

U.S. SILICA HOLDINGS, INC.  
Form 10-Q  
April 29, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

OR

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

Commission file number 001-35416

U.S. Silica Holdings, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or Organization)  
8490 Progress Drive, Suite 300  
Frederick, Maryland 21701  
(Address of Principal Executive Offices) (Zip Code)  
(301) 682-0600  
(Registrant’s telephone number, including area code)

26-3718801  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of April 28, 2015, 53,391,504 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

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U.S. Silica Holdings, Inc.  
 FORM 10-Q  
 For the Quarter Ended March 31, 2015  
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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## U.S. SILICA HOLDINGS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$252,555	\$267,281
Short-term investments	75,253	75,143
Accounts receivable, net	96,355	120,881
Inventories, net	65,035	66,712
Prepaid expenses and other current assets	10,775	9,267
Deferred income taxes, net	23,776	22,295
Income tax deposits	—	746
Total current assets	523,749	562,325
Property, plant and mine development, net	565,337	565,755
Goodwill	68,647	68,647
Trade names	14,914	14,914
Customer relationships, net	6,824	6,984
Other assets	13,882	12,317
Total assets	\$1,193,353	\$1,230,942
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Book overdraft	\$6,756	\$4,215
Accounts payable	56,699	85,781
Dividends payable	6,738	6,805
Accrued liabilities	13,922	17,911
Accrued interest	60	60
Current portion of long-term debt	3,321	3,329
Deferred revenue	26,771	26,771
Income tax payable	4,997	—
Total current liabilities	119,264	144,872
Long-term debt	490,873	491,757
Deferred revenue	59,224	64,722
Liability for pension and other post-retirement benefits	61,554	59,932
Deferred income taxes, net	47,918	49,749
Other long-term obligations	16,472	16,094
Total liabilities	795,305	827,126
Stockholders' Equity:		
Preferred stock	—	—
Common stock	540	539
Additional paid-in capital	193,140	191,086
Retained earnings	240,683	232,551
Treasury stock, at cost	(16,156	) (542
Accumulated other comprehensive loss	(20,159	) (19,818

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Total stockholders' equity	398,048	403,816
Total liabilities and stockholders' equity	\$1,193,353	\$1,230,942

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

U.S. SILICA HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited; dollars in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2015	2014
Sales	\$203,958	\$180,095
Cost of goods sold (excluding depreciation, depletion and amortization)	138,653	126,770
Operating expenses		
Selling, general and administrative	26,961	15,445
Depreciation, depletion and amortization	13,243	9,589
	40,204	25,034
Operating income	25,101	28,291
Other (expense) income		
Interest expense	(6,836)	(3,808)
Other income, net, including interest income	11	38
	(6,825)	(3,770)
Income before income taxes	18,276	24,521
Income tax expense	(3,453)	(6,150)
Net income	\$14,823	\$18,371
Earnings per share:		
Basic	\$0.28	\$0.34
Diluted	\$0.27	\$0.34

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

U.S. SILICA HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited; dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	\$14,823	\$18,371
Other comprehensive income:		
Unrealized gain (loss) on derivatives (net of tax of \$2 and \$(12) for the three months ended March 31, 2015 and 2014, respectively)	3	(19)
Unrealized gain (loss) on investments (net of tax of \$22 and \$19 for the three months ended March 31, 2015 and 2014, respectively)	35	29
Pension and other post-retirement benefits liability adjustment (net of tax of \$(235) and \$95 for the three months ended March 31, 2015 and 2014, respectively)	(379)	) 149
Comprehensive income	\$14,482	\$18,530

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

U.S. SILICA HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (unaudited; dollars in thousands)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2014	\$539	\$(542 )	\$191,086	\$232,551	\$(19,818 )	\$403,816
Net income	—	—	—	14,823	—	14,823
Unrealized loss on derivatives	—	—	—	—	3	3
Unrealized loss on short-term investments	—	—	—	—	35	35
Pension and postretirement liability	—	—	—	—	(379 )	(379 )
Cash dividend declared (\$0.125 per share)	—	—	—	(6,691 )	—	(6,691 )
Common stock-based compensation plans activity:						
Equity-based compensation	—	—	2,090	—	—	2,090
Excess tax benefit from equity compensation	—	—	6	—	—	6
Proceeds from options exercised	—	85	(42 )	—	—	43
Shares withheld for employee taxes for vested restricted stock and stock units	1	(444 )	—	—	—	(443 )
Repurchase of common stock	—	(15,255 )	—	—	—	(15,255 )
Balance at March 31, 2015	\$540	\$(16,156 )	\$193,140	\$240,683	\$(20,159 )	\$398,048

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



U.S. SILICA HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited; dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net income	\$14,823	\$18,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	13,243	9,589
Debt issuance amortization	352	220
Original issue discount amortization	96	66
Deferred income taxes	(3,101	) 1,160
Deferred revenue	(5,498	) —
(Gain)/loss on disposal of property, plant and equipment	(32	) —
Equity-based compensation	2,090	1,330
Excess tax benefit from equity-based compensation	(6	) (1,438
Other	2,630	117
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	21,344	(22,985
Inventories	1,677	13,041
Prepaid expenses and other current assets	(1,512	) (1,173
Income taxes	5,742	3,049
Accounts payable and accrued liabilities	(33,071	) 9,111
Liability for pension and other post-retirement benefits	1,007	(151
Net cash provided by operating activities	19,784	30,307
Investing activities:		
Capital expenditures	(13,377	) (10,606
Proceeds from sale of property, plant and equipment	72	—
Net cash used in investing activities	(13,305	) (10,606
Financing activities:		
Dividends paid	(6,758	) (13,402
Repurchase of common stock	(15,255	) —
Proceeds from options exercised	43	3,004
Excess tax benefit from equity-based compensation	6	1,438
Tax payments related to shares withheld for vested restricted stock	(443	) (229
Repayment of long-term debt	(1,275	) (938
Change in book overdraft	2,541	(2,130
Financing fees	(64	) —
Net cash used in financing activities	(21,205	) (12,257
Net increase/(decrease) in cash and cash equivalents	(14,726	) 7,444
Cash and cash equivalents, beginning of period	267,281	78,256
Cash and cash equivalents, end of period	\$252,555	\$85,700
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$5,529	\$3,824
Taxes	\$805	\$2,043

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



U.S. SILICA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; dollars in thousands, except per share amounts)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying Condensed Consolidated Financial Statements (the “Financial Statements”) of U.S. Silica Holdings, Inc. (“Holdings,” and together with its subsidiaries “we,” “us” or the “Company”) included in this Quarterly Report on Form 10-Q, have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (“SEC”). They do not contain certain information included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014; therefore, the interim Condensed Consolidated Financial Statements should be read in conjunction with that Annual Report on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of the Financial Statements have been included. Such adjustments are of a normal, recurring nature. We have reclassified certain immaterial amounts in the prior years’ assets section of the consolidated balance sheets and operating activities section of the consolidated statement of cash flows to conform to the current year presentation. These reclassifications had no effect on previously reported total assets and net cash flows from operations.

In order to make this report easier to read, we refer throughout to (i) our Condensed Consolidated Balance Sheets as our “Balance Sheets,” (ii) our Condensed Consolidated Statements of Operations as our “Income Statements,” and (iii) our Condensed Consolidated Statements of Cash Flows as our “Cash Flows.”

Unaudited Interim Financial Statements

The accompanying Balance Sheet as of March 31, 2015; the Income Statements for the three months ended March 31, 2015 and 2014; the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014; the Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2015; the Cash Flows for the three months ended March 31, 2015 and 2014; and other information disclosed in the related notes are unaudited. The Balance Sheet as of December 31, 2014 was derived from our audited consolidated financial statements as included in our 2014 Annual Report.

Use of Estimates and Assumptions

The preparation of the Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related 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. The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis for future cash flow estimates utilized in impairment calculations and units-of-production amortization calculations; environmental, reclamation and closure obligations; estimates of recoverable minerals; estimates of allowance for doubtful accounts; estimates of fair value for certain reporting units and asset impairments (including impairments of goodwill and other long-lived assets); write-downs of inventory to net realizable value; equity-based compensation expense; post-employment, post-retirement and other employee benefit liabilities; valuation allowances for deferred tax assets; reserves for contingencies and litigation; and the fair value and accounting treatment of financial instruments including derivative instruments. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update, Interest-Imputation of Interest, which simplifies presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The new standard will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. We have elected to adopt the standard early and have presented debt issuance costs as a direct

deduction from the carrying amount of debt on our Balance Sheets as of March 31, 2015 and December 31, 2014.

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## NOTE B—EARNINGS PER SHARE

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic income per common share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. In accordance with the applicable accounting guidance for calculating earnings per share, we did not include in our calculation of diluted earnings per share for the applicable periods stock options where the exercise prices were greater than the average market prices.

	Three Months Ended	
	March 31,	
	2015	2014
Net income	\$14,823	\$18,371
Less: net income allocated to outstanding restricted stockholders	(46	) (42
Net income allocated to common stockholders	\$14,777	\$18,329
Weighted-average common stock		
Outstanding	53,416	53,505
Outstanding assuming dilution	53,869	54,054

The weighted-average stock options (in thousands) that are antidilutive and are therefore excluded from the calculation of diluted earnings per common share are:

	Three Months Ended	
	March 31,	
	2015	2014
Weighted-average outstanding stock options excluded	306	—

## NOTE C—CAPITAL STRUCTURE AND ACCUMULATED COMPREHENSIVE INCOME

## Common Stock

Our Amended and Restated Certificate of Incorporation, authorizes up to 500,000,000 shares of common stock, par value of \$0.01. Subject to the rights of holders of any series of preferred stock, all of the voting power of the stockholders of Holdings shall be vested in the holders of the common stock. There were 53,374,963 shares of common stock issued and outstanding at March 31, 2015. As of March 31, 2014, there were 53,733,092 shares issued and outstanding.

In 2015, our Board of Directors declared quarterly cash dividends as follows:

Dividends per Common Share	Declaration Date	Record Date	Payable Date
\$0.125	February 12, 2015	March 16, 2015	April 3, 2015

All dividends were paid as scheduled.

Any determination to pay dividends and other distributions in cash, stock, or property by Holdings in the future will be at the discretion of our Board of Directors and will be dependent on then-existing conditions, including our business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions including restrictive covenants contained in our debt agreements, and other factors. Additionally, because we are a holding company, our ability to pay dividends on our common stock may be limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness.

## Preferred Stock

Our Amended and Restated Certificate of Incorporation authorizes our Board of Directors to issue up to 10,000,000 shares, in the aggregate, of preferred stock, par value of \$0.01 in one or more series, to fix the powers, preferences and other rights of such series, and any qualifications, limitations or restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption rights and liquidation preference, and to fix the number of shares to be included in any such series, without any further vote or action by our stockholders.

There are no shares of preferred stock issued or outstanding at March 31, 2015 and 2014. At present, we have no plans to issue any preferred stock.



### Share Repurchase Program

We are authorized by our Board of Directors to repurchase shares of our outstanding common stock from time to time on the open market or in privately negotiated transactions. As of March 31, 2015, we are authorized to repurchase up to \$50 million of our common stock through December 11, 2015. Stock repurchases, if any, will be funded using our available liquidity. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. Under our share repurchase program, as of March 31, 2015, we have repurchased 706,093 shares of our common stock at an average price of \$23.83 and are authorized to repurchase up to an additional \$33.2 million of our common stock.

### Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of fair value adjustments associated with cash flow hedges and accumulated adjustments for net experience losses and prior service cost related to employee benefit plans. The following table presents the changes in accumulated other comprehensive income by component during the three months ended March 31, 2015:

	For the Three Months Ended March 31, 2015			
	Unrealized gain/(loss) on cash flow hedges	Unrealized gain/(loss) on short-term investments	Pension and other post-retirement benefits liability	Total
Beginning Balance	\$(134 )	\$(41 )	\$(19,643 )	\$(19,818 )
Other comprehensive income (loss) before reclassifications	(3 )	35	(856 )	(824 )
Amounts reclassified from accumulated other comprehensive income	6	—	477	483
Ending Balance	\$(131 )	\$(6 )	\$(20,022 )	\$(20,159 )

Amounts reclassified from accumulated other comprehensive income (loss) related to cash flow hedges category are included in interest expense in our Income Statements and amounts reclassified related to pension and other post-retirement benefits liability category are included in the computation of net periodic pension costs, respectively, at their before tax amounts.

### NOTE D—BUSINESS COMBINATIONS

On July 31, 2014, we completed our acquisition of Cadre Services, Inc. ("Cadre"), a regional sand mining company based in Voca, Texas, for approximately \$98.3 million in cash.

The acquisition of Cadre resulted in goodwill of approximately \$0.2 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after allocation to the assets acquired and liabilities assumed.

The table below represents the tangible and identifiable intangible assets and liabilities based on management's assessment of the acquisition date fair value of the assets acquired and liabilities assumed:

Accounts receivable	\$6,898	
Inventory	2,534	
Other current assets	174	
Fixed assets	73,138	
Deferred tax assets (net)	13,966	
Accounts payable, accrued expenses and other liabilities	(4,389	)
Net tangible assets acquired	92,321	
Customer relationships	1,274	
Trade Name	4,478	
Goodwill	244	
Purchase price, net of cash acquired	\$98,317	

The value of acquired intangible assets and the related estimated useful lives consist of the following:

	Estimated Useful Lives	Value
Customer relationships	15 years	\$1,274
Trade name	Indefinite	4,478
Total intangible assets		\$5,752

#### Pro Forma Adjusted Summary

The results of Cadre's operations have been included in the consolidated financial statements subsequent to the acquisition date.

The following unaudited pro forma consolidated financial information reflects the results of operations as if the Cadre acquisition had occurred on January 1, 2014, after giving effect to certain purchase accounting adjustments. This information does not purport to be indicative of the actual results that would have occurred if the acquisition had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company:

	Three Months Ended March 31, 2015
Sales	\$188,509
Net income	\$18,417
Basic earnings per share	\$0.34
Diluted earnings per share	\$0.34



## NOTE E—ACCOUNTS RECEIVABLE

At March 31, 2015 and December 31, 2014, accounts receivable consisted of the following:

	March 31, 2015	December 31, 2014
Trade receivables	\$107,308	\$128,498
Less: Allowance for doubtful accounts	(13,611	) (10,429
Net trade receivables	93,697	118,069
Other receivables	2,658	2,812
Total accounts receivable	\$96,355	\$120,881

Changes in our allowance for doubtful accounts during the three months ended March 31, 2015 are as follows:

	March 31, 2015
Beginning balance	\$10,429
Bad debt provision	3,183
Write-offs	(1
Ending balance	\$13,611

## NOTE F—INVENTORIES

At March 31, 2015 and December 31, 2014, inventories consisted of the following:

	March 31, 2015	December 31, 2014
Supplies	\$18,059	\$17,528
Raw materials and work in process	9,446	12,562
Finished goods	37,530	36,622
Total inventories	\$65,035	\$66,712

## NOTE G—PROPERTY, PLANT AND MINE DEVELOPMENT

At March 31, 2015 and December 31, 2014, property, plant and mine development consisted of the following:

	March 31, 2015	December 31, 2014
Mining property and mine development	\$197,824	\$197,824
Asset retirement cost	9,559	9,559
Land	28,443	28,443
Land improvements	35,420	35,322
Buildings	47,198	47,149
Machinery and equipment	331,604	323,618
Furniture and fixtures	1,599	1,599
Construction-in-progress	83,269	78,997
	734,916	722,511
Accumulated depletion, depreciation and amortization	(169,579	) (156,756
Total property, plant and mine development, net	\$565,337	\$565,755

The amount of interest costs capitalized in property, plant and equipment was \$42 and \$201 for the three months ended March 31, 2015 and 2014, respectively.

## NOTE H—DEBT

At March 31, 2015 and December 31, 2014, debt consisted of the following:

	March 31, 2015	December 31, 2014
Senior secured credit facility:		
Revolver expiring July 23, 2018 (4.75% at March 31, 2015 and December 31, 2014)	\$—	\$—
Term loan facility—final maturity July 23, 2020 (4% - 5.25% at March 31, 2015 and December 31, 2014)	503,100	504,375
Less: Unamortized original issue discount	(1,983	) (2,078
Less: Unamortized debt issuance cost	(6,923	) (7,211
Total debt	494,194	495,086
Less: current portion	(3,321	) (3,329
Total long-term portion of debt	\$490,873	\$491,757

## Revolving Line-of-Credit

We have a \$50 million revolving line-of-credit (the “Revolver”), with zero drawn and \$3.1 million allocated for letters of credit as of March 31, 2015, leaving \$46.9 million available under the Revolver.

## Debt Maturities

At March 31, 2015, contractual maturities of long-term debt are as follows: