meeting of stockholders or until their successors are elected and qualified (included as Proposal 1 in the proxy statement):

	VOTE FOR	VOTE WITHHELD
Sathiyamurthy Chandramohan	41,009,089	70,760
Kumarakulasingam Suriyakumar	41,009,089	70,760
Thomas J. Formolo	41,009,089	70,760
Dewitt Kerry McCluggage	41,009,089	70,760
Mark W. Mealy	41,009,089	70,760
Manuel Perez de la Mesa	41,009,089	70,760
Eriberto R. Scocimara	41,009,089	70,760

There were no abstentions and no broker non-votes.

(b) Ratification of the appointment of PricewaterhouseCoopers, LLP as the Company's independent auditors for the fiscal year ending December 31, 2006 (included as Proposal 2 in the proxy statement):

For: 41,054,234

Against: 24,610

Abstain: 1,005

This proposal was approved by a majority of the shares represented and voting (including abstentions) with respect to this proposal, which shares voting affirmatively also constituted a majority of the required quorum.

Item 5. Other Information:

Attached hereto as Exhibit 99.1 is the press release concerning the accounting treatment of the judgment in the Louis Frey case as disclosed throughout this Form 10-Q.

Item 6. Exhibits

INDEX TO EXHIBITS

Number	Description
10.1	First Amendment to Second Amended and Restated Credit and Guaranty Agreement dated effective as of July 17, 2006, by and among American Reprographics Company L.L.C., a California limited liability company, American Reprographics Company, a Delaware corporation, certain financial institutions listed in the signature pages thereto, Goldman Sachs Credit Partners L.P., as Sole Lead Arranger and Joint Bookrunner, JPMorgan Securities, Inc., as Joint Bookrunner, General Electric Capital Corporation, as Administrative Agent and as Collateral Agent and the Credit Support Parties listed on the signature pages thereto. *
31.1	Certification by the Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934. *
31.2	Certification by the Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934. *
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
99.1	American Reprographics Company press release dated August 14, 2006. *

* Filed herewith

SIGNATURE PAGE

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, thereunto duly authorized on August 14, 2006.

AMERICAN REPROGRAPHICS COMPANY

By: /s/ Sathiyamurthy Chandramohan

Chairman of the Board of Directors and
Chief Executive Officer

By: /s/ Mark W. Legg

Chief Financial Officer and Secretary

FIRST AMENDMENT TO SECOND AMENDED

AND RESTATED CREDIT AND GUARANTY AGREEMENT

THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AND GUARANTY AGREEMENT (this **"Amendment"**) is dated as of July 17, 2006 and is entered into by and among **AMERICAN REPROGRAPHICS COMPANY, L.L.C.** , a California limited liability company (the **"Borrower''**), **AMERICAN REPROGRAPHICS COMPANY** , a Delaware corporation (**"Holdings"**), **CERTAIN FINANCIAL INSTITUTIONS** listed on the signature pages hereto (the **"Lenders"**), **GOLDMAN SACHS CREDIT PARTNERS L.P.** (" **GSCP** "), as Sole Lead Arranger and Joint Bookrunner, **JPMORGAN CHASE BANK, N.A.** , as Syndication Agent, **JPMORGAN SECURITIES INC.** , as Joint Bookrunner, **GENERAL ELECTRIC CAPITAL CORPORATION** (**"GECC"**), as Administrative Agent (together with its permitted successors in such capacity, **"Administrative Agent"**) and as Collateral Agent and the **CREDIT SUPPORT PARTIES** listed on the signature papers hereto, and is made with reference to that certain **SECOND AMENDED AND RESTATED CREDIT AND GUARANTY AGREEMENT** dated as of December 21, 2005 (as amended through the date hereof, the **"Credit Agreement"**) by and among Borrower, American Reprographics Holdings, L.L.C., Holdings, the subsidiaries of Borrower named therein, Lenders, Syndication Agent, Collateral Agent and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement after giving effect to this Amendment.

RECITALS

WHEREAS, the Credit Parties have requested that Requisite Lenders agree to amend certain provisions of the Credit Agreement as provided for herein;

WHEREAS , contemporaneously with the execution of this Amendment, the Borrower is exercising its right under Section 2.24 of the Credit Agreement to incur New Term Loans in an amount not to exceed $30,000,000; and

WHEREAS, subject to certain conditions, Requisite Lenders are willing to agree to such amendment relating to the Credit Agreement.

NOW, THEREFORE , in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION I. AMENDMENTS TO CREDIT AGREEMENT

1.1 Amendments to Section 1: Definitions .

Section 1.1 of the Credit Agreement is hereby amended by adding the following definitions in proper alphabetical sequence:

> **"First Amendment"** means that certain First Amendment to Second Amended and Restated Credit and Guaranty Agreement dated as of July 17, 2006 among Borrower, Holdings, Syndication Agent, Administrative Agent and the financial insti-tutions and the Credit Support Parties listed on the signature pages thereto.

"First Amendment Effective Date" means the date of satisfaction of the conditions referred to in Section II of the First Amendment.

1.2 Amendments to Section 2.14 .

Section 2.14 of the Credit Agreement is hereby amended by deleting the period at the end of clause (c) thereof, and replacing it with the phrase: "; provided , further , that the issuance of up to 246,277 shares of Capital Stock of the Company to be consummated on the First Amendment Effective Date in an aggregate amount of up to approximately $8,500,000 shall be excluded from the requirements of this clause (c)."

1.3 Amendments to Section 2.24 .

A. Section 2.24 of the Credit Agreement is hereby amended by deleting the first sentence thereof in its entirety and replacing it with the following:

"Company may by written notice to Administrative Agent and Syndication Agent elect to request the establishment of one or more new term loan commitments (the **"New Term Loan Commitments"**), by an amount not in excess of $237,500,000 in the aggregate with (i) a maximum amount of $157,500,000 having been funded on the Effective Date; provided , however , any amounts in excess of $187,500,000 will only be available to the Company if the Company has utilized New Term Loan Commitments up to an aggregate amount of $187,500,000 no later than August 31, 2006 and (ii) not less than $5,000,000 individually (or such lesser amount which shall be approved by Administrative Agent and Syndication Agent or such lesser amount that shall constitute the difference between $5,000,0000 and all such New Term Loan Commitments obtained prior to such date), and integral multiples of $1,000,000 in excess of that amount."

B. Section 2.24 of the Credit Agreement is hereby further amended by deleting the last paragraph thereof and replacing it with the following:

"The terms and provisions of the New Term Loans and New Term Loan Commitments shall be, except as otherwise set forth herein or in the Joinder Agreement, identical to the Tranche C Term Loans. In any event (i) the weighted average life to maturity of all New Term Loans shall be no shorter than the weighted average life to maturity of the Tranche C Terms Loans, (ii) the applicable New Term Loan Maturity Date shall be no shorter than the final maturity of the Tranche C Term Loans and (iii) the rate of interest applicable to the New Term Loans shall be determined by Borrower and the applicable new Lenders and shall be set forth in each applicable Joinder Agreement; provided however that the interest rate applicable to the New Term Loans shall not be greater than the highest interest rate that may, under any circumstances, be payable with respect to Tranche C Term Loans plus 0.25% *per annum* unless the interest rate with respect to the Tranche C Term Loan is increased so as to equal the interest rate applicable to the New Term Loans less 0.25% *per annum* . Each Joinder Agreement may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Credit Documents as may be necessary or appropriate, in the opinion of the Syndication Agent and Administrative Agent to effect the provision of this Section 2.24."

1.4 Amendments to Section 6.8(e) .

Section 6.8(e) of the Credit Agreement is hereby amended by deleting the table therein and replacing it with the following:

Fiscal Year	Consolidated Capital Expenditures
2006	$35,000,000
2007	$35,000,000
2008	$35,000,000
2009	$20,000,000

1.5 Amendments to Section 6.9(e) .

Section 6.9(e) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

"Permitted Acquisitions, the cash consideration for which constitutes (i) for so long as the Leverage Ratio is greater than or equal to 3.0:1.0, less than $25,000,000 in the aggregate in any Fiscal Year and (ii) at any time after the Leverage Ratio has fallen below 3.0:1.0, less than (x) $75,000,000 in the aggregate in Fiscal Year 2006 and (y) $50,000,000 in each Fiscal Year thereafter;"

1.6 Waiver of Notice Requirement .

A. By executing this Amendment the Requisite Lenders hereby waive the requirements of Section 2.24 of the Credit Agreement solely relating to the 10 Business Days notice period with respect to any utilization of New Term Loan Commitments in an aggregate amount of up to $30,000,000 no later than August 31, 2006.

B. By executing this Amendment the Requisite Lenders hereby waive the requirements of clause (vi) of the definition of "Permitted Acquisition" in Section 1.1 of the Credit Agreement solely relating to the 10 Business Days notice period with respect to any acquisitions consummated as of the First Amendment Effective Date through July 21, 2006, so long as the remaining conditions set forth in such definition are satisfied.

SECTION II. CONDITIONS TO EFFECTIVENESS

This Amendment shall become effective as of the date hereof only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the **"First Amendment Effective Date"**):

A. Execution . Administrative Agent shall have received a counterpart signature page of this Amendment duly executed by each of the Credit Parties and Requisite Lenders.

B. Fees . The Arranger shall have received all fees and other amounts due and payable on or prior to the First Amendment Effective Date, including, to the extent invoiced, reimbursement or other payment of all out-of-pocket expenses required to be reimbursed or paid by Borrower hereunder or any other Credit Document.

C. Necessary Consents. Each Credit Party shall have obtained all material con-sents necessary or advisable in connection with the transactions contemplated by this Amendment.

D. Other Documents. Administrative Agent and Lenders shall have received such other documents, information or agreements regarding Credit Parties as Administrative Agent or Collateral Agent may reasonably request.

SECTION III. REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, each Credit Party which is a party hereto represents and warrants to each Lender that the following statements are true and correct in all material respects:

A. Corporate Power and Authority. Each Credit Party, which is party hereto, has all requisite power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the **"Amended Agreement"**) and the other Credit Documents.

B. Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement and the other Credit Documents have been duly authorized by all necessary action on the part of each Credit Party.

C. No Conflict. The execution and delivery by each Credit Party of this Amendment and the performance by each Credit Party of the Amended Agreement and the other Credit Documents do not and will not (i) violate (A) any provision of any law, statute, rule or regulation, or of the certificate or articles of incorporation or partnership agreement, other constitutive documents or by-laws of Holdings, Borrower or any Credit Party or (B) any applicable order of any court or any rule, regulation or order of any Governmental Authority, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any Contractual Obligation of the applicable Credit Party, where any such conflict, violation, breach or default referred to in clause (i) or (ii) of this Section III.C., individually or in the aggregate could reasonably be expected to have a Material Adverse Effect, (iii) except as permitted under the Amended Agreement, result in or require the creation or imposition of any Lien upon any of the properties or assets of each Credit Party (other than any Liens created under any of the Credit Documents in favor of Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or partners or any approval or consent of any Person under any Contractual Obligation of each Credit Party, except for such approvals or consents which will be obtained on or before the First Amendment Effective Date and except for any such approvals or consents the failure of which to obtain will not have a Material Adverse Effect.

D. Governmental Consents. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the execution and delivery by each Credit Party of this Amendment and the performance by Borrower and Holdings of the Amended Agreement and the other Credit Documents, except for such actions, consents and approvals the failure to obtain or make which could not reasonably be expected to result in a Material Adverse Effect or which have been obtained and are in full force and effect.

E. Binding Obligation. This Amendment and the Amended Agreement have been duly executed and delivered by each of the Credit Parties party thereto and each constitutes a legal, valid and binding obligation of such Credit Party to the extent a party thereto, enforce-able against such Credit Party in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and except as enforceability may be limited by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

F. Incorporation of Representations and Warranties from Credit Agreement. The representations and warranties contained in Section 4 of the Amended Agreement are and will be true and correct in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true and correct in all material respects on and as of such earlier date.

G. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Default.

SECTION IV. REPRESENTATIONS AND WARRANTIES

Each Domestic Subsidiary and Holdings are referred to herein as a **"Credit Support Party"** and collectively as the **"Credit Support Parties"** , and the Credit Documents to which they are a party are collectively referred to herein as the **"Credit Support Documents"** .

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guarantee or secure, as the case may be, to the fullest extent possible in accordance with the Credit Support Documents the payment and performance of all "Obligations" under each of the Credit Support Documents to which is a party (in each case as such terms are defined in the applicable Credit Support Document).

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be im-paired or limited by the execution or effectiveness of this Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true and correct in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true and correct in all material respects on and as of such earlier date.

Each Credit Support Party acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Credit Support Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Credit Support Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

SECTION V. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Credit Documents.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Amendment", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Credit Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not constitute a waiver of any pro-vision of, or operate as a waiver of any right, power or remedy of any Agent or Lender under, the Credit Agreement or any of the other Credit Documents.

B. Headings . Section and Subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

C. Applicable Law . THIS AMENDMENT AND THE RIGHTS AND OB-LIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRIN-CIPLES.

D. **Counterparts .** This Amendment may be executed in any number of counter-parts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

[*Remainder of this page intentionally left blank.*]

IN WITNESS WHEREOF , the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

BORROWER:

AMERICAN REPROGRAPHICS COMPANY, L.L.C

By: ____________________________

Name: Mark W. Legg
Title: Chief Financial Officer

CREDIT SUPPORT PARTIES:

AMERICAN REPROGRAPHICS COMPANY

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

ARC ACQUISITON CORPORATION

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

BLUE PRINT SERVICE COMPANY, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

RHODE ISLAND BLUEPRINT CO.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

LEET-MELBROOK, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

PENINSULA BLUEPRINT, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

QUALITY REPROGRAPHIC SERVICES, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

MIRROR PLUS TECHNOLOGIES, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

E. PAVILION, LLC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

FRANKLIN GRAPHICS CORPORATION

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

ENGINEERING REPRO SYSTEMS, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

DUNN BLUE PRINT COMPANY

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

OCB, LLC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

RIDGWAY'S, LTD.

By: Ridgway's GP, LLC its General Partner

Name: Mark W. Legg
Title: Chief Financial Officer

REPROGRAPHICS NORTHWEST, LLC

By:

Name: Mark W. Legg
Title: Chief Financial Officer

WILCO REPROGRAPHICS, INC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

BPI REPRO, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

RIDGWAY'S GP, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

RIDGWAY'S LP, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

THE PEiR GROUP, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

THE PEiR GROUP INTERNATIONAL, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

LICENSING SERVICES INTERNATIONAL, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

PLANWELL, LLC.

By:

Name: Mark W. Legg
Title:

SUBHUB, INC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

GEORGIA BLUE PRINT COMPANY, LLC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

MCKEE ENTERPRISES, INC.

By:

Name: Mark W. Legg
Title: Chief Financial Officer

WESTERN BLUE PRINT COMPANY, LLC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

T-SQUARE EXPRESS, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

FASTPRINT, INC.

By: ______________________________

Name: Mark W. Legg
Title: Chief Financial Officer

GOLDMAN SACHS CREDIT PARTNERS LP. As Sole Lead Arranger and Lender

By: ______________________________

Authorized Signatory

ADMINISTRATIVE AGENT: **GENERAL ELECTRIC CAPITAL CORPORATION**

By: ______________________________

Name:
Title:

LENDERS:

By signing below, you have indicated your consent to the First Amendment to Second Amended and Restated Credit and Guaranty Agreement

Name of Institution:

____

By: ______________________________

Name:
Title:

Exhibit 31.1

CERTIFICATIONS

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Sathiyamurthy Chandramohan, certify that:

1. I have reviewed this report on Form 10-Q of American Reprographics Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 14, 2006

/s/ Sathiyamurthy Chandramohan

Chairman of the Board of Directors and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark W. Legg, certify that:

1. I have reviewed this report on Form 10-Q of American Reprographics Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 14, 2006

/s/ Mark W. Legg

Chief Financial Officer and Secretary

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of American Reprographics Company (the "Company) on Form 10-Q for the quarterly period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, Sathiyamurthy Chandramohan, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in the Report fairly presents in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2006

/s/ Sathiyamurthy Chandramohan

Chairman of the Board of Directors and
Chief Executive Officer

In connection with the Quarterly Report of American Reprographics Company (the "Company) on Form 10-Q for the quarterly period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, Mark W. Legg, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in the Report fairly presents in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2006

/s/ Mark W. Legg

Chief Financial Officer and Secretary

Exhibit 99-1

AMERICAN REPROGRAPHICS COMPANY FILES FORM 10-Q

~ COMPANY BOOKS ONE-TIME NON-RECURRING CHARGE IN SECOND QUARTER AS LITIGATION RESERVE ~

GLENDALE, California (August 14, 2006) - American Reprographics Company (NYSE: ARP), the nation's leading provider of reprographics services and technology today filed its 10-Q for the quarter ended June 30, 2006 with the Securities and Exchange Commission. In the filing the Company reported that, in accordance with generally accepted accounting principles (GAAP), it has taken a one-time, non-recurring charge of $13.5 million in the second quarter as a reserve against a possible adverse outcome in the appeal of the previously disclosed Louis Frey bankruptcy litigation.

The financial statements reported in the Company's quarterly report on Form 10-Q reflect changes from the information the Company furnished in its earnings release originally announced on August 3, 2006. The litigation charge of $13.54 million includes an $11.26 million litigation reserve and $2.28 million in interest. The litigation reserve is offset by a corresponding tax benefit of $5.42 million and reduces net income by $8.12 million for the six months ended June 30, 2006.

ARC continues to believe its position is meritorious, and it remains committed to vigorously defending its position through the appellate process.

About American Reprographics Company

American Reprographics Company is the leading reprographics company in the United States providing business-to-business document management services to the architectural, engineering and construction, or AEC industries. The Company provides these services to companies in non-AEC industries, such as technology, financial services, retail, entertainment, and food and hospitality, which also require sophisticated document management services. American Reprographics Company provides its core services through its suite of reprographics technology products, a network of more than 200 locally-branded reprographics service centers across the U.S., and on-site at their customers' locations. The Company's service centers are arranged in a hub and satellite structure and are digitally connected as a cohesive network, allowing the provision of services both locally and nationally to more than 73,000 active customers.

Contacts:

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VP of Corporate Communications	Financial Dynamics
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