ROCK TENN CO
Form 10-Q
August 16, 2004

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

Form 10-Q

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

For the quarterly period ended **June 30, 2004**

OR

o 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 0-23340

Rock-Tenn Company

(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	62-0342590 (I.R.S. Employer Identification No.)
504 Thrasher Street, Norcross, Georgia (Address of principal executive offices)	30071 (Zip Code)

Registrant s telephone number, including area code: (770) 448-2193

N/A
(Former name, former address and former fiscal year if changed since last report.)

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 x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding as of August 5, 2004

Class A Common Stock, $0.01 par value	35,640,784

ROCK-TENN COMPANY

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

ROCK-TENN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands, Except Per Share Data)

	Three Months Ended		Nine Months Ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Net sales	$397,281	$368,232	$1,163,391	$1,048,315
Cost of goods sold	331,517	299,844	967,881	854,988
Gross profit	65,764	68,388	195,510	193,327
Selling, general and administrative expenses	48,469	46,485	147,552	136,498
Restructuring and other costs	21,317	648	27,065	911
Operating profit (loss)	(4,022)	21,255	20,893	55,918
Interest expense	(5,907)	(7,367)	(17,682)	(20,393)
Interest and other income (expense)	(478)	(61)	(274)	44
Income (loss) from unconsolidated joint venture	288	(92)	155	(376)
Minority interest in income of consolidated subsidiary	(1,036)	(849)	(2,512)	(2,371)
Income (loss) from continuing operations before income taxes	(11,155)	12,886	580	32,822
Provision (benefit) for income taxes	(7,079)	5,033	(2,519)	12,893
Income (loss) from continuing operations	(4,076)	7,853	3,099	19,929
Income (loss) from discontinued operations (net of $168, $(404), $4,834, and $(200) income taxes)	350	(641)	7,964	(317)
Net income (loss)	$ (3,726)	$ 7,212	$ 11,063	$ 19,612
Weighted average number of common and common equivalent shares outstanding	34,966	34,726	35,408	34,619

Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.12)	$ 0.23	$ 0.09	$ 0.58
Net income (loss)	$ (0.11)	$ 0.21	$ 0.32	$ 0.57
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.12)	$ 0.23	$ 0.09	$ 0.58
Net income (loss)	$ (0.11)	$ 0.21	$ 0.31	$ 0.57
Cash dividends per common share	$ 0.085	$ 0.08	$ 0.255	$ 0.24

See accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In Thousands, Except Share And Per Share Data)

	June 30, 2004	September 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,975	$ 14,173
Accounts receivable (net of allowances of $5,547 and $5,475)	168,194	163,096
Inventories	124,253	118,414
Other current assets	22,840	17,717
Current assets held for sale	1,607	52,703
Total current assets	363,869	366,103
Property, plant and equipment at cost:		
Land and buildings	213,938	226,153
Machinery and equipment	943,013	946,050
Transportation equipment	8,495	8,408
Leasehold improvements	5,938	5,713
	1,171,384	1,186,324
Less accumulated depreciation and amortization	(624,059)	(606,810)
Net property, plant and equipment	547,325	579,514
Goodwill	295,219	291,799
Intangibles, net	17,339	21,843
Other assets	30,808	32,136
	$1,254,560	$1,291,395
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 77,044	$ 84,151
Accrued compensation and benefits	43,760	46,935
Current maturities of debt	420	12,927
Other current liabilities	48,393	35,983
Current liabilities held for sale		7,487

Total current liabilities	169,617	187,483
Long-term debt due after one year	466,527	489,037
Realized interest rate swap gains	22,172	24,024
Mark-to-market value of interest rate swaps	(12,527)	(94)
Total long-term debt, less current maturities	476,172	512,967
Deferred income taxes	90,481	93,801
Other long-term items	85,406	75,108
Shareholders equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; no shares outstanding		
Class A common stock, $0.01 par value; 175,000,000 shares authorized; 35,556,291 and 34,962,041 shares outstanding at June 30, 2004 and September 30, 2003, respectively	356	350
Capital in excess of par value	157,964	149,722
Deferred compensation	(4,242)	(3,105)
Retained earnings	318,002	315,905
Accumulated other comprehensive loss	(39,196)	(40,836)
Total shareholders equity	432,884	422,036
	$1,254,560	$1,291,395

See accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Nine Months Ended	
	June 30, 2004	**June 30, 2003**
Operating activities:		
Income from continuing operations	$ 3,099	$ 19,929
Items in income not affecting cash:		
Depreciation and amortization	55,546	53,246
Deferred income taxes	(3,320)	16,715
Income tax benefit of employee stock options	401	
Loss on bond repurchase	872	
Deferred compensation expense	1,011	569
Gain on disposal of plant, equipment and other, net	(2,121)	(797)
(Gain) loss on currency translation	(471)	811
Minority interest in income of consolidated subsidiary	2,512	2,371
Equity in (income) loss from joint venture	(155)	376
Pension funding more than expense	(7,269)	(14,351)
Impairment loss and other non-cash charges	25,799	789
Change in operating assets and liabilities:		
Accounts receivable	(5,607)	9,053
Inventories	(6,842)	(4,176)
Other assets	(2,653)	(13,986)
Accounts payable	(8,467)	4,908
Accrued liabilities	(814)	(5,159)
Cash provided by operating activities from continuing operations	51,521	70,298
Cash provided by operating activities from discontinued operations	373	3,072
Net cash provided by operating activities	51,894	73,370
Investing activities:		
Capital expenditures	(48,613)	(43,509)
Cash paid for purchase of assets under synthetic lease		(21,885)
Cash paid for purchase of businesses, net of cash received	(1,287)	(66,419)
Cash contributed to joint venture	(147)	(312)
Proceeds from sale of property, plant and equipment	5,427	6,857
Cash used for investing activities from continuing operations	(44,620)	(125,268)
Cash provided by (used for) investing activities from discontinued operations	61,916	(3,432)

Net cash provided by (used for) investing activities	17,296	(128,700)
Financing activities:		
Proceeds from issuance of public notes		99,748
Net repayments to revolving credit facilities	(3,500)	(826)
Additions to long-term debt		41,607
Repayments of long-term debt	(32,495)	(83,600)
Proceeds from monetizing swap contracts	4,074	8,898
Decrease in unexpended industrial development revenue bond proceeds		1,376
Issuances of common stock	5,699	3,821
Debt issuance costs	(27)	(1,013)
Purchases of common stock		(1,313)
Cash dividends paid to shareholders	(8,966)	(8,269)
Distribution to minority interest	(1,575)	(2,380)
Cash provided by (used for) financing activities	(36,790)	58,049
Effect of exchange rate changes on cash	402	(1,373)
Increase in cash and cash equivalents	32,802	1,346
Cash and cash equivalents at beginning of period	14,173	6,560
Cash and cash equivalents at end of period	$ 46,975	$ 7,906
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	$ 12,248	$ 8,205
Interest, net of amounts capitalized	$ 17,456	$ 14,614

See accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
(In Thousands)

Supplemental schedule of non-cash investing and financing activities:

In the first nine months of fiscal 2004, we paid $1.3 million, primarily for additional consideration due to the August 2003 acquisition of PCPC, Inc., d/b/a Pacific Coast Packaging Corp. (which we refer to as **Pacific Coast Packaging**). The payment represented an adjustment based on the achievement of certain sales levels for the six-month period following the closing of the transaction. We recorded this payment as goodwill.

In the first nine months of fiscal 2003, we paid $65.3 million for the purchase of Groupe Cartem Wilco Inc. (which we refer to as **Cartem Wilco**), and made additional payments to Athena Industries, Inc. and Advertising Display Company, Inc. totaling $1.1 million. In conjunction with these acquisitions, we assumed the following liabilities:

	Nine Months Ended	
	June 30, 2004	June 30, 2003
Fair value of assets acquired including goodwill	$1,287	$78,853
Cash paid	1,287	66,419
Liabilities assumed	$	$12,434

See accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Month Periods Ended June 30, 2004
(Unaudited)

Unless the context otherwise requires, ***we, us, our*** *and* ***the Company*** *refer to the business of Rock-Tenn Company and its consolidated subsidiaries, including RTS Packaging, LLC, which we refer to as* ***RTS.*** *We own 65% of RTS and conduct our interior packaging products business through RTS. These terms do not include Seven Hills Paperboard, LLC, which we refer to as* ***Seven Hills****. We own 49% of Seven Hills, a manufacturer of gypsum plasterboard liner, which we do not consolidate for purposes of our financial statements.*

Note 1. Interim Financial Statements

Our independent auditors have not audited the accompanying condensed consolidated financial statements of the Company. We derived the condensed consolidated balance sheet at September 30, 2003 from the audited consolidated financial statements. In the opinion of our management, the condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations for the three and nine month periods ended June 30, 2004 and 2003, our financial position at June 30, 2004 and September 30, 2003, and our cash flows for the nine month periods ended June 30, 2004 and 2003.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2003 (the **Fiscal 2003 Form 10-K**) and each of the Quarterly Reports on Form 10-Q for the quarters ended December 31, 2003 and March 31, 2004.

The results for the three and nine months ended June 30, 2004 are not necessarily indicative of results that may be expected for the full year.

We have made certain reclassifications to prior year amounts to conform such amounts to the current year presentation.

Note 2. Summary of Significant Accounting Policies

Investment in Corporate Joint Venture

During 2000, we formed a joint venture (**Seven Hills**) with Lafarge North America, Inc. (**Lafarge**). We contributed cash and a paper machine located at our Lynchburg, Virginia paper mill. Lafarge contributed cash. Subsequent to the formation of Seven Hills, the Company and Lafarge made additional cash contributions. We have invested a total of $23.0 million in Seven Hills as of June 30, 2004. We use the equity method to account for our 49% investment in Seven Hills. Under the equity method, we initially recorded our investment at cost, then subsequently reduced the recorded amount by distributions and increased or decreased the amount by our proportionate share of Seven Hills net earnings or losses. The partners of the joint venture guaranteed funding of Seven Hills net losses in relation to their proportionate share of ownership. Under the terms of the Seven Hills joint venture arrangement, Lafarge is required to purchase all of the gypsum plasterboard liner produced by Seven Hills. A Managing Board that has equal representation by Lafarge and the Company manages Seven Hills. We provide all labor, supervision, management, executive and administrative services necessary to operate Seven Hills. We also lease the land and building occupied by Seven Hills. Our share of cumulative losses by Seven Hills as of June 30, 2004 and 2003 was $1.6 million and $1.7 million, respectively. Under the terms of the joint venture agreement, Lafarge has the option to put, at an amount determined by a formula, its interest in Seven Hills to us at any time after the expiration of six years from March 29, 2001, the date that the Seven Hills paper machine was converted to produce gypsum plasterboard liner. Upon the adoption of FIN 46R on March 31, 2004 (see Note 3 to the Condensed Consolidated Financial Statements under the heading **New Accounting Standards**), we determined that Seven Hills is a variable interest entity, but we are not its primary beneficiary. Accordingly, we will continue to account for Seven Hills using the equity method.

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Note 3. New Accounting Standards

In December 2003, the Financial Accounting Standards Board (which we refer to as the **FASB**) released revised FASB Statement
No. 132(R), *Employers Disclosures about Pensions and Other Postretirement Benefits* (which we refer to as **SFAS 132R**). We adopted this standard as of January 1, 2004. SFAS 132R requires additional disclosures to those required in the original SFAS 132 about the assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans, including new disclosures in interim financial reports. We have included the new interim disclosures in Note 13 to the Condensed Consolidated Financial Statements under the heading **Retirement Plans**. Our adoption of SFAS 132R did not have a material effect on our consolidated financial statements.

In December 2003, the FASB issued revised FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* (which we refer to as **FIN 46R**). We adopted this interpretation on March 31, 2004 for any variable interest entities (which we refer to as **VIEs**) in which we hold a variable interest that we acquired before February 1, 2003. We have not acquired any variable interests since that date. The only VIE in which we believe we hold a variable interest is the Seven Hills joint venture with Lafarge that is discussed in Note 2 to the Condensed Consolidated Financial Statements under the heading **Investment in Corporate Joint Venture**.

Note 4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with our evaluation of the recoverability of goodwill and property, plant and equipment as well as those that we use in the determination of taxation, insurance and restructuring. In addition, significant estimates form the basis for our reserves with respect to collectibility of accounts receivable, inventory valuations, pension benefits, and certain benefits provided to current employees. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial techniques. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

Note 5. Comprehensive Income (Loss)

The following were the components of comprehensive income (loss) (in thousands):

	Three Months Ended		Nine Months Ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Net income (loss)	$(3,726)	$ 7,212	$11,063	$19,612
Foreign currency translation adjustment	(2,369)	11,677	1,822	18,407

Unrealized loss on derivative instruments, net of tax	(210)	(141)	(182)	(243)
Total other comprehensive income (loss)	(2,579)	11,536	1,640	18,164
Comprehensive income (loss)	$(6,305)	$18,748	$12,703	$37,776

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The change in other comprehensive income (loss) was primarily due to the fluctuation in the Canadian/U.S. dollar exchange rate and an increase in our overall investment in Canada as a result of our acquisition of Cartem Wilco in January 2003. The third quarter of fiscal 2004 was impacted as the exchange rate moved to 1.3339 at June 30, 2004 from 1.3111 at March 31, 2004. The third quarter of fiscal 2003 was impacted as the exchange rate moved to 1.3475 at June 30, 2003 from 1.4699 at March 31, 2003.

The nine months ended June 30, 2004 was impacted as the exchange rate moved to 1.3339 at June 30, 2004 from 1.3493 at September 30, 2003. The nine months ended June 30, 2003 was impacted as the exchange rate moved to 1.3475 at June 30, 2003 from 1.5870 at September 30, 2002.

Note 6. Earnings (Loss) per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Numerator:				
Income (loss) from continuing operations	$ (4,076)	$ 7,853	$ 3,099	$19,929
Income (loss) from discontinued operations, net of tax	350	(641)	7,964	(317)
Net income (loss)	$ (3,726)	$ 7,212	$11,063	$19,612
Denominator:				
Denominator for basic earnings (loss) per share - weighted average shares	34,966	34,307	34,835	34,225
Effect of dilutive stock options and restricted stock awards		419	573	394
Denominator for diluted earnings (loss) per share - weighted average shares and assumed conversions	34,966	34,726	35,408	34,619
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.12)	$ 0.23	$ 0.09	$ 0.58
Income (loss) from discontinued operations, net of tax	0.01	(0.02)	0.23	(0.01)
Net income (loss) per share - basic	$ (0.11)	$ 0.21	$ 0.32	$ 0.57

Diluted earnings (loss) per share:

Income (loss) from continuing operations	$ (0.12)	$ 0.23	$ 0.09	$ 0.58
Income (loss) from discontinued operations, net of tax	0.01	(0.02)	0.22	(0.01)
Net income (loss) per share - diluted	$ (0.11)	$ 0.21	$ 0.31	$ 0.57

We had a net loss from continuing operations for the three months ended June 30, 2004. In applying the treasury stock method for that period, we have not included the dilutive effect of stock options and awards in the denominator because the effect would be antidilutive. There were 542 shares of dilutive stock options and awards excluded from the denominator for the three months ended June 30, 2004.

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Note 7. Restructuring and Other Costs

We recorded pre-tax restructuring and other costs of $21.3 million and $27.1 million for the third quarter of fiscal 2004 and the nine months ended June 30, 2004, respectively. We recorded pre-tax charges of $0.6 million and $0.9 million for the third quarter of fiscal 2003 and the nine months ending June 30, 2003, respectively. We discuss these charges in more detail below.

Fiscal 2004

Quarter Ended June 30, 2004

During the third quarter of fiscal 2004, we announced the closure of the laminated paperboard product converting lines at our Aurora, Illinois facility and recorded a pre-tax charge of $4.3 million. The charge consisted of an asset impairment charge of $3.6 million to reduce the undepreciated cost of the equipment to its estimated fair value less cost to sell, severance and other employee costs of $0.5 million, and a pension curtailment of $0.2 million. We expect to terminate the employment of approximately 93 employees. We estimate that laminated paperboard products sales at the facility for the nine-month periods ended June 30, 2004 and June 30, 2003 were approximately $14.5 million and $12.5 million, respectively. We cannot separately identify operating losses from these products lines because the facility manufactures other items and utilizes shared services. However, we estimate pre-tax operating losses of laminated paperboard products at the facility for the same nine-month periods were approximately $3.8 million and $2.3 million, respectively. We do not anticipate consolidating the majority of the sales from these products lines into our other facilities.

We announced the closure of our Otsego, Michigan, recycled paperboard mill on July 7, 2004. We recorded a $14.6 million pre-tax charge in the third quarter of fiscal 2004 that consisted of an asset impairment charge of $13.9 million to write down the equipment and facility to fair value, $0.4 million for property, plant and equipment related parts and supplies, and a pension curtailment of $0.3 million. We expect to terminate the employment of approximately 108 employees. We did not record severance in the third quarter of fiscal 2004 because we had not yet communicated the plan to the employees. We expect to record severance of $1.0 million in the fourth quarter of fiscal 2004. A significant portion of the capacity of this facility supported the laminated paperboard product facilities we closed this fiscal year. We expect to shift approximately one third of the volume of this facility to our remaining recycled paperboard facilities. Net sales at the facility for the nine-month period ended June 30, 2004 and June 30, 2003 were approximately $5.4 million and $6.2 million, respectively. Pre-tax operating losses at the facility for the same nine-month periods were approximately $2.9 million and $0.6 million, respectively.

During the quarter, we consolidated our laminated paperboard products division and mill division under common management and reduced the size of the combined divisional staffs. We refer to the combined division as the paperboard division. We recorded a charge of $0.5 million in the quarter for severance and other employee costs.

In connection with the shutdown of the laminated paperboard product converting lines at our Aurora, Illinois facility and our decision to close our Otsego, Michigan, facility we completed step 1 of the impairment test for the paperboard division as required under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets (* ***SFAS 142*** *),* and determined the goodwill of the paperboard division was not impaired.

In addition, we recorded a variety of charges in the quarter primarily from previously announced facility closures totaling $1.1 million. The charges consisted primarily of $0.8 million for machinery and equipment impairments, $0.2 million for equipment relocation, and $0.1 million of carrying costs.

During the third quarter of fiscal 2004, we reviewed our corporate structure and reorganized our subsidiaries, reducing the number of corporate entities and the complexity of the organizational structure. We recorded expenses of $0.8 million in connection with this project. We expect to complete the reorganization process over the next two quarters at an additional cost of approximately $0.6 million.

We expect to incur future restructuring and other costs of $3.8 million related to our previously announced initiatives, including the amounts disclosed above. These costs will primarily consist of $1.4 million for severance and other employee costs, $0.6 million for tax reorganization expenses, $0.5 million for equipment removal and relocation costs, $0.5 million for facility carrying costs, and $0.8 million for other expenses.

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Nine Months Ended June 30, 2004

During the nine months ended June 30, 2004, we recorded a pre-tax charge of $27.1 million. The charge consisted primarily of the following: $14.6 million for the closure of our Otsego facility; $4.3 million for the closure of laminated paperboard product converting lines at our Aurora facility; $7.8 million for the closure of our Wright City, Missouri, laminated paperboard products facility that consisted of an asset impairment charge of $6.7 million to record the equipment and facility at their estimated fair value less cost to sell, a goodwill impairment charge of $0.2 million, severance and other employee costs of $0.4 million, and other costs of $0.5 million.

During the period, we also recorded a $1.8 million pre-tax gain on the sale of our Mundelein, Illinois, merchandising displays facility site; reduced the size of the paperboard division staff and recorded a charge of $0.5 million for severance and other employee costs; recorded a charge of $0.8 million in connection with a project to review our corporate structure and reorganize our subsidiaries; and incurred a variety of charges totaling $0.9 million primarily from previously announced closures. These charges consisted primarily of $0.6 million for machinery and equipment impairments, $0.2 million for equipment relocation, and $0.1 million of carrying costs.

The following table represents a summary of the restructuring accrual as well as a reconciliation of the restructuring accrual to the line item **Restructuring and other costs** on our condensed consolidated statements of operations for the nine months ended June 30, 2004 (in thousands):

	Reserve at September 30, 2003	Restructuring Charges	Payments	Adjustment to Accrual	Reserve at June 30, 2004
Severance and other employee costs	$ 160	$ 1,399	$(607)	$	$ 952
Other	10	125	(19)		116
Total Restructuring	$ 170	$ 1,524	$(626)	$	$ 1,068
Property, plant and equipment impairment loss		24,655			
Gain on sale of property, plant and equipment		(1,906)			
Tax restructuring project		771			
Property, plant and equipment related parts and supplies		500			