ARC DOCUMENT SOLUTIONS, INC.
Form 10-Q
August 07, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)

Delaware	**20-1700361**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x 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	x
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 x

As of August 2, 2013, there were 46,316,478 shares of the issuer s common stock outstanding.

Table of Contents

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended June 30, 2013

Table of Contents

PART I FINANCIAL INFORMATION	4
Item 1. Condensed Consolidated Financial Statements	4
Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 (Unaudited)	4
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012 (Unaudited)	5
Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2012 (Unaudited)	6
Condensed Consolidated Statements of Equity and Comprehensive Income (Loss) for the six months ended June 30, 2013 and 2012 (Unaudited)	7
Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2013 and 2012 (Unaudited)	8
Notes to Condensed Consolidated Financial Statements (Unaudited)	9
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	34
PART II OTHER INFORMATION	35
Item1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 6. Exhibits	35
Signatures	36
Exhibit Index	37
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)	**June 30, 2013**	**December 31, 2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 32,377**	$ 28,021
Accounts receivable, net of allowances for accounts receivable of **$2,736** and $2,634	**63,111**	51,855
Inventories, net	**13,717**	14,251
Deferred income taxes	**386**	
Prepaid expenses	**3,993**	3,277
Other current assets	**3,318**	6,819
Total current assets	**116,902**	104,223
Property and equipment, net of accumulated depreciation of **$201,643** and $197,830	**56,552**	56,471
Goodwill	**212,608**	212,608
Other intangible assets, net	**31,021**	34,498
Deferred financing fees, net	**3,658**	4,219
Deferred income taxes	**1,350**	1,246
Other assets	**2,275**	2,574
Total assets	**$ 424,366**	$ 415,839
Liabilities and Equity		
Current liabilities:		
Accounts payable	**$ 24,824**	$ 21,215
Accrued payroll and payroll-related expenses	**9,834**	6,774
Accrued expenses	**21,958**	22,321
Current portion of long-term debt and capital leases	**12,061**	13,263
Total current liabilities	**68,677**	63,573
Long-term debt and capital leases	**208,722**	209,262
Deferred income taxes	**30,319**	28,936
Other long-term liabilities	**3,137**	3,231
Total liabilities	**310,855**	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; **46,356** and 46,274 shares issued and **46,316** and 46,262 shares outstanding	**46**	46
Additional paid-in capital	**103,840**	102,510
Retained earnings	**1,832**	695
Accumulated other comprehensive income	**411**	689

	106,129	103,940
Less cost of common stock in treasury, **40** and 12 shares	**134**	44
Total ARC Document Solutions, Inc. stockholders equity	**105,995**	103,896
Noncontrolling interest	**7,516**	6,941
Total equity	**113,511**	110,837
Total liabilities and equity	**$ 424,366**	$ 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2013**	**2012**	**2013**	**2012**
Service sales	**$ 91,628**	$ 91,783	**$ 179,428**	$ 181,455
Equipment and supplies sales	**12,994**	14,445	**25,230**	28,346
Total net sales	**104,622**	106,228	**204,658**	209,801
Cost of sales	**69,011**	72,475	**136,668**	144,170
Gross profit	**35,611**	33,753	**67,990**	65,631
Selling, general and administrative expenses	**24,891**	23,973	**48,664**	47,430
Amortization of intangible assets	**1,699**	2,805	**3,446**	7,398
Restructuring expense	**636**		**1,108**	
Income from operations	**8,385**	6,975	**14,772**	10,803
Other income	**(35)**	(24)	**(61)**	(54)
Interest expense, net	**6,076**	7,255	**12,117**	14,693
Income (loss) before income tax provision	**2,344**	(256)	**2,716**	(3,836)
Income tax provision	**1,467**	619	**1,156**	1,929
Net income (loss)	**877**	(875)	**1,560**	(5,765)
Income attributable to noncontrolling interest	**(155)**	(178)	**(423)**	(195)
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	**$ 722**	$ (1,053)	**$ 1,137**	$ (5,960)
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.02**	$ (0.02)	**$ 0.02**	$ (0.13)
Diluted	**$ 0.02**	$ (0.02)	**$ 0.02**	$ (0.13)
Weighted average common shares outstanding:				
Basic	**45,901**	45,667	**45,832**	45,604
Diluted	**46,058**	45,667	**45,884**	45,604

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Net income (loss)	**$ 877**	$ (875)	**$ 1,560**	$ (5,765)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	**27**	(311)	**(126)**	9
Amortization of derivative, net of tax effect of **$0** for the three and six months ended June 30, 2013, and $380 and $849 for the three and six months ended June 30, 2012, respectively		636		1,422
Other comprehensive income (loss), net of tax	**27**	325	**(126)**	1,431
Comprehensive income (loss)	**904**	(550)	**1,434**	(4,334)
Comprehensive income attributable to noncontrolling interest	**266**	154	**575**	213
Comprehensive income (loss) attributable to ARC Document Solutions, Inc. shareholders	**$ 638**	$ (704)	**$ 859**	$ (4,547)

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

6

Table of Contents

ARC DOCUMENT SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	ARC Document Solutions, Inc. Shareholders							
	Common Stock		Additional		Accumulated Other Comprehensive	Common Stock		
(In thousands, except per share data)	Shares	Par Value	Paid-in Capital	Retained Earnings	Income (loss)	in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2011	46,235	$ 46	$ 99,728	$ 32,663	$ (1,760)	$	$ 6,388	$ 137,065
Stock-based compensation	31		903					903
Issuance of common stock under Employee Stock Purchase Plan	6		28					28
Stock options exercised	15		79					79
Tax benefit from stock-based compensation, net of tax deficiency			676					676
Comprehensive loss:								
Net (loss) income				(5,960)			195	(5,765)
Foreign currency translation adjustments					(9)		18	9
Amortization on derivative, net of tax effect					1,422			1,422
Comprehensive loss								(4,334)
Balance at June 30, 2012	46,287	$ 46	$ 101,414	$ 26,703	$ (347)	$	$ 6,601	$ 134,417

	ARC Document Solutions, Inc. Shareholders							
	Common Stock		Additional		Accumulated Other Comprehensive	Common Stock		
(In thousands, except per share data)	Shares	Par Value	Paid-in Capital	Retained Earnings	Income (loss)	in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2012	**46,274**	**$ 46**	**$ 102,510**	**$ 695**	**$ 689**	**$ (44)**	**$ 6,941**	**$ 110,837**
Stock-based compensation	**51**		**1,321**					**1,321**
Issuance of common stock under Employee Stock Purchase Plan	**3**		**9**					**9**
Treasury shares	**28**					**(90)**		**(90)**
Comprehensive income:								
Net income				**1,137**			**423**	**1,560**
Foreign currency translation adjustments					**(278)**		**152**	**(126)**
Comprehensive income								**1,434**
Balance at June 30, 2013	**46,356**	**$ 46**	**$ 103,840**	**$ 1,832**	**$ 411**	**$ (134)**	**$ 7,516**	**$ 113,511**

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

ARC DOCUMENT SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities				
Net income (loss)	**$ 877**	$ (875)	**$ 1,560**	$ (5,765)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Allowance for accounts receivable	**301**	164	**446**	404
Depreciation	**7,020**	7,061	**13,975**	14,123
Amortization of intangible assets	**1,699**	2,805	**3,446**	7,398
Amortization of deferred financing costs	**278**	281	**561**	536
Amortization of bond discount	**167**	150	**332**	297
Stock-based compensation	**729**	459	**1,321**	903
Deferred income taxes	**1,145**	(179)	**736**	(504)
Deferred tax valuation allowance	**154**	944	**174**	2,912
Restructuring expense, non-cash portion	**235**		**293**	
Amortization of derivative, net of tax effect		636		1,422
Other non-cash items, net	**(181)**	(63)	**(295)**	(93)
Changes in operating assets and liabilities, net of effect of business acquisitions:				
Accounts receivable	**(2,666)**	(493)	**(11,849)**	(6,127)
Inventory	**234**	(1,064)	**280**	(1,585)
Prepaid expenses and other assets	**(619)**	(140)	**3,090**	(406)
Accounts payable and accrued expenses	**(1,263)**	(5,231)	**5,921**	3,335
Net cash provided by operating activities	**8,110**	4,455	**19,991**	16,850
Cash flows from investing activities				
Capital expenditures	**(4,430)**	(5,457)	**(10,042)**	(9,262)
Other	**182**	(375)	**539**	(184)
Net cash used in investing activities	**(4,248)**	(5,832)	**(9,503)**	(9,446)
Cash flows from financing activities				
Proceeds from stock option exercises		79		79
Proceeds from issuance of common stock under Employee Stock Purchase Plan	**9**	7	**9**	28
Share repurchases, including shares surrendered for tax withholding	**(90)**		**(90)**	
Proceeds from borrowings on long-term debt agreements	**402**		**402**	
Payments on long-term debt agreements and capital leases	**(3,075)**	(4,078)	**(6,407)**	(8,466)
Net borrowings (repayments) under revolving credit facilities	**929**	(935)	**(210)**	(383)
Payment of deferred financing costs		(127)		(839)
Net cash used in financing activities	**(1,825)**	(5,054)	**(6,296)**	(9,581)
Effect of foreign currency translation on cash balances	**121**	(65)	**164**	58
Net change in cash and cash equivalents	**2,158**	(6,496)	**4,356**	(2,119)
Cash and cash equivalents at beginning of period	**30,219**	29,814	**28,021**	25,437

Cash and cash equivalents at end of period	**$ 32,377**	$ 23,318	**$ 32,377**	$ 23,318
Supplemental disclosure of cash flow information				
Noncash financing activities				
Capital lease obligations incurred	**$ 2,992**	$ 2,884	**$ 4,246**	$ 6,730

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

Table of Contents

ARC DOCUMENT SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data or where otherwise noted)

(Unaudited)

1. Description of Business and Basis of Presentation

ARC Document Solutions, Inc. (ARC Document Solutions , ARC or the Company) provides specialized document management services to businesses of all types, with an emphasis on the non-residential segment of the architectural, engineering and construction (AEC) industry. ARC offers a variety of services including: Onsite Services, Digital Services, Color Services, and Traditional Reprographics Services. In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, American Reprographics Company, L.L.C., a California limited liability company, and its subsidiaries.

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in conformity with the requirements of the SEC. As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management s opinion, the accompanying interim Condensed Consolidated Financial Statements presented reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All material intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim Condensed Consolidated Financial Statements and accompanying notes. The Company evaluates its estimates and assumptions on an ongoing basis and relies on historical experience and various other factors that it believes to be reasonable under the circumstances to determine such estimates. Actual results could differ from those estimates, and such differences may be material to the interim Condensed Consolidated Financial Statements.

These interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes included in the Company s 2012 Form 10-K.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-05. The new guidance covers the accounting for a cumulative translation adjustment on the parent entity upon de-recognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The adoption of ASU 2013-05 will be effective beginning January 1, 2014. The Company does not anticipate the adoption to materially impact the Company s Condensed Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02. This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of accumulated other comprehensive income. The adoption of ASU 2013-02 had no impact to the Company s Condensed Consolidated Financial Statements.

Segment Reporting

The provisions of Accounting Standards Codification (ASC) 280, *Disclosures about Segments of an Enterprise and Related Information*, require public companies to report financial and descriptive information about their reportable operating segments. The Company identifies operating segments based on the various business activities that earn revenue and incur expense, whose operating results are reviewed by the chief operating decision maker. Based on the fact that operating segments have similar products and services, classes of customers, production processes and economic characteristics, the Company is deemed to operate as a single reportable segment.

Net sales of the Company s principal services and products were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Service Sales				
Traditional reprographics	**$ 30,516**	$ 34,284	**$ 60,074**	$ 67,607
Color	**21,846**	20,501	**42,751**	40,504
Digital	**8,690**	9,508	**17,051**	19,198
Subtotal[1]	**61,052**	64,293	**119,876**	127,309
Onsite services[2]	**30,576**	27,490	**59,552**	54,146
Total services sales	**91,628**	91,783	**179,428**	181,455
Equipment and supplies sales	**12,994**	14,445	**25,230**	28,346
Total net sales	**$ 104,622**	$ 106,228	**$ 204,658**	$ 209,801

(1) For comparison purposes this subtotal agrees with Reprographics Services historically reported prior to the 2012 Annual Report on Form 10-K.

(2) Represents work done at the Company s customer sites which includes Facilities Management (FM) and Managed Print Services (MPS).

Risk and Uncertainties

The Company generates the majority of its revenue from sales of services and products to the AEC industry. As a result, the Company s operating results and financial condition can be significantly affected by economic factors that influence the AEC industry, such as non-residential construction spending, GDP growth, interest rates, unemployment rates, and office vacancy rates. Reduced activity (relative to historic levels) in the AEC industry would diminish demand for some of ARC s services and products, and would therefore negatively affect revenues and have a material adverse effect on its business, operating results and financial condition.

Table of Contents

As part of the Company s growth strategy, ARC intends to continue to offer and grow a variety of service offerings that are relatively new to the Company. The success of the Company s efforts will be affected by its ability to acquire new customers for the Company s new service offerings as well as sell the new service offerings to existing customers. The Company s inability to successfully market and execute these relatively new service offerings could significantly affect its business and reduce its long term revenue, resulting in an adverse effect on its results of operations and financial condition.

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, *Earnings Per Share.* Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if common shares subject to outstanding options and acquisition rights had been issued and if the additional common shares were dilutive. Common stock equivalents are excluded from the computation if their effect is anti-dilutive. For the three and six months ended June 30, 2013, stock options for 2.2 million and 3.8 million common shares, respectively, were excluded from the calculation of diluted net income attributable to ARC per common share because they were anti-dilutive. For the three and six months ended June 30, 2012, stock options for 2.3 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share because they were anti-dilutive.

Basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 were calculated using the following common shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Weighted average common shares outstanding basic	**45,901**	45,667	**45,832**	45,604
Effect of dilutive impact on equity-based compensation awards	**157**		**52**	
Weighted average common shares outstanding diluted	**46,058**	45,667	**45,884**	45,604

3. Restructuring Expenses

To ensure that the Company s costs and resources were in line with demand for its current portfolio of services and products, management initiated a restructuring plan in the fourth quarter of 2012. Through June 30, 2013, the restructuring plan included the closure of 41 of the Company s service centers, which represented more than 10% of its total number of service center locations. In addition, as part of the restructuring plan, the Company reduced headcount and middle management associated with its service center locations, streamlined the senior operational management team, and allocated more resources into growing sales categories such as managed print services. The reduction in headcount totaled approximately 300 full-time employees, which represented approximately 10% of the Company s total workforce.

Restructuring expenses include employee termination costs, estimated lease termination and obligation costs, and other restructuring expenses. The Company s restructuring efforts included service center closures in both 2012 and 2013. For the three and six months ended June 30, 2013, the Company closed four and eight service center locations, respectively, in addition to 33 closures in 2012. In total, the Company estimates that 2013 closures will result in restructuring expenses of less than $1.5 million.

The following table summarizes restructuring expenses incurred in the three and six months ended June 30, 2013.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Employee termination costs	**$**	**$ 11**
Estimated lease termination and obligation costs	**559**	**966**
Other restructuring expenses	**77**	**131**

Total restructuring expenses	**$**	**636**	**$**	**1,108**

The changes in the restructuring liability from December 31, 2012 through June 30, 2013 are summarized as follows:

		Six Months Ended June 30, 2013
Balance, December 31, 2012	$	2,299
Restructuring expenses		**1,108**
Payments		**(2,614)**
Adjustments		**(3)**
Balance, June 30, 2013	**$**	**790**

4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Goodwill

In connection with acquisitions, the Company applies the provisions of ASC 805, *Business Combinations*, using the acquisition method of accounting. The excess purchase price over the assessed fair value of net tangible assets and identifiable intangible assets acquired is recorded as goodwill.

In accordance with ASC 350, *Intangibles Goodwill and Other*, the Company assesses goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired.

Table of Contents

At September 30, 2012, absent the fact that the Company assesses goodwill for impairment annually as of September 30, the Company determined that there were sufficient indicators to trigger a goodwill impairment analysis. The indicators included, among other factors: (1) the Company s underperformance relative to its plan in the third quarter of 2012, (2) the performance against plan of reporting units which previously had goodwill impairment, (3) the economic environment, and (4) the continued decrease in large and small format printing at the Company s service centers, which the Company management believes is partly due to customers increasing adoption of technology. The Company s analysis indicated that seven of its 27 reporting units, six in the United States and one in Canada, had a goodwill impairment as of September 30, 2012. Accordingly, the Company recorded a pretax, non-cash charge for the three months ended September 30, 2012 to reduce the carrying value of goodwill by $16.7 million. Based upon its assessment, the Company concluded that no goodwill impairment triggering events have occurred during the first six months of 2013 that would require an additional impairment test.

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of the reporting units to its carrying amount. If the carrying amount of a reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. If the reporting unit s carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

The Company determines the fair value of its reporting units using an income approach. Under the income approach, the Company determined fair value based on estimated discounted future cash flows of each reporting unit. The cash flows are discounted by an estimated weighted-average cost of capital, which is intended to reflect the overall level of inherent risk of a reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. The Company considered market information in assessing the reasonableness of the fair value under the income approach outlined above.

Given the current economic environment, the changing document and printing needs of the Company s customers, and the uncertainties regarding the related impact on the Company s business, there can be no assurance that the estimates and assumptions made for purposes of the Company s goodwill impairment testing in 2012 will prove to be accurate predictions of the future. If the Company s assumptions, including forecasted EBITDA of certain reporting units, are not achieved, the Company may be required to record additional goodwill impairment charges in future periods, whether in connection with the Company s next annual impairment testing in the third quarter of 2013, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles Goodwill and Other*) outside of the quarter when the Company regularly performs its annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

The changes in the carrying amount of goodwill from January 1, 2012 through June 30, 2013 are summarized as follows:

	Gross Goodwill	Accumulated Impairment Loss	Net Carrying Amount
January 1, 2012	$ 405,558	$ 176,243	$ 229,315
Additions			
Goodwill impairment		16,707	(16,707)
December 31, 2012	405,558	192,950	212,608
Additions			
Goodwill impairment			
June 30, 2013	**$ 405,558**	**$ 192,950**	**$ 212,608**

See Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations for further information regarding the process and assumptions used in the goodwill impairment analysis.

Long-lived Assets

The Company periodically assesses potential impairments of its long-lived assets in accordance with the provisions of ASC 360, *Accounting for the Impairment or Disposal of Long-lived Assets*. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company groups its assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of the other assets and liabilities. The Company has determined that the lowest level for which identifiable cash flows are available is the divisional level.

Factors considered by the Company include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. When the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, the Company recognizes an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair value of the asset, based on the fair value if available, or discounted cash flows, if fair value is not available.

Other intangible assets that have finite lives are amortized over their useful lives. Customer relationships are amortized using the accelerated method, based on customer attrition rates, over their estimated useful lives of 13 (weighted average) years.

During the fourth quarter of 2010, the Company decided to consolidate the various brands that previously represented the Company s market presence in North America. Beginning in January 2011, each of the Company s North American operating segments and their respective locations began to adopt ARC, the Company s overall brand name. Original brand names were used in conjunction with the new ARC brand name to reinforce the Company s continuing presence in the business communities it serves, and ongoing relationships with its customers. Accordingly, the remaining estimated useful lives of the trade name intangible assets were revised down to 18 months. This change in estimate was accounted for on a prospective basis, resulting in increased amortization expense over the revised useful life of each trade name. There was no related impact for the three and six months ended June 30, 2013. The impact of this change in the three and six months ended June 30, 2012 was an increase in amortization expense of approximately $0.8 million and $3.2 million, respectively. Trade names were amortized using the straight-line method. The Company retired the original North American trade names in April 2012.

Table of Contents

The following table sets forth the Company s other intangible assets resulting from business acquisitions as of June 30, 2013 and December 31, 2012 which continue to be amortized:

	June 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	**$ 97,805**	**$ 67,372**	**$ 30,433**	$ 97,926	$ 64,024	$ 33,902
Trade names and trademarks	**20,365**	**19,777**	**588**	20,350	19,754	596
	$ 118,170	**$ 87,149**	**$ 31,021**	$ 118,276	$ 83,778	$ 34,498

Based on current information, estimated future amortization expense of amortizable intangible assets for the remainder of the 2013 fiscal year, each of the subsequent four fiscal years and thereafter are as follows:

2013 (excluding the six months ended June 30, 2013)	**$ 3,157**
2014	**5,757**
2015	**5,214**
2016	**4,515**
2017	**3,999**
Thereafter	**8,379**
	$ 31,021

5. Income Taxes

On a quarterly basis, the Company estimates its effective tax rate for the full fiscal year and records a quarterly income tax provision based on the anticipated rate in conjunction with the recognition of any discrete items within the quarter.

The Company recorded an income tax provision of $1.5 million and $1.2 million in relation to pretax income of $2.3 million and $2.7 million for the three and six months ended June 30, 2013, respectively. The income tax provision was primarily due to the impact of amortization of tax basis goodwill in a deferred tax liability position.

In accordance with ASC 740-10, *Income Taxes*, the Company evaluates its deferred tax assets to determine if a valuation allowance is required based on the consideration of all available evidence using a more likely than not standard, with significant weight being given to evidence that can be objectively verified. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability; the length of statutory carryover periods for operating losses and tax credit carryovers; and available tax planning alternatives. During 2011, 2012 and the six months ended June 30, 2013, the Company determined that cumulative losses for the preceding twelve quarters constituted sufficient objective evidence (as defined by ASC 740-10) that a valuation allowance on certain deferred assets was needed. As of June 30, 2013, the Company has a $78.4 million valuation allowance against certain of its deferred tax assets.

Based on the Company s assessment, the remaining net deferred tax assets of $1.7 million as of June 30, 2013 are considered to be more likely than not to be realized. The valuation allowance of $78.4 million may be increased or decreased as conditions change or if the Company is unable to implement certain available tax planning strategies. The realization of the Company s net deferred tax assets ultimately depend on future taxable income, reversals of existing taxable temporary differences or through a loss carry back. The Company has income tax receivables of $0.3 million as of June 30, 2013 included in other current assets in its condensed consolidated balance sheet primarily related to income tax refunds for prior years.

6. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2013	December 31, 2012
10.5% senior notes due 2016, net of bond discount of **$2,816** and $3,148	**$ 197,184**	$ 196,852
Various capital leases; weighted average interest rate of **7.5%** at June 30, 2013 and December 31, 2012; principal and interest payable monthly through June 2018	**21,210**	23,445
Borrowings from foreign revolving credit facilities; **0.6%** interest rate at June 30, 2013 and December 31, 2012	**1,814**	1,985
Various other notes payable with a weighted average interest rate of **6.3%** and 6.0% at June 30, 2013 and December 31, 2012, respectively; principal and interest payable monthly through June 2016	**575**	243
	220,783	222,525
Less current portion	**(12,061)**	(13,263)
	$ 208,722	$ 209,262

10.5% Senior Notes due 2016

On December 1, 2010, the Company completed a private placement of 10.5% senior unsecured notes due 2016 (the Notes).

The Notes have an aggregate principal amount of $200 million. The Notes are general unsecured senior obligations of the Company and are subordinate to all existing and future senior secured debt of the Company to the extent of the assets securing such debt. The Company s obligations under the Notes are jointly and severally guaranteed by all of the Company s domestic subsidiaries. The issue price was 97.824% with a yield to maturity of 11.0%. Interest on the Notes accrues at a rate of 10.5% per annum and is payable semiannually in arrears on June 15 and December 15 of each year, commencing on June 15, 2011. The Company will make each interest payment to the holders of record of the Notes on the immediately preceding June 1 and December 1.

The Company received gross proceeds of $195.6 million from the Notes offering. In connection with the issuance of the Notes, the Company entered into an indenture (the Indenture). The Notes were offered only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act.

Optional Redemption. At any time prior to December 15, 2013, the Company may redeem all or part of the Notes upon not less than 30 nor more than 60 days prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest, if any, to the date of redemption. In addition, the Company may redeem some or all of the Notes on or after December 15, 2013, at redemption prices set forth in the Indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to December 15, 2013, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the Notes, including any permitted additional notes, at a redemption price equal to 110.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

Repurchase upon Change of Control. Upon the occurrence of a change in control (as defined in the Indenture), each holder of the Notes may require the Company to repurchase all of the then-outstanding Notes in cash at a price equal to 101% of the aggregate principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

Other Covenants. The Indenture contains covenants that limit, among other things, the Company s and certain of its subsidiaries ability to (1) incur certain additional debt and issue preferred stock, (2) make certain restricted payments, (3) consummate specified asset sales, (4) enter into certain transactions with affiliates, (5) create liens, (6) declare or pay any dividend or make any other distributions, (7) make certain investments, and (8) merge or consolidate with another person.

Events of Default. The Indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include non-payment, breach of covenants in the Indenture, cross default and acceleration of other indebtedness, failure to pay certain judgments and certain events of bankruptcy and insolvency. Generally, if an event of default occurs, the Trustee or holders of at least 25% in principal amount of the then outstanding Notes may declare the principal of and accrued but unpaid interest on all of the then-outstanding Notes to be due and payable.

Exchange Offer. Pursuant to a registered exchange offer in May 2011, the Company offered to exchange up to $200 million aggregate principal amount of the Notes, for new notes that were registered under the Securities Act. The terms of the registered notes are the same as the terms of the Notes, except that they are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions are not applicable. The Company accepted the exchange of $200 million aggregate principal amounts of the Notes that were properly tendered in the exchange offer.

Note Repurchase. In July 2013, the company repurchased $7.0 million in aggregate principal amount of its 10.5% senior unsecured notes due December 15, 2016 in the open market.

2012 Credit Agreement

On January 27, 2012, the Company entered into a new Credit Agreement (the 2012 Credit Agreement) and terminated its previous senior secured credit agreement. The 2012 Credit Agreement provides revolving loans in an aggregate principal amount not to exceed $50.0 million with a Canadian sublimit of $5.0 million, based on inventory, accounts receivable and unencumbered equipment of the Company s subsidiaries organized in the US and Canada (Domestic Subsidiaries) that meet certain eligibility criteria. The 2012 Credit Agreement has a maturity date of June 15, 2016.

Amounts borrowed in US dollars under the 2012 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to LIBOR plus the LIBOR Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). All other amounts borrowed in US dollars that are not LIBOR loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds rate plus 0.5%, (B) the LIBOR (calculated based upon an interest period of three months and determined on a daily basis), plus 1.0% per annum, and (C) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its prime rate, plus (ii) the Base Rate Margin (as defined in the 2012 Credit Agreement), which may range from 0.75% to 1.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). Amounts borrowed in Canadian dollars bear interest at a per annum rate equal to the Canadian Base Rate (as defined in the 2012 Credit Agreement) plus the LIBOR Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability.

The 2012 Credit Agreement contains various loan covenants that restrict the Company s ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of the Company s business. In addition, at any time when Excess Availability (as defined in the 2012 Credit Agreement) is less than $10.0 million, the Company is required to maintain a Fixed Charge Coverage Ratio (as defined in the 2012 Credit Agreement) of at least 1.0. The Company s obligations under the 2012 Credit Agreement are secured by substantially all of its assets pursuant to a Guaranty and Security Agreement.

As of and during the three and six months ended June 30, 2013, the Company did not have any outstanding debt under the 2012 Credit Agreement.

As of June 30, 2013, based on inventory, accounts receivable and unencumbered equipment of the Company s subsidiaries organized in the US and Canada, the Company s borrowing availability under the 2012 Credit Agreement was $50.0 million. Standby letters of credit totaling $2.5 million reduced the Company s borrowing availability under the 2012 Credit Agreement to $47.5 million as of June 30, 2013.

Foreign Credit Agreement

In the third quarter of 2012, in conjunction with its Chinese operations, UNIS Document Solutions Co. Ltd. (UDS), the Company s Chinese business venture with Beijing-based Unisplendour, entered into one-year revolving credit facilities. The facilities provide for a maximum credit amount of 20.0 million Chinese Yuan Renminbi, which translates to U.S. $3.2 million as of June 30, 2013. Draws on the facilities are limited to 30 day periods and incur a fee of 0.05% of the amount drawn and no additional interest is charged.

Other Notes Payable

Includes notes payable collateralized by equipment previously purchased and subordinated seller notes payable related to prior acquisitions.

7. Commitments and Contingencies

Operating Leases. The Company has entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business.

Contingent Transaction Consideration. The Company is subject to earnout obligations entered into in connection with prior acquisitions. If the acquired businesses generate sales and/or operating profits in excess of predetermined targets, the Company is obligated to make additional cash payments in accordance with the terms of such earnout obligations. As of June 30, 2013, the Company has potential future earnout obligations for acquisitions consummated before the adoption of ASC 805, *Business Combinations,* of approximately $1.8 million through 2014 if predetermined financial targets are met or exceeded. Earnout payments prior to the adoption of ASC 805 are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable.

Legal Proceedings. On October 21, 2010, a former employee, individually and on behalf of a purported class consisting of all non-exempt employees who work or worked for American Reprographics Company, L.L.C. and American Reprographics Company in the State of California at any time from October 21, 2006 through the present, filed an action against the Company in the Superior Court of California for the County of Orange. The complaint alleges, among other things, that the Company violated the California Labor Code by failing to (i) provide meal and rest periods, or compensation in lieu thereof, (ii) timely pay wages due at termination, and (iii) that those practices also violate the California Business and Professions Code. The relief sought includes damages, restitution, penalties, interest, costs, and attorneys fees and such other relief as the court deems proper. On March 15, 2013, the Company participated in a private mediation session with claimants counsel which did not result in resolution of the claim. A subsequent court status conference was held on July 8, 2013 with no resolution reached. Although the Company believes that it has meritorious defenses to the claim, the Company also believes that a loss is probable and recorded a liability of $0.9 million as of June 30, 2013. The case remains unresolved as of June 30, 2013. As such, the ultimate resolution of the claim could result in a loss different than the estimated loss recorded.

In addition to the matter described above, the Company is involved in various additional legal proceedings and other legal matters from time to time in the normal course of business. The Company does not believe that the outcome of any of these matters will have a material effect on its consolidated financial position, results of operations or cash flows.

8. Stock-Based Compensation

The Company s 2005 Stock Plan (the Stock Plan) provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock purchase awards, restricted stock awards, and restricted stock units to employees, directors and consultants of the Company. The Stock Plan authorizes the Company to issue up to 5.0 million shares of common stock. This amount automatically increased annually on the first day of the Company s fiscal year, from 2006 through and including 2010, by the lesser of (i) 1.0% of the Company s outstanding shares on the date of the increase; (ii) 0.3 million shares; or (iii) such smaller number of shares determined by the Company s board of directors. As of June 30, 2013, 0.6 million shares remain available for issuance under the Stock Plan.

Stock options granted under the Stock Plan generally expire no later than ten years from the date of grant. Options generally vest and become fully exercisable over a period of two to five years from date of award, except that options granted to non-employee directors may vest over a shorter time period. The exercise price of options must be equal to at least 100% (110% in the case of an incentive stock option granted to a 10% stockholder) of the fair market value of the Company s common stock on the date of grant. The Company allows for cashless exercises of vested outstanding options.

During the six months ended June 30, 2013, the Company granted options to acquire a total of 1.5 million shares, respectively, of the Company s common stock to certain key employees with an exercise price equal to the fair market value of the Company s common stock on the date of grant. The stock options granted to those key employees vest annually over three to four years and expire 10 years after the date of grant.

The impact of stock-based compensation before income taxes on the interim Condensed Consolidated Statements of Operations was $0.7 million and $0.5 million for the three months ended June 30, 2013 and 2012, respectively.

The impact of stock-based compensation before income taxes on the interim Condensed Consolidated Statements of Operations was $1.3 million and $0.9 million for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, total unrecognized compensation cost related to unvested stock-based payments totaled $5.7 million and is expected to be recognized over a weighted-average period of 2.1 years.

9. Derivatives and Hedging Transactions

As of June 30, 2013 the Company was not party to any derivative or hedging transactions.

As of December 31, 2010, the Company was party to a swap transaction, in which the Company exchanged its floating-rate payments for fixed-rate payments. As of December 1, 2010, the swap transaction was de-designated upon issuance of the Notes and payoff of the Company s previous credit agreement. The swap transaction no longer qualified as a cash flow hedge under ASC 815, *Derivatives and Hedging*, as all the floating-rate debt was extinguished. The swap transaction qualified as a cash flow hedge up to November 30, 2010. On January 3, 2011, the Company terminated and settled the swap transaction.

As of June 30, 2013, there is no amount deferred in accumulated other comprehensive income related to any swap transactions.

The following table summarizes the effect of the swap transaction on the interim Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012:

	Amount of Gain or (Loss) Reclassified from Accumulated Comprehensive Income (Loss) into Income							
	(effective portion)				(ineffective portion)			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Month Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Location of Loss Reclassified from AOCL into Income								
Interest expense	$	$ (1,015)	$	$ (2,271)	$	$	$	$

10. Fair Value Measurements

Fair Values of Financial Instruments. The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments for disclosure purposes:

Table of Contents

Cash equivalents: Cash equivalents are time deposits with maturity of three months or less when purchased, which are highly liquid and readily convertible to cash. Cash equivalents reported in the Company s Condensed Consolidated Balance Sheets were $14.4 million and $13.7 million as of June 30, 2013 and December 31, 2012, respectively, and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Short- and long-term debt: The carrying amount of the Company s capital leases reported in the Condensed Consolidated Balance Sheets approximates fair value based on the Company s current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount reported in the Company s Condensed Consolidated Balance Sheet as of June 30, 2013 for its Notes and other notes payable is $200.0 million and $0.6 million, respectively. Using a discounted cash flow technique that incorporates a market interest rate which assumes adjustments for duration, optionality, and risk profile, the Company has determined the fair value of its Notes and other notes payable is $202.0 million and $0.6 million, respectively, as of June 30, 2013.

11. Condensed Consolidating Financial Statements

The Notes are fully and unconditionally guaranteed, on a joint and several basis, by all of the Company s domestic subsidiaries (the Guarantor Subsidiaries). The Company s foreign subsidiaries have not guaranteed the Notes (the Non-Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. There are no significant restrictions on the ability of the Company to obtain funds from any of the Guarantor Subsidiaries by dividends or loans. In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, condensed consolidating financial information is presented below.

Condensed Consolidating Balance Sheet

June 30, 2013

(Unaudited)

(In thousands)	ARC Document Solutions, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$	$ 15,080	$ 17,297	$	$ 32,377
Accounts receivable, net		52,807	10,304		63,111
Intercompany operations	135,848	5,327		(141,175)	
Inventories, net		10,090	3,627		13,717
Deferred income taxes		3	383		386
Prepaid expenses	3	3,152	838		3,993
Other current assets		1,832	1,486		3,318
Total current assets	135,851	88,291	33,935	(141,175)	116,902
Property and equipment, net		48,470	8,082		56,552
Goodwill		212,608			212,608
Investment in subsidiaries	164,632	15,255		(179,887)	
Other intangible assets, net		29,040	1,981		31,021
Deferred financing costs, net	3,658				3,658
Deferred income taxes		69	1,281		1,350
Other assets		1,911	364		2,275
Total assets	$ 304,141	$ 395,644	$ 45,643	$ (321,062)	$ 424,366
Liabilities and Equity					
Current liabilities:					
Accounts payable	$	$ 21,245	$ 3,579	$	$ 24,824
Accrued payroll and payroll-related expenses		9,138	696		9,834

Accrued expenses	958	17,311	3,689		21,958
Intercompany loans		132,823	8,352	(141,175)	
Current portion of long-term debt and capital leases		8,870	3,191		12,061
Total current liabilities	958	189,387	19,507	(141,175)	68,677
Long-term debt and capital leases	197,188	10,042	1,492		208,722
Deferred income taxes		30,319			30,319
Other long-term liabilities		1,264	1,873		3,137
Total liabilities	198,146	231,012	22,872	(141,175)	310,855
Commitments and contingencies					
Total equity	105,995	164,632	22,771	(179,887)	113,511
Total liabilities and equity	$ 304,141	$ 395,644	$ 45,643	$ (321,062)	$ 424,366

Table of Contents

Condensed Consolidating Balance Sheet

December 31, 2012

(Unaudited)

(In thousands)	ARC Document Solutions, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$	$ 10,965	$ 17,056	$	$ 28,021
Accounts receivable, net		45,289	6,566		51,855
Intercompany operations	146,475	4,869		(151,344)	
Inventories, net		9,426	4,825		14,251
Prepaid expenses		2,732	545		3,277
Other current assets		5,854	965		6,819
Total current assets	146,475	79,135	29,957	(151,344)	104,223
Property and equipment, net		48,484	7,987		56,471
Goodwill		212,608			212,608
Investment in subsidiaries	151,015	14,233		(165,248)	
Other intangible assets, net		32,327	2,171		