DUNKIN' BRANDS GROUP, INC.
Form 10-Q
November 07, 2018
Table of Contents

FORM 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 29, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission file number 001-35258

DUNKIN' BRANDS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-4145825
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 Royall Street
Canton, Massachusetts 02021
(Address of principal executive offices) (zip code)
(781) 737-3000
(Registrants' telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant has (1) 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 x NO ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   YES ¨   NO x

As of November 2, 2018, 82,597,346 shares of common stock of the registrant were outstanding.

Table of Contents

DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

		Page
Part I. – Financial Information		
Item 1.	Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	40
Item 4.	Controls and Procedures	41
Part II. – Other Information		
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3.	Defaults Upon Senior Securities	42
Item 4.	Mine Safety Disclosures	42
Item 5.	Other Information	42
Item 6.	Exhibits	43
	Signatures	44

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	September 29, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$428,179	1,018,317
Restricted cash	79,432	94,047
Accounts receivable, net of allowance for doubtful accounts of $3,961 and $4,390 as of September 29, 2018 and December 30, 2017, respectively	79,778	69,517
Notes and other receivables, net of allowance for doubtful accounts of $975 and $600 as of September 29, 2018 and December 30, 2017, respectively	53,933	52,332
Prepaid income taxes	20,826	21,927
Prepaid expenses and other current assets	48,214	48,193
Total current assets	710,362	1,304,333
Property, equipment, and software, net of accumulated depreciation of $155,723 and $143,319 as of September 29, 2018 and December 30, 2017, respectively	205,860	181,542
Equity method investments	142,954	140,615
Goodwill	888,293	888,308
Other intangible assets, net of accumulated amortization of $261,952 and $250,142 as of September 29, 2018 and December 30, 2017, respectively	1,340,034	1,357,157
Other assets	66,650	65,478
Total assets	$3,354,153	3,937,433
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion of long-term debt	$31,650	31,500
Capital lease obligations	554	596
Accounts payable	55,862	53,417
Deferred revenue	43,752	44,876
Other current liabilities	296,622	355,110
Total current liabilities	428,440	485,499
Long-term debt, net	3,017,281	3,035,857
Capital lease obligations	6,777	7,180
Unfavorable operating leases acquired	8,671	9,780
Deferred revenue	354,472	361,458
Deferred income taxes, net	200,196	214,345
Other long-term liabilities	73,874	77,853
Total long-term liabilities	3,661,271	3,706,473
Commitments and contingencies (note 9)		
Stockholders' deficit:		
Preferred stock, $0.001 par value; 25,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value; 475,000,000 shares authorized; 82,468,705 shares issued and 82,441,928 shares outstanding as of September 29, 2018; 90,404,022 shares issued and 90,377,245 shares outstanding as of December 30, 2017	82	90

Additional paid-in capital	645,505	724,114
Treasury stock, at cost; 26,777 shares as of September 29, 2018 and December 30, 2017	(1,060)	(1,060)
Accumulated deficit	(1,365,010)	(968,148)
Accumulated other comprehensive loss	(15,075)	(9,535)
Total stockholders' deficit	(735,558)	(254,539)
Total liabilities and stockholders' deficit	$3,354,153	3,937,433

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three months ended		Nine months ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenues:				
Franchise fees and royalty income	$151,991	143,734	435,740	415,343
Advertising fees and related income	132,471	122,660	375,017	355,224
Rental income	27,547	27,713	79,425	79,543
Sales of ice cream and other products	24,867	23,173	74,784	74,358
Other revenues	13,135	12,791	37,027	36,137
Total revenues	350,011	330,071	1,001,993	960,605
Operating costs and expenses:				
Occupancy expenses—franchised restaurants	14,765	15,333	43,059	43,758
Cost of ice cream and other products	21,311	19,457	60,956	58,578
Advertising expenses	133,732	124,080	378,283	358,828
General and administrative expenses, net	63,997	60,580	183,122	182,023
Depreciation	4,937	4,941	15,095	15,096
Amortization of other intangible assets	5,230	5,341	15,912	16,001
Long-lived asset impairment charges	55	536	1,209	643
Total operating costs and expenses	244,027	230,268	697,636	674,927
Net income of equity method investments	5,787	5,466	11,665	12,612
Other operating income (loss), net	(179)	3	(749)	591
Operating income	111,592	105,272	315,273	298,881
Other income (expense), net:				
Interest income	1,930	624	5,088	1,370
Interest expense	(31,932)	(24,436)	(96,947)	(74,192)
Other income (losses), net	(101)	155	(700)	370
Total other expense, net	(30,103)	(23,657)	(92,559)	(72,452)
Income before income taxes	81,489	81,615	222,714	226,429
Provision for income taxes	15,422	40,445	45,997	89,874
Net income	$66,067	41,170	176,717	136,555
Earnings per share:				
Common—basic	$0.80	0.46	2.10	1.50
Common—diluted	0.79	0.45	2.07	1.48
Cash dividends declared per common share	0.35	0.32	1.04	0.97

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three months ended		Nine months ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	$66,067	41,170	176,717	136,555
Other comprehensive income (loss), net:				
Effect of foreign currency translation, net of deferred tax expense (benefit) of $(17) and $6 for the three months ended September 29, 2018 and September 30, 2017, respectively, and $(63) and $579 for the nine months ended September 29, 2018 and September 30, 2017, respectively	(412)	(637)	(6,156)	5,354
Effect of interest rate swaps, net of deferred tax benefit of $216 and $650 for the three and nine months ended September 30, 2017, respectively	—	(319)	—	(955)
Other, net	46	24	616	677
Total other comprehensive income (loss), net	(366)	(932)	(5,540)	5,076
Comprehensive income	$65,701	40,238	171,177	141,631

See accompanying notes to unaudited consolidated financial statements.

5

Table of Contents
DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended	
	September 29, 2018	September 30, 2017
Cash flows from operating activities:		
Net income	$176,717	136,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,007	31,097
Amortization of debt issuance costs	3,761	4,843
Deferred income taxes	(13,984)	(10,649)
Provision for bad debt	340	599
Share-based compensation expense	10,862	10,896
Net income of equity method investments	(11,665)	(12,612)
Dividends received from equity method investments	4,509	4,711
Other, net	4,397	428
Change in operating assets and liabilities:		
Accounts, notes, and other receivables, net	(12,504)	(854)
Prepaid income taxes, net	1,156	10,872
Prepaid expenses and other current assets	(137)	(12,606)
Accounts payable	2,324	955
Other current liabilities	(58,390)	(63,962)
Deferred revenue	(8,302)	29,197
Other, net	(3,562)	(3,290)
Net cash provided by operating activities	126,529	126,180
Cash flows from investing activities:		
Additions to property, equipment, and software	(41,450)	(13,649)
Other, net	20	(101)
Net cash used in investing activities	(41,430)	(13,750)
Cash flows from financing activities:		
Repayment of long-term debt	(23,688)	(18,750)
Payment of debt issuance and other debt-related costs	—	(312)
Dividends paid on common stock	(86,035)	(87,911)
Repurchases of common stock, including accelerated share repurchases	(650,368)	(127,186)
Exercise of stock options	71,657	33,267
Other, net	(1,101)	(214)
Net cash used in financing activities	(689,535)	(201,106)
Effect of exchange rates on cash, cash equivalents, and restricted cash	(350)	576
Decrease in cash, cash equivalents, and restricted cash	(604,786)	(88,100)
Cash, cash equivalents, and restricted cash, beginning of period	1,114,099	431,832
Cash, cash equivalents, and restricted cash, end of period	$509,313	343,732
Supplemental cash flow information:		
Cash paid for income taxes	$59,245	89,882
Cash paid for interest	96,290	70,038
Noncash investing activities:		
Property, equipment, and software included in accounts payable and other current liabilities	2,865	2,533
Purchase of leaseholds in exchange for capital lease obligations	—	330

Purchase of property, equipment, and software in exchange for note payable	1,500	—

See accompanying notes to unaudited consolidated financial statements.

DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Description of business and organization

Dunkin' Brands Group, Inc. ("DBGI"), together with its consolidated subsidiaries, is one of the world's leading franchisors of restaurants serving coffee and baked goods, as well as ice cream, within the quick service restaurant segment of the restaurant industry. We franchise and license a system of both traditional and nontraditional quick service restaurants and, in limited circumstances, have owned and operated locations. Through our Dunkin' brand, we franchise restaurants featuring coffee, donuts, bagels, breakfast sandwiches, and related products. Additionally, we license Dunkin' brand products sold in certain retail outlets such as retail packaged coffee, Dunkin' K-Cup® pods, and ready-to-drink bottled iced coffee. Through our Baskin-Robbins brand, we franchise restaurants featuring ice cream, frozen beverages, and related products. Additionally, we distribute Baskin-Robbins ice cream products to certain international markets for sale in Baskin-Robbins restaurants and certain retail outlets.

Throughout these unaudited consolidated financial statements, "Dunkin' Brands," "the Company," "we," "us," "our," and "management" refer to DBGI and its consolidated subsidiaries taken as a whole.

(2) Summary of significant accounting policies

(a) Unaudited consolidated financial statements

The consolidated balance sheet as of September 29, 2018, the consolidated statements of operations and comprehensive income for the three and nine months ended September 29, 2018 and September 30, 2017, and the consolidated statements of cash flows for the nine months ended September 29, 2018 and September 30, 2017 are unaudited.

The accompanying unaudited consolidated financial statements include the accounts of DBGI and its consolidated subsidiaries and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. All significant transactions and balances between subsidiaries and affiliates have been eliminated in consolidation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with U.S. GAAP have been recorded. Such adjustments consisted only of normal recurring items. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 30, 2017, included in the Company's Annual Report on Form 10-K.

(b) Fiscal year

The Company operates and reports financial information on a 52- or 53-week year on a 13-week quarter basis with the fiscal year ending on the last Saturday in December and fiscal quarters ending on the 13th Saturday of each quarter (or 14th Saturday when applicable with respect to the fourth fiscal quarter). The data periods contained within the three- and nine-month periods ended September 29, 2018 and September 30, 2017 reflect the results of operations for the 13-week and 39-week periods ended on those dates, respectively. Operating results for the three- and nine-month periods ended September 29, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2018.

(c) Cash, cash equivalents, and restricted cash

In accordance with the Company's securitized financing facility, certain cash accounts have been established in the name of Citibank, N.A. (the "Trustee") for the benefit of the Trustee and the noteholders, and are restricted in their use. The Company holds restricted cash which primarily represents (i) cash collections held by the Trustee, (ii) interest, principal, and commitment fee reserves held by the Trustee related to the Company's notes (see note 4), and (iii) real estate reserves used to pay real estate obligations.

Table of Contents

Cash, cash equivalents, and restricted cash within the consolidated balance sheets that are included in the consolidated statements of cash flows as of September 29, 2018 and December 30, 2017 were as follows (in thousands):

	September 29, 2018	December 30, 2017
Cash and cash equivalents	$ 428,179	1,018,317
Restricted cash	79,432	94,047
Restricted cash, included in Other assets	1,702	1,735
Total cash, cash equivalents, and restricted cash	$ 509,313	1,114,099

(d) Fair value of financial instruments

Financial assets and liabilities are categorized, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. Observable market data, when available, is required to be used in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis as of September 29, 2018 and December 30, 2017 are summarized as follows (in thousands):

	September 29, 2018		December 30, 2017	
	Significant other observable inputs (Level 2)	Total	Significant other observable inputs (Level 2)	Total
Assets:				
Company-owned life insurance	$11,521	11,521	10,836	10,836
Total assets	$11,521	11,521	10,836	10,836
Liabilities:				
Deferred compensation liabilities	$10,952	10,952	13,543	13,543
Total liabilities	$10,952	10,952	13,543	13,543

The deferred compensation liabilities relate to the Dunkin' Brands, Inc. non-qualified deferred compensation plans ("NQDC Plans"), which allow for pre-tax deferral of compensation for certain qualifying employees and directors. Changes in the fair value of the deferred compensation liabilities are derived using quoted prices in active markets of the asset selections made by the participants. The deferred compensation liabilities are classified within Level 2, as defined under U.S. GAAP, because their inputs are derived principally from observable market data by correlation to hypothetical investments. The Company holds company-owned life insurance policies to partially offset the Company's liabilities under the NQDC Plans. The changes in the fair value of any company-owned life insurance policies are derived using determinable cash surrender value. As such, the company-owned life insurance policies are classified within Level 2, as defined under U.S. GAAP.

The carrying value and estimated fair value of long-term debt as of September 29, 2018 and December 30, 2017 were as follows (in thousands):

	September 29, 2018		December 30, 2017	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial liabilities				
Long-term debt	$3,048,931	3,044,365	3,067,357	3,156,099

The estimated fair value of our long-term debt is estimated primarily based on current market rates for debt with similar terms and remaining maturities or current bid prices for our long-term debt. Judgment is required to develop these estimates. As such, the fair value of our long-term debt is classified within Level 2, as defined under U.S.

GAAP.

(e) Concentration of credit risk

The Company is subject to credit risk through its accounts receivable consisting primarily of amounts due from franchisees and licensees for franchise fees, royalty income, advertising fees, and sales of ice cream and other products. In addition, we have

Table of Contents

note and lease receivables from certain of our franchisees and licensees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our brands and market conditions within the quick service restaurant industry. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each brand and the short-term nature of the franchise and license fee and lease receivables. As of September 29, 2018 and December 30, 2017, one master licensee, including its majority-owned subsidiaries, accounted for approximately 14% and 11%, respectively, of total accounts and notes receivable. No individual franchisee or master licensee accounted for more than 10% of total revenues for any of the three- and nine-month periods ended September 29, 2018 and September 30, 2017.

Additionally, the Company engages various third parties to manufacture and/or distribute certain Dunkin' and Baskin-Robbins products under licensing arrangements. As of September 29, 2018, one of these third parties accounted for approximately 16% of total accounts and notes receivable. No individual third party accounted for more than 10% of total accounts and notes receivable as of December 30, 2017. No individual third party accounted for more than 10% of total revenues for any of the three- and nine-month periods ended September 29, 2018 and September 30, 2017.

(f) Advertising expenses

Advertising expenses in the consolidated statements of operations includes advertising expenses incurred by the Company, including those expenses incurred by the advertising funds and for the administration of the gift card program. The Company expenses production costs of commercial advertising upon first airing and expenses the costs of communicating the advertising in the period in which the advertising occurs. Costs of print advertising and certain promotion-related items are deferred and expensed the first time the advertising is displayed. Prepaid expenses and other current assets in the consolidated balance sheets include \$14.3 million and \$15.5 million at September 29, 2018 and December 30, 2017, respectively, that was related to advertising. Advertising expenses are allocated to interim periods in relation to the related revenues. When revenues of the advertising fund exceed the related advertising expenses, advertising costs are accrued up to the amount of revenues.

(g) Recent accounting pronouncements

Recently adopted accounting pronouncements

In February 2018, the Financial Accounting Standards Board (the “FASB”) issued new guidance allowing companies the option to reclassify from accumulated other comprehensive loss to accumulated deficit the stranded income tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December 22, 2017. The Company early adopted this standard during the first quarter of fiscal year 2018 and has elected to present the change in the period of adoption. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued new guidance for revenue recognition related to contracts with customers (“ASC 606”), except for contracts within the scope of other standards, which supersedes nearly all existing revenue recognition guidance. We adopted this new guidance in fiscal year 2018. See note 3 for further disclosure of the impact of the new guidance.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued new guidance for lease accounting, which replaces existing lease accounting guidance. The new guidance aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This guidance is effective for the Company in fiscal year 2019 with early adoption permitted, and modified retrospective application is required with an option to not restate comparative periods in the period of adoption. The Company expects to adopt this new guidance in fiscal year 2019 without restating comparative periods, and expects that substantially all of its operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and right-of-use assets upon adoption, thereby having a material impact to its consolidated balance sheet. We do not expect the adoption of the new guidance to have a material impact on the Company's net income, liquidity, or compliance with debt agreements. The Company expects to elect the package of practical expedients permitted under the new guidance, which includes allowing the Company to continue utilizing historical classification of leases.

Though the majority of the assessment phase is complete, the Company continues to evaluate the impact the adoption of this new guidance will have on the Company's consolidated financial statements, as well as the impact on accounting policies and related disclosures. Additionally, the Company is in the process of implementing new accounting systems, business processes, and internal controls related to lease accounting to assist in the application of the new guidance.

(h) Subsequent events

Subsequent events have been evaluated through the date these consolidated financial statements were filed.

Table of Contents

(3) Revenue recognition

(a) Updated revenue recognition policies

Franchise fees and royalty income

Domestically, the Company sells individual franchises as well as territory agreements in the form of store development agreements ("SDAs") that grant the right to develop restaurants in designated areas. The franchise agreements and SDAs typically require the franchisee to pay initial nonrefundable franchise fees prior to opening the respective restaurants and continuing fees, or royalty income, on a weekly basis based upon a percentage of franchisee gross sales. The initial term of domestic franchise agreements is typically 20 years. Prior to the end of the franchise term or as otherwise provided by the Company, a franchisee may elect to renew the term of a franchise agreement, and, if approved, will typically pay a renewal fee upon execution of the renewal term. If approved, a franchisee may transfer a franchise agreement or SDA to a new or existing franchisee, at which point a transfer fee is paid. Occasionally, the Company offers incentive programs to franchisees in conjunction with a franchise/license agreement, territory agreement, or renewal agreement.

Internationally, the Company sells master franchise agreements that grant the master franchisee the right to develop and operate, and in some instances sub-franchise, a certain number of restaurants within a particular geographic area. The master franchisee is typically required to pay an upfront market entry fee upon entering into the master franchise agreement and an upfront initial franchise fee for each developed restaurant prior to each respective opening. For the Dunkin' brand and in certain Baskin-Robbins international markets, the master franchisee will also pay continuing fees, or royalty income, generally on a monthly basis based upon a percentage of sales. Generally, the master franchise agreement serves as the franchise agreement for the underlying restaurants, and the initial franchise term provided for each restaurant typically ranges between 10 and 20 years.

Generally, the franchise license granted for each individual restaurant within an arrangement represents a single performance obligation. Therefore, initial franchise fees and market entry fees for each arrangement are allocated to each individual restaurant and recognized over the term of the respective franchise agreement from the date of the restaurant opening. Royalty income is also recognized over the term of the respective franchise agreement based on the royalties earned each period as the underlying sales occur. Renewal fees are generally recognized over the renewal term for the respective restaurant from the start of the renewal period. Transfer fees are recognized over the remaining term of the franchise agreement beginning at the time of transfer. Incentives provided to franchisees in conjunction with a franchise/license agreement, territory agreement, or renewal agreement are recognized over the remaining term of the respective agreement. Additionally, for Baskin-Robbins international markets that do not pay a royalty, a portion of the consideration from sales of ice cream and other products is allocated to royalty income as consideration for the use of the franchise license, which is recognized when the related sales occur and is estimated based on royalty rates in effect for markets where the franchise license is sold on a standalone basis. Fees received or receivable that are expected to be recognized as revenue within one year are classified as current deferred revenue in the consolidated balance sheets.

Advertising fees and related income

Domestically and in limited international markets, franchise agreements typically require the franchisee to pay continuing advertising fees on a weekly basis based on a percentage of franchisee gross sales, which are recognized over the term of the respective franchise agreement based on the fees earned each period as the underlying sales occur. The Company and its franchisees sell gift cards that are redeemable for products in our Dunkin' and Baskin-Robbins restaurants. The Company manages the gift card program, and therefore collects all funds from the activation of gift cards and reimburses franchisees for the redemption of gift cards in their restaurants. A liability for unredeemed gift cards, as well as historical gift certificates sold, is included in other current liabilities in the consolidated balance sheets.

There are no expiration dates or service fees charged on the gift cards. While the franchisees continue to honor all gift cards presented for payment, the likelihood of redemption may be determined to be remote for certain cards due to long periods of inactivity. In these circumstances, the Company may recognize revenue from unredeemed gift cards ("breakage revenue") if they are not subject to unclaimed property laws. For Dunkin' gift cards enrolled in the DD Perks® Rewards loyalty program and other cards with expected similar redemption behavior, breakage is estimated

and recognized at the point in time when the likelihood of redemption of any remaining card balance becomes remote, generally after a period of sufficient inactivity. Breakage on all other Dunkin’ gift cards and all Baskin-Robbins gift cards is estimated and recognized over time in proportion to actual gift card redemptions, based on historical redemption rates.

Table of Contents

The Company also collects gift card program service fees from franchisees to offset the costs to administer the gift card program. The gift card program service fees are based on the volume of gift card transactions processed and are recognized as the underlying transactions occur.

Rental income

Rental income for base rentals is recorded on a straight-line basis over the lease term, including the amortization of any tenant improvement dollars paid. The differences between the straight-line rent amounts and amounts receivable under the leases are recorded as deferred rent assets in current or long-term assets, as appropriate. Contingent rental income is recognized as earned, and any amounts received from lessees in advance of achieving stipulated thresholds are deferred until such thresholds are actually achieved. Deferred contingent rentals are recorded as deferred revenue in current liabilities in the consolidated balance sheets.

Sales of ice cream and other products

We distribute Baskin-Robbins ice cream products and, in limited cases, Dunkin’ products to franchisees in certain international locations. Revenue from the sale of ice cream and other products is recognized when title and risk of loss transfers to the buyer, which is generally upon delivery. Payment for ice cream and other products is generally due within a relatively short period of time subsequent to delivery.

Other revenues

Other revenues include fees generated by licensing our brand names and other intellectual property, as well as gains, net of losses and transactions costs, from the sales of restaurants that were not company-operated to new or existing franchisees. Licensing fees are recognized over the term of the expected license agreement, with sales-based license fees being recognized based on the amount earned each period as the underlying sales occur. Gains on the refranchise or sale of a restaurant are recognized over the term of the related agreement.

Table of Contents

(b) Disaggregation of revenue

Revenues are disaggregated by timing of revenue recognition and reconciled to reportable segment revenues as follows (in thousands):

	Three months ended September 29, 2018							
	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other[(a)]	Total revenues
Revenues recognized under ASC 606								
Revenues recognized over time:								
Royalty income	$124,805	8,626	5,192	2,140	—	140,763	4,812	145,575
Franchise fees	4,840	319	1,054	203	—	6,416	—	6,416
Advertising fees and related income	—	—	—	—	118,208	118,208	8,312	126,520
Other revenues	597	2,994	3	7	—	3,601	8,754	12,355
Total revenues recognized over time	130,242	11,939	6,249	2,350	118,208	268,988	21,878	290,866
Revenues recognized at a point in time:								
Sales of ice cream and other products	—	906	—	28,625	—	29,531	(4,664)	24,867
Other revenues	405	63	7	45	—	520	260	780
Total revenues recognized at a point in time	405	969	7	28,670	—	30,051	(4,404)	25,647
Total revenues recognized under ASC 606	130,647	12,908	6,256	31,020	118,208	299,039	17,474	316,513
Revenues not subject to ASC 606								
Advertising fees and related income	—	—	—	—	—	—	5,951	5,951
Rental income	26,637	773	—	137	—	27,547	—	27,547
Total revenues not subject to ASC 606	26,637	773	—	137	—	27,547	5,951	33,498
Total revenues	$157,284	13,681	6,256	31,157	118,208	326,586	23,425	350,011

[(a)] Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”

Table of Contents

	Three months ended September 30, 2017							
	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other[a]	Total revenues
Revenues recognized under ASC 606								
Revenues recognized over time:								
Royalty income	$118,831	8,501	4,442	1,966	—	133,740	4,380	138,120
Franchise fees	4,638	190	460	326	—	5,614	—	5,614
Advertising fees and related income	—	—	—	—	113,862	113,862	547	114,409
Other revenues	528	3,015	3	6	—	3,552	8,498	12,050
Total revenues recognized over time	123,997	11,706	4,905	2,298	113,862	256,768	13,425	270,193
Revenues recognized at a point in time:								
Sales of ice cream and other products	—	771	—	26,512	—	27,283	(4,110)	23,173
Other revenues	405	47	8	24	—	484	257	741
Total revenues recognized at a point in time	405	818	8	26,536	—	27,767	(3,853)	23,914
Total revenues recognized under ASC 606	124,402	12,524	4,913	28,834	113,862	284,535	9,572	294,107
Revenues not subject to ASC 606								
Advertising fees and related income	—	—	—	—	—	—	8,251	8,251
Rental income	26,786	798	—	129	—	27,713	—	27,713
Total revenues not subject to ASC 606	26,786	798	—	129	—	27,713	8,251	35,964
Total revenues	$151,188	13,322	4,913	28,963	113,862	312,248	17,823	330,071

[a] Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”

Table of Contents

	Nine months ended September 29, 2018							
	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other[a]	Total revenues
Revenues recognized under ASC 606								
Revenues recognized over time:								
Royalty income	$360,859	24,040	14,862	5,837	—	405,598	12,222	417,820
Franchise fees	14,312	911	2,037	660	—	17,920	—	17,920
Advertising fees and related income	—	—	—	—	341,549	341,549	17,062	358,611
Other revenues	1,720	8,400	5	8	—	10,133	24,877	35,010
Total revenues recognized over time	376,891	33,351	16,904	6,505	341,549	775,200	54,161	829,361
Revenues recognized at a point in time:								
Sales of ice cream and other products	—	2,426	—	84,006	—	86,432	(11,648)	74,784
Other revenues	960	213	(25)	164	—	1,312	705	2,017
Total revenues recognized at a point in time	960	2,639	(25)	84,170	—	87,744	(10,943)	76,801
Total revenues recognized under ASC 606	377,851	35,990	16,879	90,675	341,549	862,944	43,218	906,162
Revenues not subject to ASC 606								
Advertising fees and related income	—	—	—	—	—	—	16,406	16,406
Rental income	76,734	2,303	—	388	—	79,425	—	79,425
Total revenues not subject to ASC 606	76,734	2,303	—	388	—	79,425	16,406	95,831
Total revenues	$454,585	38,293	16,879	91,063	341,549	942,369	59,624	1,001,993

[a] Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”

Table of Contents

	Nine months ended September 30, 2017							
	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other[a]	Total revenues
Revenues recognized under ASC 606								
Revenues recognized over time:								
Royalty income	$345,103	24,265	13,011	5,255	—	387,634	11,353	398,987
Franchise fees	13,500	589	1,368	899	—	16,356	—	16,356
Advertising fees and related income	—	—	—	—	330,007	330,007	1,270	331,277
Other revenues	1,645	8,515	7	7	—	10,174	23,913	34,087
Total revenues recognized over time	360,248	33,369	14,386	6,161	330,007	744,171	36,536	780,707
Revenues recognized at a point in time:								
Sales of ice cream and other products	—	2,179	—	82,602	—	84,781	(10,423)	74,358
Other revenues	1,129	261	(29)	133	—	1,494	556	2,050
Total revenues recognized at a point in time	1,129	2,440	(29)	82,735	—	86,275	(9,867)	76,408
Total revenues recognized under ASC 606	361,377	35,809	14,357	88,896	330,007	830,446	26,669	857,115
Revenues not subject to ASC 606								
Advertising fees and related income	—	—	—	—	—	—	23,947	23,947
Rental income	76,842	2,346	—	355	—	79,543	—	79,543
Total revenues not subject to ASC 606	76,842	2,346	—	355	—	79,543	23,947	103,490
Total revenues	$438,219	38,155	14,357	89,251	330,007	909,989	50,616	960,605

[a] Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”

Table of Contents

(c) Contract balances

Information about receivables and deferred revenue subject to ASC 606 is as follows (in thousands):

	September 29, 2018	December 30, 2017	Balance Sheet Classification
Receivables	$ 103,097	76,455	Accounts receivable, net and Notes and other receivables, net

	—	398				
Total current liabilities	98,820	10,775		26,251	(3,360)	132,486
Long-term debt, less current portion	259,252	—		46	—	259,298
Payables due to affiliates	—	7,559		117,818	(125,377)	—
Deferred income taxes	14,701	4,771		(1,154)	—	18,318
Other non-current liabilities	16,428	—		651	—	17,079
Stockholders' equity	318,630	73,900		51,385	(125,285)	318,630
Total liabilities and stockholders' equity	$ 707,831	$ 97,005		$ 194,997	$ (254,022)	$ 745,811

Table of Contents

Condensed Consolidating Balance Sheet
As of December 31, 2012

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$4,106	$903	$ 16,598	$—	$21,607
Accounts receivable, less allowance for doubtful accounts	77,160	17,170	43,981	—	138,311
Receivables from affiliates	1,213	—	668	(1,881)	—
Inventories	211,450	16,613	75,777	(68)	303,772
Prepaid expenses and other current assets	16,587	(1,648)	7,951	(202)	22,688
Total current assets	310,516	33,038	144,975	(2,151)	486,378
Investment in joint venture	38,854	—	—	—	38,854
Goodwill	41,504	12,973	15,823	—	70,300
Intangible assets	62,668	—	19,809	—	82,477
Other assets	26,824	(2)	4,335	—	31,157
Investment in subsidiaries	130,257	—	—	(130,257)	—
Receivables from affiliates	85,351	32,177	3,283	(120,811)	—
Property, plant and equipment, net	54,701	13,552	11,387	—	79,640
Total assets	$750,675	$91,738	$ 199,612	$(253,219)	$788,806
Liabilities and Stockholders’ Equity					
Current liabilities					
Accounts payable	$45,456	$8,488	$ 14,046	$—	$67,990
Payables due to affiliates	838	—	1,044	(1,882)	—
Other current liabilities	30,902	(855)	8,080	—	38,127
Current portion of long-term debt and short-term debt	387	—	528	—	915
Total current liabilities	77,583	7,633	23,698	(1,882)	107,032
Long-term debt, less current portion	292,086	—	4,068	—	296,154
Payables due to affiliates	—	8,381	112,430	(120,811)	—
Deferred income taxes	28,052	4,771	(473)	—	32,350
Other non-current liabilities	15,614	—	316	—	15,930
Stockholders’ equity	337,340	70,953	59,573	(130,526)	337,340
Total liabilities and stockholders’ equity	$750,675	$91,738	$ 199,612	$(253,219)	$788,806

Table of Contents

Condensed Consolidating Statement of Operations and Comprehensive Loss
For the Three Months Ended September 30, 2013

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Sales	$168,591	$33,708	$ 57,949	$(6,535)	$253,713
Costs and expenses:					
Cost of materials (exclusive of depreciation and amortization)	123,589	24,071	45,633	(6,535)	186,758
Warehouse, processing and delivery expense	25,913	2,932	5,963	—	34,808
Sales, general and administrative expense	18,786	4,534	4,566	—	27,886
Restructuring charges	627	—	258	—	885
Depreciation and amortization expense	4,864	558	978	—	6,400
Operating (loss) income	(5,188)	1,613	551	—	(3,024)
Interest expense, net	(6,594)	—	(3,583)	—	(10,177)
Other income	—	—	166	—	166
(Loss) income before income taxes and equity in earnings of subsidiaries and joint venture	(11,782)	1,613	(2,866)	—	(13,035)
Income taxes	3,848	(615)	1,038	—	4,271
Equity in losses of subsidiaries	(830)	—	—	830	—
Equity in earnings of joint venture	1,853	—	—	—	1,853
Net (loss) income	(6,911)	998	(1,828)	830	(6,911)
Comprehensive (loss) income	$(5,641)	$998	$ (904)	$(94)	$(5,641)

Table of Contents

Condensed Consolidating Statement of Operations and Comprehensive Loss
For the Three Months Ended September 30, 2012

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Sales	$210,707	$31,594	$ 68,843	$(7,105)	$304,039
Costs and expenses:					
Cost of materials (exclusive of depreciation and amortization)	149,920	22,403	53,253	(7,561)	218,015
Warehouse, processing and delivery expense	28,017	3,122	5,755	—	36,894
Sales, general and administrative expense	22,378	4,004	5,998	—	32,380
Depreciation and amortization expense	4,780	487	996	—	6,263
Operating income	5,612	1,578	2,841	456	10,487
Interest (expense) income, net	(6,708)	4	(3,576)	—	(10,280)
Other income	—	—	2,061	—	2,061
Income (loss) before income taxes and equity in earnings of subsidiaries and joint venture	(1,096)	1,582	1,326	456	2,268
Income taxes	721	(606)	(392)	(176)	(453)
Equity in earnings of subsidiaries	2,190	—	—	(2,190)	—
Equity in earnings of joint venture	1,358	—	—	—	1,358
Net income	$3,173	$976	$ 934	$(1,910)	$3,173
Comprehensive income	$6,123	$976	$ 3,994	$(4,970)	$6,123

Table of Contents

Condensed Consolidating Statement of Operations and Comprehensive Loss
For the Nine Months Ended September 30, 2013

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Sales	$559,388	$102,007	$ 183,129	$(24,687)	$819,837
Costs and expenses:					
Cost of materials (exclusive of depreciation and amortization)	416,736	73,029	142,572	(24,687)	607,650
Warehouse, processing and delivery expense	79,311	9,149	17,752	—	106,212
Sales, general and administrative expense	56,499	13,525	15,404	—	85,428
Restructuring charges	6,557	—	2,146	—	8,703
Depreciation and amortization expense	14,933	1,662	3,009	—	19,604
Operating (loss) income	(14,648)	4,642	2,246	—	(7,760)
Interest expense, net	(19,418)	—	(11,037)	—	(30,455)
Other expense	—	—	(1,388)	—	(1,388)
(Loss) income before income taxes and equity in earnings of subsidiaries and joint venture	(34,066)	4,642	(10,179)	—	(39,603)
Income taxes	11,592	(1,695)	3,558	—	13,455
Equity in earnings of subsidiaries	(3,674)	—	—	3,674	—
Equity in earnings of joint venture	4,816	—	—	—	4,816
Net (loss) income	(21,332)	2,947	(6,621)	3,674	(21,332)
Comprehensive (loss) income	$(21,872)	$2,947	$ (8,197)	$5,250	$(21,872)

Table of Contents

Condensed Consolidating Statement of Operations and Comprehensive Loss
For the Nine Months Ended September 30, 2012

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net Sales	$712,175	$94,766	$ 216,477	$(27,071)	$996,347
Costs and expenses:					
Cost of materials (exclusive of depreciation and amortization)	516,601	66,753	166,253	(26,944)	722,663
Warehouse, processing and delivery expense	86,653	9,575	17,666	—	113,894
Sales, general and administrative expense	71,939	12,719	17,579	—	102,237
Depreciation and amortization expense	14,852	1,529	2,969	—	19,350
Operating income	22,130	4,190	12,010	(127)	38,203
Interest (expense) income, net	(20,718)	21	(9,740)	—	(30,437)
Interest expense - unrealized loss on debt conversion option	(15,597)	—	—	—	(15,597)
Other income	—	—	1,812	—	1,812
(Loss) income before income taxes and equity in earnings of subsidiaries and joint venture	(14,185)	4,211	4,082	(127)	(6,019)
Income taxes	(1,519)	(1,616)	(1,085)	35	(4,185)
Equity in earnings of subsidiaries	5,500	—	—	(5,500)	—
Equity in earnings of joint venture	6,099	—	—	—	6,099
Net (loss) income	$(4,105)	$2,595	$ 2,997	$(5,592)	$(4,105)
Comprehensive (loss) income	$(1,415)	$2,595	$ 6,016	$(8,611)	$(1,415)

Table of Contents

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2013

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating activities:					
Net (loss) income	$(21,332)	$2,947	$ (6,621)	$3,674	$(21,332)
Equity in earnings of subsidiaries	3,674	—	—	(3,674)	—
Adjustments to reconcile net (loss) income to cash provided by operating activities	76,970	(396)	10,460	—	87,034
Net cash from operating activities	59,312	2,551	3,839	—	65,702
Investing activities:					
Capital expenditures	(3,803)	(1,378)	(2,401)	—	(7,582)
Proceeds from the sale of fixed assets	730	—	35	—	765
Net cash used in investing activities	(3,073)	(1,378)	(2,366)	—	(6,817)
Financing activities:					
Proceeds from long-term debt	115,300	—	—	—	115,300
Repayments of long-term debt	(151,094)	—	(4,098)	—	(155,192)
Net intercompany (repayments) borrowings	(2,423)	(1,524)	3,947	—	—
Other financing	1,516	—	(501)	—	1,015
Net cash used in financing activities	(36,701)	(1,524)	(652)	—	(38,877)
Effect of exchange rate changes on cash and cash equivalents	—	—	(121)	—	(121)
Increase (decrease) in cash and cash equivalents	19,538	(351)	700	—	19,887
Cash and cash equivalents - beginning of year	4,106	903	16,598	—	21,607
Cash and cash equivalents - end of period	$23,644	$552	$ 17,298	$—	$41,494

Table of Contents

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2012

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating activities:					
Net (loss) income	$(4,105)	$2,595	$ 2,997	$(5,592)	$(4,105)
Equity in earnings of subsidiaries	(5,500)	—	—	5,500	—
Adjustments to reconcile net (loss) income to cash provided by operating activities	8,177	2,736	(19,829)	92	(8,824)
Net cash (used in) from operating activities	(1,428)	5,331	(16,832)	—	(12,929)
Investing activities:					
Capital expenditures	(4,776)	(1,546)	(2,669)	—	(8,991)
Proceeds from the sale of fixed assets	22	—	—	—	22
Net cash used in investing activities	(4,754)	(1,546)	(2,669)	—	(8,969)
Financing activities:					
Proceeds from long-term debt	566,131	—	10,346	—	576,477
Repayments of long-term debt	(547,477)	(43)	(16,753)	—	(564,273)
Payment of debt issue costs	(1,503)	—	—	—	(1,503)
Net intercompany (repayments) borrowings	(19,819)	(3,094)	22,913	—	—
Other financing	167	—	500	—	667
Net cash from (used in) financing activities	(2,501)	(3,137)	17,006	—	11,368
Effect of exchange rate changes on cash and cash equivalents	—	—	(6)	—	(6)
(Decrease) increase in cash and cash equivalents	(8,683)	648	(2,501)	—	(10,536)
Cash and cash equivalents - beginning of year	12,109	7	18,408	—	30,524
Cash and cash equivalents - end of period	$3,426	$655	$ 15,907	$—	$19,988

Table of Contents

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

Amounts in millions, except per share data

Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and the Company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "predict," "plan," or similar expressions. Th statements are not guarantees of performance or results, and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements, including those risk factors identified in Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2012. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events.

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and related notes thereto in ITEM 1 "Financial Statements (unaudited)".

Executive Overview

Economic Trends and Current Business Conditions

A. M. Castle & Co. and subsidiaries (the "Company") experienced lower demand from its Metals segment customer base in the third quarter of 2013 compared to the third quarter of 2012 . The Company's Metals segment experienced weak demand in all of its key end-use markets compared to the prior year quarter with the largest area of weakness seen in the general industrials market. Although the aerospace market remained strong in the quarter, the Company's net sales have not yet been positively impacted by this strength due to the late cycle nature of the targeted customers in this market. Decreased sales volume in the oil and gas market is consistent with leading industry indicators which suggest a 3.3% decrease in North American rig counts compared to the third quarter of last year.

Management uses the PMI provided by the Institute for Supply Management (website is www.ism.ws) as an external indicator for tracking the demand outlook and possible trends in its general manufacturing markets. The table below shows PMI trends from the first quarter of 2011 through the third quarter of 2013. Generally speaking, an index above 50.0 indicates growth in the manufacturing sector of the U.S. economy, while readings under 50.0 indicate contraction. Material pricing and demand in both the Metals and Plastics segments of the Company's business have historically proven to be difficult to predict with any degree of accuracy. A favorable PMI trend suggests that demand for some of the Company's products and services, in particular those that are sold to the general manufacturing customer base in the U.S., could potentially be at a higher level in the near-term. The Company believes that its revenue trends typically correlate to the changes in PMI on a six to twelve month lag basis.

YEAR	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2011	61.1	56.4	51.0	52.4
2012	53.3	52.7	50.3	50.6
2013	52.9	50.2	55.8	

Table of Contents

Consolidated net sales decreased $50.3 million or 16.6% from the third quarter of 2012 due to decreased Metals segment sales volumes and pricing, partially offset by an increase in net sales in the Plastics segment. Consolidated operating loss for the third quarter of 2013 was $3.0 million which was $13.5 million, or 128.8%, lower than third quarter of 2012 consolidated operating income of $10.5 million. Consolidated net loss for the third quarter of 2013 was $6.9 million which was $10.1 million lower than third quarter of 2012 consolidated net income of $3.2 million .
Results of Operations: Third quarter 2013 compared to third quarter 2012
Consolidated results by business segment are summarized in the following table for the quarter ended September 30, 2013 and 2012.

	2013		2012		Favorable/(Unfavorable) $ Change		% Change	
Net Sales								
Metals	$220.0		$272.4		$(52.4	)	(19.2	)%
Plastics	33.7		31.6		2.1		6.7	%
Total Net Sales	$253.7		$304.0		$(50.3	)	(16.6	)%
Cost of Materials								
Metals	$162.7		$195.6		$32.9		16.8	%
% of Metals Sales	73.9	%	71.8	%				
Plastics	24.1		22.4		(1.7	)	(7.4	)%
% of Plastics Sales	71.4	%	70.9	%				
Total Cost of Materials	$186.8		$218.0		$31.2		14.3	%
% of Total Sales	73.6	%	71.7	%				
Operating Costs and Expenses								
Metals	$58.8		$64.4		$5.6		8.6	%
Plastics	8.6		8.2		(0.4	)	(5.0	)%
Other	2.5		2.9		0.4		14.0	%
Total Operating Costs & Expenses	$69.9		$75.5		$5.6		7.3	%
% of Total Sales	27.6	%	24.8	%				
Operating (Loss) Income								
Metals	$(1.5	)	$12.4		(13.9	)	(112.4	)%
% of Metals Sales	(0.7	)%	4.6	%				
Plastics	1.0		1.0		—		3.8	%
% of Plastics Sales	3.1	%	3.2	%				
Other	(2.5	)	(2.9	)	0.4		14.0	%
Total Operating (Loss) Income	$(3.0	)	$10.5		(13.5	)	(128.8	)%
% of Total Sales	(1.2	)%	3.4	%				

“Other” includes the costs of executive, legal and finance departments which are shared by both segments of the Company.
Net Sales:
Consolidated net sales were $253.7 million, a decrease of $50.3 million, or 16.6%, compared to the third quarter of 2012. Metals segment sales during the third quarter of 2013 of $220.0 million were $52.4 million, or 19.2%, lower than the same period last year. Plastics segment sales during the third quarter of 2013 of $33.7 million were $2.1 million, or 6.7% higher than the third quarter of 2012.

Metals segment average tons sold per day decreased 15.7% compared to the prior year quarter, which was primarily driven by decreases in alloy bar, carbon and alloy plate, tubing and aluminum products. Average sales prices and product mix were lower than the prior year and combined to represent a 3.5% decline in revenue compared to third quarter of 2012. Average selling prices were lower for all metal products except alloy bar and aluminum in the third quarter of 2013, reflecting lower market prices and a more competitive environment. The increase in Plastics segment sales during the third quarter of 2013 was primarily due to increased volume and pricing reflecting continued strength in the automotive, life science and marine sectors.

Cost of Materials:

Cost of materials (exclusive of depreciation and amortization) during the third quarter of 2013 was $186.8 million, a decrease of $31.2 million, or 14.3%, compared to the third quarter of 2012. Cost of materials included LIFO income of $2.4 million in the third quarter of 2013 compared to LIFO income of $4.4 million in the third quarter of 2012. Material costs for the Metals segment for the third quarter of 2013 were $162.7 million, or 73.9% as a percent of net sales, compared to $195.6 million, or 71.8% as a percent of net sales, for the third quarter of 2012. Cost of materials in the Metals segment decreased $32.9 million compared to the third quarter of 2012 primarily as a result of the decrease in sales volume from the prior year period. Material costs for the Plastics segment of 71.4% as a percent of net sales for the third quarter of 2013 were higher than 70.9% for the same period last year due to higher automotive and marine raw material costs resulting from increased demand in these businesses.

Operating Expenses and Operating Income:

On a consolidated basis, operating costs and expenses decreased $5.6 million, or 7.3%, from $75.5 million, or 24.8% of net sales, in the third quarter of 2012 to $69.9 million, or 27.6% of net sales, during the third quarter of 2013. Charges of $0.9 million associated with the Company's restructuring were included in operating costs and expenses for the three months ended September 30, 2013 compared to no such charges in the prior year period. The restructuring charges impacting operating expenses in the third quarter of 2013 were cash charges and were in-line with the Company's expectations.

The decrease in operating expenses for the third quarter of 2013 compared to the third quarter of 2012 primarily relates to the following:

- Warehouse, processing and delivery costs decreased by approximately $2.1 million primarily as a result of the decrease in sales activity in the Metals segment for the period as well as cost decreases from the Company's recent restructuring activities;
- Sales, general and administrative costs decreased by $4.5 million primarily as a result of a decrease of $3.0 million in compensation and benefits costs of which $2.1 million is attributable to the Company's recent restructuring activities and the remainder is due to lower variable compensation.

Consolidated operating loss for the third quarter of 2013, including restructuring charges of $0.9 million, was $3.0 million compared to operating income of $10.5 million for the same period last year.

Other Income and Expense, Income Taxes and Net Income:

Interest expense, net was $10.2 million in the third quarter of 2013, a decrease of $0.1 million compared to the same period last year.

Other income related to foreign currency transaction gains was $0.2 million in the third quarter of 2013 compared to other income of $2.1 million for foreign currency transaction gains in the same period last year. These gains relate to foreign currency transactions and unhedged intercompany financing arrangements.

The Company recorded an income tax benefit of $4.3 million for the quarter ended September 30, 2013 compared to income tax expense of $0.5 million for the same period last year. The Company’s effective tax rate is expressed as ‘Income taxes’, which includes tax expense on the Company’s share of joint venture earnings, as a percentage of ‘Loss before income taxes and equity in earnings of joint venture.’ The effective tax rate for the quarters ended September 30, 2013 and 2012 was 32.8% and 20.0%, respectively. The Company updates its expected annual effective tax rate throughout the year for discrete items and changes in the mix of geographical income (loss). The restructuring charges recognized in the quarter ended September 30, 2013 were treated as discrete items in the period.

Equity in earnings of the Company’s joint venture was $1.9 million in the third quarter of 2013 and $1.4 million in the same period last year.

Table of Contents

Consolidated net loss for the third quarter of 2013 was $6.9 million, or $0.30 per diluted share, compared to net income of $3.2 million, or $0.13 per diluted share, for the same period in 2012.

Results of Operations: Nine months 2013 compared to nine months 2012

Consolidated results by business segment are summarized in the following table for the nine months ended September 30, 2013 and 2012.

	2013		2012		Favorable/(Unfavorable) $ Change		% Change	
Net Sales								
Metals	$717.8		$901.5		$(183.7	)	(20.4	)%
Plastics	102.0		94.8		7.2		7.6	%
Total Net Sales	$819.8		$996.3		$(176.5	)	(17.7	)%
Cost of Materials								
Metals	$534.6		$655.9		$121.3		18.5	%
% of Metals Sales	74.5	%	72.8	%				
Plastics	73.1		66.8		(6.3	)	(9.4	)%
% of Plastics Sales	71.6	%	70.5	%				
Total Cost of Materials	$607.7		$722.7		$115.0		15.9	%
% of Total Sales	74.1	%	72.5	%				
Operating Costs and Expenses								
Metals	$187.6		$201.2		$13.6		6.8	%
Plastics	26.0		25.4		(0.6	)	(2.5	)%
Other	6.3		8.8		2.5		28.5	%
Total Operating Costs & Expenses	$219.9		$235.4		$15.5		6.6	%
% of Total Sales	26.8	%	23.6	%				
Operating Income								
Metals	$(4.4	)	$44.4		$(48.8	)	(109.9	)%
% of Metals Sales	(0.6	)%	4.9	%				
Plastics	2.9		2.6		0.3		12.9	%
% of Plastics Sales	2.9	%	2.7	%				
Other	(6.3	)	(8.8	)	2.5		28.5	%
Total Operating Income	$(7.8	)	$38.2		$(46.0	)	(120.3	)%
% of Total Sales	(0.9	)%	3.8	%				

“Other” includes the costs of executive, legal and finance departments which are shared by both segments of the Company.

Net Sales:

Consolidated net sales were $819.8 million, a decrease of $176.5 million, or 17.7%, compared to the first nine months of 2012. Metals segment sales during the nine months ended September 30, 2013 of $717.8 million were $183.7 million, or 20.4%, lower than the same period last year. Key end markets have been weak and there has been lower demand for the Company's Metals segment products compared to the first nine months of 2012. For the first nine months of the year, the Metal segment's average tons sold per day decreased 19.2% compared to the first nine months of 2012, which was primarily driven by decreases in alloy bar, tubing, carbon and alloy plate and SBQ bar products. Plastics segment sales during the first nine months of 2013 of $102.0 million were $7.2 million, or 7.6% higher than the first nine months of 2012 due to higher sales volumes primarily driven by strength in the automotive, life science and marine sectors.

Table of Contents

Cost of Materials:

Cost of materials (exclusive of depreciation and amortization) during the first nine months of 2013 was $607.7 million, a decrease of $115.0 million, or 15.9%, compared to the first nine months of 2012. Cost of materials included LIFO income of $4.7 million in the first nine months of 2013 compared to LIFO expense of $1.7 million in the first nine months of 2012. In addition, restructuring charges of $1.2 million impacted cost of materials in the first nine months of 2013.

Material costs for the Metals segment for the first nine months of 2013 were $534.6 million, or 74.5% as a percent of net sales, compared to $655.9 million, or 72.8% as a percent of net sales, for the first nine months of 2012. Cost of materials in the Metals segment decreased $121.3 million compared to the first nine months of 2012 primarily as a result of the decrease in demand from the prior year period. Material costs for the Plastics segment of 71.6% as a percent of net sales for the first nine months of 2013 were higher compared to 70.5% for the same period last year due to higher raw material costs experienced in the industry.

Operating Expenses and Operating Income:

On a consolidated basis, operating costs and expenses decreased $15.5 million, or 6.6%, compared to the first nine months of 2012. Operating costs and expenses, including restructuring charges of $8.7 million, were $219.9 million, or 26.8% of net sales, compared to $235.4 million, or 23.6% of net sales during the first nine months of 2012. There were no restructuring charges included in the operating costs and expenses for the first nine months of 2012. The restructuring charges impacting operating expenses were cash charges and were in-line with the Company's expectations.

The decrease in operating expenses for the first nine months of 2013 compared to the first nine months of 2012 primarily relates to the following:

- Warehouse, processing and delivery costs decreased by approximately $7.7 million primarily as a result of the decrease in sales activity in the Metals segment for the period, cost decreases resulting from the recent restructuring activities, and a decrease of $2.4 million in compensation and benefit costs, partially attributable to the Company's recent restructuring activities;
- Sales, general and administrative costs decreased by $16.8 million primarily as a result of a decline of $10.3 million in compensation and benefits costs of which $6.6 million is attributable to the Company's recent restructuring activities and the remainder is due to lower variable compensation and other compensation and benefits.

Consolidated operating loss for the nine months ended September 30, 2013, including restructuring charges of $9.9 million, was $7.8 million compared to operating income of $38.2 million for the same period last year.

Other Income and Expense, Income Taxes and Net Income:

Interest expense was $30.5 million in the first nine months of 2013, a decrease of $15.6 million versus the same period last year as a result of the decrease in interest charges associated with the unrealized loss on the conversion option associated with the convertible debt, which is no longer required to be marked-to-market through earnings.

Other expense related to foreign currency transaction losses was $1.4 million in the first nine months of 2013 compared to $1.8 million of foreign currency transaction gains for the same period last year. The majority of these transaction losses and gains related to unhedged intercompany financing arrangements between the United States and the United Kingdom and Canada, respectively.

The Company recorded an income tax benefit of $13.5 million for the year to date September 30, 2013 compared to tax expense of $4.2 million for the same period last year. The Company’s effective tax rate is expressed as ‘Income taxes’, which includes tax expense on the Company’s share of joint venture earnings, as a percentage of ‘Income before income taxes and equity in earnings of joint venture.’ The effective tax rate for year to date September 30, 2013 and 2012 was 34.0% and (69.5)%, respectively. The change in the effective tax rate compared to the first nine months of 2012 was primarily the result of the non-deductibility of the unrealized loss on the conversion option associated with the convertible debt in the nine months ended September 30, 2012, as well as the restructuring charges which were treated as discrete items in the nine months ended September 30, 2013 and a change in the geographical mix of income (loss).

Table of Contents

Equity in earnings of the Company’s joint venture was $4.8 million in the nine months ended September 30, 2013, which was $1.3 million less than the same period last year. Lower demand and pricing for Kreher’s products was the primary factor contributing to the decrease in equity in earnings of the Company’s joint venture.
Consolidated net loss for the nine months ended September 30, 2013 was $21.3 million, or $0.92 per diluted share, compared to a net loss of $4.1 million, or $0.18 per diluted share, for the same period in 2012.
Liquidity and Capital Resources
Cash and cash equivalents increased by $19.9 million for the nine months ended September 30, 2013 compared to a decrease of $10.5 million for the same period last year.
The Company’s principal sources of liquidity are cash provided by operations and available borrowing capacity to fund working capital needs and growth initiatives. Cash from operations for the nine months ended September 30, 2013 was $65.7 million compared to cash used in operations of $12.9 million for the nine months ended September 30, 2012. Specific components of the change in working capital are highlighted below:

- During the nine months ended September 30, 2013, higher accounts receivable resulted in $9.1 million of cash flow use compared to an $11.9 million cash flow source from lower accounts receivable for the same period last year. Average receivable days outstanding was 50.6 days for the nine months ended September 30, 2013 compared to 48.6 for the nine months ended September 30, 2012.
- During the nine months ended September 30, 2013, lower inventory levels were a $59.0 million cash flow source compared to $82.6 million of cash flow use for the nine months ended September 30, 2012 from higher inventory levels. Average days sales in inventory was 177.2 days for the nine months ended September 30, 2013 compared to 182.1 days for the nine months ended September 30, 2012.
- During the nine months ended September 30, 2013, increases in accounts payable and accrued liabilities were a $28.3 million cash flow source compared to a $30.8 million cash flow source for the same period last year. Accounts payable days outstanding was 38.9 days for the first nine months of 2013 compared to 56.2 days for the same period last year.

In December 2011, in conjunction with the acquisition of Tube Supply (the "Acquisition"), the Company issued $225.0 million aggregate principal amount of 12.75% Senior Secured Notes due 2016, $57.5 million aggregate principal amount of 7.0% Convertible Senior Notes due 2017 and entered into a $100.0 million senior secured asset based revolving credit facility (the “Revolving Credit Facility”). Net proceeds of $304.6 million were used to complete the Acquisition, pay-off amounts outstanding under our previous credit agreement and for general corporate purposes.
Historically, the Company’s primary uses of liquidity and capital resources have been capital expenditures, payments on debt (including interest payments), acquisitions and dividend payments. Management believes the Company will be able to generate sufficient cash from operations and planned working capital improvements to fund its ongoing capital expenditure programs and meet its debt obligations for at least the next twelve months. Furthermore, the Company has available borrowing capacity under the Revolving Credit Facility. The Company's debt agreements impose significant operating and financial restrictions which may prevent the Company from certain business opportunities such as, making acquisitions or paying dividends, among other things. The Revolving Credit Facility contains a springing financial maintenance covenant requiring the Company to maintain the ratio (as defined in the agreement) of EBITDA to fixed charges of 1.1 to 1.0 when excess availability is less than the greater of 10% of the calculated borrowing base (as defined in the agreement) or $10.0 million. In addition, if excess availability is less than the greater of 12.5% of the calculated borrowing base (as defined in the agreement) or $12.5 million, the lender has the right to take full dominion of the Company’s cash collections and apply these proceeds to outstanding loans under the Revolving Credit Agreement (“cash dominion”). Based on the Company’s cash projections, it does not anticipate a scenario whereby cash dominion would occur during the next twelve months.

Table of Contents

The Company is committed to maintaining a strong financial position through maintaining sufficient levels of available liquidity, managing working capital and monitoring the Company's overall capitalization. Cash and cash equivalents at September 30, 2013 were $41.5 million, and the Company had $89.8 million of available borrowing capacity under its Revolving Credit Facility. Approximately 58.3% of the Company's consolidated cash and cash equivalents balance resides in the United States. As foreign earnings are permanently reinvested, availability under the Company's Revolving Credit Facility would be used to fund operations in the United States should the need arise in the future.

Working capital at September 30, 2013 was $323.8 million compared to $379.3 million at December 31, 2012. The decrease in working capital is primarily due to lower inventory of $60.1 million, higher accounts payable of $17.8 million and higher accrued liabilities of $8.9 million partially offset by higher cash and cash equivalents of $19.9 million and higher accounts receivable of $8.4 million, comparatively from December 31, 2012 to September 30, 2013.

The Company monitors its overall capitalization by evaluating total debt to total capitalization. Total debt to total capitalization is defined as the sum of short- and long-term debt, divided by the sum of total debt and stockholders' equity. Total debt to total capitalization was 44.9% at September 30, 2013 and 46.8% at December 31, 2012. Over the long-term, the Company plans to continue to improve its total debt to total capitalization by improving operating results, managing working capital and using cash generated from operations to repay outstanding debt. As and when permitted by term of agreements noted above, depending on market conditions, the Company may decide in the future to refinance, redeem or repurchase its debt and take other steps to reduce its debt or lease obligations or otherwise improve its overall financial position.

Cash paid for capital expenditures for the nine months ended September 30, 2013 was $7.6 million, a decrease of $1.4 million compared to the same period last year. Management believes that annual capital expenditures will be between $10.0 million and $12.0 million in 2013.

The Company's principal payments on long-term debt, including the current portion of long-term debt, required during the next five years and thereafter are summarized below:

2013	$0.1
2014	0.4
2015	0.4
2016	225.2
2017	57.5
2018 and beyond	—
Total debt	$283.6

As of September 30, 2013, the Company had $6.7 million of irrevocable letters of credit outstanding, which primarily consisted of $4.0 million for collateral associated with commodity hedges and $1.9 million for compliance with the insurance reserve requirements of its workers' compensation insurance carriers.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to interest rate, commodity price and foreign exchange rate risks that arise in the normal course of business. There have been no significant or material changes to such risks since December 31, 2012. Refer to Item 7a in the Company's Annual Report on Form 10-K, as amended, filed for the year ended December 31, 2012 for further discussion of such risks.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

A review and evaluation was performed by the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure

controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that review and evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Table of Contents

(b) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

(Amounts in millions)

During the quarter ended March 31, 2013, the Company received warranty and other claims from certain customers regarding alleged quality defects with certain alloy round bar products sold by the Company in 2012 and 2013. The Company evaluated the information provided by the customers and issued a notice of potential defect to other affected customers. As previously reported, the Company estimated that it may incur costs for warranty and other customer claims associated with the alleged quality defects from $0.3 million to $1.3 million. Based on the information available as of September 30, 2013, the Company increased its best estimate of the probable loss resulting from these claims from its previous estimate of $0.7 million to $1.2 million of which approximately $0.2 million and $0.9 million are included in cost of materials for the three and nine months ended September 30, 2013, respectively. The Company believes that amounts paid to customers will be recoverable from the original supplier of the products. There can be no assurance that the Company's losses related to these claims will not exceed the Company's estimated range of loss, or that the Company will be able to recover any amounts from the original supplier of the products.

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

Directors of the Company who are not employees may elect to defer receipt of up to 100% of his or her cash retainer and meeting fees. A director who defers board compensation may select either an interest or a stock equivalent investment option for amounts in the director's deferred compensation account. Disbursement of the stock equivalent unit account may be in shares of Company common stock or in cash as designated by the director. If payment from the stock equivalent unit account is made in shares of the Company's common stock, the number of shares to be distributed will equal the number of full stock equivalent units held in the director's account. On July 1, 2013, receipt of approximately 476 shares was deferred as payment for the board compensation. The shares were acquired at a price of $15.74 per share, which represented the closing price of the Company's common stock on the day as of which such fees would otherwise have been paid to the director. Exemption from registration of the shares is claimed by the company under Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

Exhibit No.	Description
3.4	Articles Supplementary of A.M. Castle & Co. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 14, 2013. Commission File No. 1-05415.
3.5	Amended and Restated Bylaws of A.M. Castle & Co. adopted August 13, 2013. Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on August 14, 2013. Commission File No. 1-05415.
4.4	Amendment No. 1 to Rights Agreement, dated as of August 13, 2013, by and between A.M. Castle & Co. and American Stock Transfer & Trust Company, LLC, as Rights Agent. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on August 14, 2013. Commission File No. 1-05415.
10.38*	Employment Offer Letter dated July 1, 2013, between A.M. Castle & Co. and Mr. Steve Letnich.
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Calculation Linkbase Document (1)
101.LAB	XBRL Taxonomy Label Linkbase Document (1)

101.PRE XBRL Taxonomy Presentation Linkbase Document [1]

(1) Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by

Table of Contents

reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

*This agreement is considered a compensatory plan or arrangement.

Table of Contents

SIGNATURE

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

		A. M. Castle & Co. (Registrant)
Date: October 31, 2013	By:	/s/ Patrick R. Anderson Patrick R. Anderson Vice President – Controller and Chief Accounting Officer (Mr. Anderson has been authorized to sign on behalf of the Registrant.)

Table of Contents

Exhibit Index
The following exhibits are filed herewith or incorporated herein by reference:

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31.1	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	E-3
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002	E-4
32.1	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	E-5
101.INS	XBRL Instance Document (1)	
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101.PRE	XBRL Taxonomy Presentation Linkbase Document (1)	

(1) Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

* This agreement is considered a compensatory plan or arrangement.