

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

May 08, 2013

Table of Contents

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 March 31, 2013

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)

Edgar Filing: ARC DOCUMENT SOLUTIONS, INC. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1700361
(I.R.S. Employer
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)

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 May 1, 2013, there were 46,249,615 shares of the issuer's common stock outstanding.

Table of Contents

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended March 31, 2013

Table of Contents

PART I FINANCIAL INFORMATION

Item 1.	<u>Condensed Consolidated Financial Statements</u>	4
	<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	4
	<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2013 and 2012</u>	6
	<u>Condensed Consolidated Statements of Equity and Comprehensive Income (Loss)</u>	7
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u>	8
	<u>Notes to Condensed Consolidated Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	31

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	32
Item 1A.	<u>Risk Factors</u>	32
Item 6.	<u>Exhibits</u>	33

<u>Signatures</u>	34
-------------------	----

<u>Exhibit Index</u>	35
----------------------	----

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents

FORWARD-LOOKING STATEMENTS

This 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, variations of such words and similar 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.

Table of Contents**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)	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,219	\$ 28,021
Accounts receivable, net of allowances for accounts receivable of \$2,565 and \$2,634	60,758	51,855
Inventories, net	13,907	14,251
Deferred income taxes	382	
Prepaid expenses	3,553	3,277
Other current assets	2,819	6,819
Total current assets	111,638	104,223
Property and equipment, net of accumulated depreciation of \$198,309 and \$197,830	56,345	56,471
Goodwill	212,608	212,608
Other intangible assets, net	32,723	34,498
Deferred financing fees, net	3,936	4,219
Deferred income taxes	1,316	1,246
Other assets	2,536	2,574
Total assets	\$ 421,102	\$ 415,839
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 20,558	\$ 21,215
Accrued payroll and payroll-related expenses	9,460	6,774
Accrued expenses	27,578	22,321
Current portion of long-term debt and capital leases	11,264	13,263
Total current liabilities	68,860	63,573
Long-term debt and capital leases	208,124	209,262
Deferred income taxes	29,018	28,936
Other long-term liabilities	3,141	3,231
Total liabilities	309,143	305,002
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; 46,264 and 46,274 shares issued and 46,251 and 46,262 shares outstanding	46	46
Additional paid-in capital	103,102	102,510
Retained earnings	1,110	695
Accumulated other comprehensive income	495	689

Edgar Filing: ARC DOCUMENT SOLUTIONS, INC. - Form 10-Q

	104,753	103,940
Less cost of common stock in treasury, 12 shares	44	44
Total ARC Document Solutions, Inc. stockholders' equity	104,709	103,896
Noncontrolling interest	7,250	6,941
Total equity	111,959	110,837
Total liabilities and equity	\$ 421,102	\$ 415,839

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

Table of Contents**ARC DOCUMENT SOLUTIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(In thousands, except per share data)	Three Months Ended	
	March 31,	
	2013	2012
Service sales	\$ 87,800	\$ 89,672
Equipment and supplies sales	12,236	13,901
Total net sales	100,036	103,573
Cost of sales	67,657	71,695
Gross profit	32,379	31,878
Selling, general and administrative expenses	23,773	23,457
Amortization of intangible assets	1,747	4,593
Restructuring expense	472	
Income from operations	6,387	3,828
Other income	(26)	(30)
Interest expense, net	6,041	7,438
Income (loss) before income tax (benefit) provision	372	(3,580)
Income tax (benefit) provision	(311)	1,310
Net income (loss)	683	(4,890)
Income attributable to noncontrolling interest	(268)	(17)
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	\$ 415	\$ (4,907)
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	\$ 0.01	\$ (0.11)
Diluted	\$ 0.01	\$ (0.11)
Weighted average common shares outstanding:		
Basic	45,762	45,541
Diluted	45,791	45,541

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

Table of Contents**ARC DOCUMENT SOLUTIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

(In thousands)	Three Months Ended March 31,	
	2013	2012
Net income (loss)	\$ 683	\$ (4,890)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax effect of (\$20) and \$31	(153)	320
Amortization of derivative, net of tax effect of \$0 and \$469		786
Other comprehensive (loss) income, net of tax	(153)	1,106
Comprehensive income (loss)	530	(3,784)
Comprehensive income attributable to noncontrolling interest	309	59
Comprehensive income (loss) attributable to ARC Document Solutions, Inc. shareholders	\$ 221	\$ (3,843)

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

Table of Contents

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	ARC Document Solutions, Inc. Shareholders							Total
	Common Stock	Additional	Retained	Accumulated	Common	Noncontrolling	Interest	
(In thousands, except per share data)	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Income (loss)	Treasury	Interest	
Balance at December 31, 2011	46,235	\$ 46	\$ 99,728	\$ 32,663	\$ (1,760)		\$ 6,388	\$ 137,065
Stock-based compensation	(9)		444					444
Issuance of common stock under Employee Stock Purchase Plan	4		22					22
Tax benefit from stock-based compensation, net of tax deficiency			676					676
Comprehensive loss:								
Net (loss) income								