

ARC DOCUMENT SOLUTIONS, INC.
Form 10-Q
November 06, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)
1981 N. Broadway, Suite 385
Walnut Creek, California 94596
(925) 949-5100

20-1700361
(I.R.S. Employer
Identification No.)

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

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

Indicate by check mark whether the registrant 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 (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 30, 2015, there were 46,992,165 shares of the issuer's common stock outstanding.

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Form 10-Q
For the Quarter Ended September 30, 2015
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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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$20,824	\$22,636
Accounts receivable, net of allowances for accounts receivable of \$2,237 and \$2,413	64,600	62,045
Inventories, net	17,839	16,251
Deferred income taxes	3,798	278
Prepaid expenses	5,049	4,767
Other current assets	3,271	6,080
Total current assets	115,381	112,057
Property and equipment, net of accumulated depreciation of \$216,023 and \$214,697	58,459	59,520
Goodwill	212,608	212,608
Other intangible assets, net	19,339	23,841
Deferred financing fees, net	1,804	2,440
Deferred income taxes	71,989	1,110
Other assets	2,192	2,492
Total assets	\$481,772	\$414,068
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$24,733	\$26,866
Accrued payroll and payroll-related expenses	13,820	13,765
Accrued expenses	18,713	22,793
Current portion of long-term debt and capital leases	17,268	27,969
Total current liabilities	74,534	91,393
Long-term debt and capital leases	163,151	175,916
Deferred income taxes	35,156	33,463
Other long-term liabilities	3,226	3,458
Total liabilities	276,067	304,230
Commitments and contingencies (Note 7)		
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; 47,093 and 46,800 shares issued and 46,992 and 46,723 shares outstanding	47	47
Additional paid-in capital	114,304	110,650
Retained earnings (deficit)	86,626	(7,353)
Accumulated other comprehensive loss	(1,693)	(161)
	199,284	103,183
Less cost of common stock in treasury, 101 and 77 shares	612	408
Total ARC Document Solutions, Inc. stockholders' equity	198,672	102,775
Noncontrolling interest	7,033	7,063

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Total equity	205,705	109,838
Total liabilities and equity	\$481,772	\$414,068

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

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

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service sales	\$94,384	\$94,426	\$287,045	\$279,555
Equipment and supplies sales	12,034	12,381	37,081	36,607
Total net sales	106,418	106,807	324,126	316,162
Cost of sales	70,475	70,584	211,303	206,798
Gross profit	35,943	36,223	112,823	109,364
Selling, general and administrative expenses	25,816	26,331	80,403	80,720
Amortization of intangible assets	1,375	1,497	4,306	4,498
Restructuring expense	4	11	89	765
Income from operations	8,748	8,384	28,025	23,381
Other income, net	(25	) (22	) (81	) (71
Loss on extinguishment of debt	96	347	193	347
Interest expense, net	1,679	3,780	5,475	11,637
Income before income tax (benefit) provision	6,998	4,279	22,438	11,468
Income tax (benefit) provision	(73,338	) 659	(71,766	) 1,930
Net income	80,336	3,620	94,204	9,538
(Income) loss attributable to the noncontrolling interest	(50	) 41	(225	) 64
Net income attributable to ARC Document Solutions, Inc. shareholders	\$80,286	\$3,661	\$93,979	\$9,602
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	\$1.72	\$0.08	\$2.02	\$0.21
Diluted	\$1.69	\$0.08	\$1.98	\$0.20
Weighted average common shares outstanding:				
Basic	46,698	46,338	46,601	46,195
Diluted	47,557	47,015	47,541	46,856

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

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$80,336	\$3,620	\$94,204	\$9,538
Other comprehensive loss, net of tax				
Foreign currency translation adjustments, net of tax	(1,434	) (428	) (1,524	) (463
Fair value adjustment of derivatives, net of tax	(69	) —	(263) —
Other comprehensive loss, net of tax	(1,503	) (428	) (1,787	) (463
Comprehensive income	78,833	3,192	92,417	9,075
Comprehensive loss attributable to noncontrolling interest	(237	) (43	) (30	) (122
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	\$79,070	\$3,235	\$92,447	\$9,197

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

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

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders					Common Stock in Treasury	Noncontrolling Interest	Total
	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income			
Balance at December 31, 2013	46,365	\$46	\$105,806	\$(14,628)	\$ 634	\$(168)	\$ 7,449	\$99,139
Stock-based compensation	174	—	2,618	—	—	—	—	2,618
Issuance of common stock under Employee Stock Purchase Plan	11	—	65	—	—	—	—	65
Stock options exercised	216	—	1,201	—	—	—	—	1,201
Treasury shares	24	—	—	—	—	(151)	—	(151)
Dividends paid to noncontrolling interest	—	—	—	—	—	—	(486)	(486)
Comprehensive income:								
Net income (loss)	—	—	—	9,602	—	—	(64)	9,538
Foreign currency translation adjustments, net of tax	—	—	—	—	(405)	—	(58)	(463)
Comprehensive income								9,075
Balance at September 30, 2014	46,790	\$46	\$109,690	\$(5,026)	\$ 229	\$(319)	\$ 6,841	\$111,461

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders					Common Stock in Treasury	Noncontrolling Interest	Total
	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive loss			
Balance at December 31, 2014	46,800	\$47	\$110,650	\$(7,353)	\$ (161)	\$(408)	\$ 7,063	\$109,838
Stock-based compensation	131	—	3,009	—	—	—	—	3,009
Issuance of common stock under Employee Stock Purchase Plan	13	—	83	—	—	—	—	83
Stock options exercised	125	—	562	—	—	—	—	562
Treasury shares	24	—	—	—	—	(204)	—	(204)
Comprehensive income:								
Net income	—	—	—	93,979	—	—	225	94,204
Foreign currency translation adjustments, net of tax	—	—	—	—	(1,269)	—	(255)	(1,524)
	—	—	—	—	(263)	—	—	(263)

Fair value adjustment of derivatives, net of tax										92,417
Comprehensive income										
Balance at September 30, 2015	47,093	\$47	\$114,304	\$86,626	\$ (1,693)		\$(612)	\$ 7,033		\$205,705

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 CASH FLOWS
(Unaudited)

	Three Months		Nine Months	
	Ended		Ended	
(In thousands)	September 30,		September 30,	
	2015	2014	2015	2014
Cash flows from operating activities				
Net income	\$80,336	\$3,620	\$94,204	\$9,538
Adjustments to reconcile net income to net cash provided by operating activities:				
Allowance for accounts receivable	110	197	292	444
Depreciation	7,040	7,039	21,184	21,063
Amortization of intangible assets	1,375	1,497	4,306	4,498
Amortization of deferred financing costs	138	190	460	587
Amortization of discount on long-term debt	—	207	—	656
Stock-based compensation	735	956	2,739	2,618
Deferred income taxes	2,198	2,100	8,221	6,272
Deferred tax valuation allowance	(76,091)	(1,615)	(80,882)	(4,652)
Loss on early extinguishment of debt	96	347	193	347
Other non-cash items, net	(73)	(401)	(357)	(337)
Changes in operating assets and liabilities:				
Accounts receivable	2,996	(930)	(3,637)	(8,424)
Inventory	1,083	(142)	(1,775)	(2,071)
Prepaid expenses and other assets	1,224	(946)	2,941	(309)
Accounts payable and accrued expenses	(202)	3,192	(4,772)	6,819
Net cash provided by operating activities	20,965			