

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

November 07, 2016

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

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Form 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2016

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: 001-32407

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ARC DOCUMENT SOLUTIONS, INC.  
(Exact name of Registrant as specified in its Charter)

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

1981 N. Broadway, Suite 385  
Walnut Creek, California 94596

(925) 949-5100

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

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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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of October 28, 2016, there were 45,974,642 shares of the issuer's common stock outstanding.

ARC DOCUMENT SOLUTIONS, INC.  
Form 10-Q  
For the Quarter Ended September 30, 2016  
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#### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q, the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and variations of such words and expressions as they relate to our management or to ARC Document Solutions, Inc. (the “Company”) are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated herein. We have described in Part II, Item 1A-“Risk Factors” a number of factors that could cause our actual results to differ from our projections or estimates. These factors and other risk factors described in this Form 10-Q are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

Except where otherwise indicated, the statements made in this Form 10-Q are made as of the date we filed this report with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation, and specifically disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we make in future filings of our Forms 10-K, Forms 10-Q, and Forms 8-K, and any amendments thereto, as well as our proxy statements.

## PART I—FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## ARC DOCUMENT SOLUTIONS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,640	\$ 23,963
Accounts receivable, net of allowances for accounts receivable of \$2,007 and \$2,094	61,373	60,085
Inventories, net	19,981	16,972
Prepaid expenses	4,689	4,555
Other current assets	3,485	4,131
Total current assets	109,168	109,706
Property and equipment, net of accumulated depreciation of \$208,749 and \$202,457	56,923	57,590
Goodwill	138,688	212,608
Other intangible assets, net	14,393	17,946
Deferred income taxes	74,138	74,196
Other assets	2,255	2,492
Total assets	\$ 395,565	\$ 474,538
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 22,534	\$ 23,989
Accrued payroll and payroll-related expenses	10,196	12,118
Accrued expenses	16,793	19,194
Current portion of long-term debt and capital leases	12,926	14,374
Total current liabilities	62,449	69,675
Long-term debt and capital leases	145,978	157,018
Deferred income taxes	29,845	35,933
Other long-term liabilities	2,482	2,778
Total liabilities	240,754	265,404
Commitments and contingencies (Note 6)		
Stockholders' equity:		
ARC Document Solutions, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value, 150,000 shares authorized; 47,415 and 47,130 shares issued and 45,975 and 47,029 shares outstanding	47	47
Additional paid-in capital	117,264	115,089
Retained earnings	39,198	89,687
Accumulated other comprehensive loss	(2,831)	(2,097)
	153,678	202,726
Less cost of common stock in treasury, 1,440 and 101 shares	5,909	612
Total ARC Document Solutions, Inc. stockholders' equity	147,769	202,114
Noncontrolling interest	7,042	7,020
Total equity	154,811	209,134
Total liabilities and equity	\$ 395,565	\$ 474,538

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

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ARC DOCUMENT SOLUTIONS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(In thousands, except per share data)				
Service sales	\$89,178	\$94,384	\$272,394	\$287,045
Equipment and supplies sales	11,265	12,034	35,369	37,081
Total net sales	100,443	106,418	307,763	324,126
Cost of sales	67,713	70,475	204,904	211,303
Gross profit	32,730	35,943	102,859	112,823
Selling, general and administrative expenses	24,893	25,816	76,752	80,403
Amortization of intangible assets	1,160	1,375	3,705	4,306
Goodwill impairment	—	—	73,920	—
Restructuring expense	—	4	7	89
Income (loss) from operations	6,677	8,748	(51,525 )	28,025
Other income, net	(16 )	(25 )	(54 )	(81 )
Loss on extinguishment of debt	66			