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

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

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Form 10-Q

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(Mark One)

ý 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	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 ý 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 ý 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 ý
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 ý

As of October 30, 2015, there were 46,992,165 shares of the issuer's common stock outstanding.

ARC DOCUMENT SOLUTIONS, INC.
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 a 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

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	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)

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings (Deficit)	Other Comprehensive Income	Common Stock in Treasury	Noncontrolling Interest	Total
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

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings (Deficit)	Other Comprehensive loss	Common Stock in Treasury	Noncontrolling Interest	Total
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								
Comprehensive income								92,417
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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	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	15,311	43,117	37,049
Cash flows from investing activities				
Capital expenditures	(3,880)	(3,430)	(11,517)	(10,027)
Payments for businesses acquisitions	—	—	(142)	(342)
Other	266	105	656	505
Net cash used in investing activities	(3,614)	(3,325)	(11,003)	(9,864)
Cash flows from financing activities				
Proceeds from stock option exercises	1	191	562	1,201
Proceeds from issuance of common stock under Employee Stock Purchase Plan	25	17	83	65
Share repurchases, including shares surrendered for tax withholding	—	—	(204)	(151)
Contingent consideration on prior acquisitions	(360)	—	(360)	—
Early extinguishment of long-term debt	(3,625)	(5,000)	(10,875)	(12,500)
Payments on long-term debt agreements and capital leases	(7,262)	(5,497)	(20,042)	(16,437)
Net repayments under revolving credit facilities	(144)	(532)	(1,888)	(828)
Payment of deferred financing costs	—	—	(25)	(454)
Payment of hedge premium	—	—	(632)	—
Dividends paid to noncontrolling interest	—	(486)	—	(486)
Net cash used in financing activities	(11,365)	(11,307)	(33,381)	(29,590)
Effect of foreign currency translation on cash balances	(598)	(50)	(545)	(122)
Net change in cash and cash equivalents	5,388	629	(1,812)	(2,527)
Cash and cash equivalents at beginning of period	15,436	24,206	22,636	27,362

Cash and cash equivalents at end of period	$20,824	$24,835	$20,824	$24,835
Supplemental disclosure of cash flow information				
Noncash investing and financing activities				
Capital lease obligations incurred	$2,625	$5,506	$9,667	$14,909
Contingent liabilities in connection with acquisition of businesses	$—	$186	$—	$1,110

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

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”) is a leading document solutions company serving businesses of all types, with an emphasis on the non-residential segment of the architecture, engineering and construction (“AEC”) industry. ARC offers a variety of services including: Construction Document Information Management ("CDIM"), Managed Print Services ("MPS"), and Archive and Information Management ("AIM"). In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

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 nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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 2014 Form 10-K.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-11, Simplifying the Measurement of Inventory. The new guidance requires that inventory be measured at the lower of cost or net realizable value and amends existing guidance which requires inventory be measured at the lower of cost or market. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies for financial statement preparers. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-11 on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The new guidance amends Accounting Standards Codification ("ASC") 350-40, Intangibles - Goodwill and Other, Internal-Use Software, to provide guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. ASU 2015-05 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-05 on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of deferred financing fees in an entity's financial

statements. Under the ASU, deferred financing fees are to be presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company expects to adopt ASU 2015-03 for the quarterly report on Form 10-Q for the three months ended March 31, 2016.
In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity’s ability to continue

as a going concern and to provide related footnotes disclosures in certain circumstances. It is effective for annual and interim periods beginning on or after December 15, 2016, with early adoption permitted. We do not believe the adoption of this guidance will have an impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the existing revenue recognition requirements in “Revenue Recognition (Topic 605).” The new guidance requires entities to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its condensed consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The new guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It was effective for annual periods beginning on or after December 15, 2014. The adoption of ASU 2014-08 had no impact to the Company's condensed consolidated financial statements.

Segment Reporting

The provisions of 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 and whose operating results are reviewed by the Company's Chief Executive Officer, who is the Company's chief operating decision maker. Because its operating segments have similar products and services, classes of customers, production processes, distribution methods and economic characteristics, the Company operates as a single reportable segment.

In an effort to more closely align the Company's financial presentation to how it markets its services and products to its customers, during the first quarter of 2015, the Company re-categorized its offerings to better report distinct sales recognized from CDIM, MPS, AIM, and Equipment and Supplies Sales. MPS is a new categorization of sales, which combines the Company's previously reported Onsite Services sales with sales generated from the servicing of equipment, which was previously included in Traditional Reprographics. In addition, sales generated from the Company's AIM services were split out from the Company's previously reported Digital Services category and presented separately. The remaining sales generated from Traditional Reprographics, Color Services and Digital Services were combined into CDIM. Equipment and Supplies sales remained unchanged. Amounts for the prior year have been recast to conform to the current year presentation in the table below. The Company believes the updated presentation of its sales categories reflects the drivers of its consolidated sales and will provide greater insight into the opportunities and risk diversification provided by the Company's portfolio of service and product offerings.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service Sales				
CDIM	$54,710	$55,352	$168,187	$166,234
MPS	35,923	36,464	108,934	105,216
AIM	3,751	2,610	9,924	8,105
Total 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

Risk and Uncertainties

The Company generates the majority of its revenue from sales of services and products to customers in 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.

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 to 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 common share is computed similarly 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 share equivalents are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2015, stock options for 2.1 million and 1.5 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 both the three and nine months ended September 30, 2014, stock options of 1.7 million common shares, were excluded from the calculation of diluted net income attributable to ARC per common share because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's stock plan.

Basic and diluted weighted average common shares outstanding were calculated as follows for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding during the period—basic	46,698	46,338	46,601	46,195
Effect of dilutive stock options	859	677	940	661
Weighted average common shares outstanding during the period—diluted	47,557	47,015	47,541	46,856

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. Restructuring activities associated with the plan concluded in the fourth quarter of 2013. Through December 31, 2013, the restructuring plan included the closure or downsizing of 56 of the Company’s service centers, which represented more than 25% 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 MPS. The reduction in headcount totaled approximately 300 full-time employees, which represented approximately 10% of the Company’s then current total workforce. To date, the Company has incurred $6.7 million of expense related to its restructuring plan.

Restructuring expenses include employee termination costs, estimated lease termination and obligation costs, and other restructuring expenses. Restructuring expenses for the three and nine months ended September 30, 2015 primarily consisted of revised estimated lease termination and obligation costs resulting from facilities closed in 2013. The following table summarizes restructuring expenses incurred in the three and nine months ended September 30, 2015 and 2014:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee termination costs	$—	$—	$—	$—
Estimated lease termination and obligation costs	4	7	89	540
Other restructuring expenses	—	4	—	225
Total restructuring expenses	$4	$11	$89	$765

The changes in the restructuring liability from December 31, 2014 through September 30, 2015 are summarized as follows:

	Nine Months Ended September 30, 2015
Balance, December 31, 2014	$113
Restructuring expenses	89
Payments	(154)
Balance, September 30, 2015	$48

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. At September 30, 2015, the Company performed its assessment and noted that one reporting unit failed step one of the impairment analysis; however, step two of the analysis is not yet final due to the complexity and significant amount of work required to calculate the implied fair value of goodwill. The preliminary analysis is subject to finalization, and will be completed in the quarter ended December 31, 2015. The preliminary results of step two of the Company's goodwill impairment analysis indicate that there is no goodwill impairment and represents the Company's best estimate; however, it is possible that material adjustments to the Company's preliminary estimates may be required as the calculations are finalized.

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 2015 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 2016, 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.

There was no change to the carrying amount of goodwill from January 1, 2014 through September 30, 2015.

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 regional level, which is the operating segment 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. The Company had no long-lived asset impairments in the first nine months of 2015 or for the year ended December 31, 2014.

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.

The following table sets forth the Company's other intangible assets resulting from business acquisitions as of September 30, 2015 and December 31, 2014 which continue to be amortized:

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	$99,174	$80,323	$18,851	$99,606	$76,298	$23,308
Trade names and trademarks	20,345	19,857	488	20,370	19,837	533
	$119,519	$100,180	$19,339	$119,976	$96,135	$23,841

Based on current information, estimated future amortization expense of amortizable intangible assets for the remainder of the 2015 fiscal year, each of the subsequent four fiscal years and thereafter are as follows:

2015 (excluding the nine months ended September 30, 2015)	$1,332
2016	4,808
2017	4,248
2018	3,839
2019	3,120
Thereafter	1,992
	$19,339

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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 benefit of $73.3 million and $71.8 million in relation to pretax income of $7.0 million and of $22.4 million for the three and nine months ended September 30, 2015, respectively, due to the reversal of the valuation allowance against certain of its deferred tax assets. The Company recorded an income tax provision of $0.7 million and $1.9 million in relation to pretax income of $4.3 million and $11.5 million for the three and nine months ended September 30, 2014, respectively.

In accordance with ASC 740-10, Income Taxes, the Company evaluates the need for deferred tax asset valuation allowances based on a more likely than not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The Company considers the following possible sources of taxable income when assessing the realization of deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence factors, including but not limited to:

- Nature, frequency, and severity of recent losses;
- Duration of statutory carryforward periods;
- Historical experience with tax attributes expiring unused; and
- Near- and medium-term financial outlook.

It is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. The Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative losses in recent years. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's current estimates, due to unanticipated events or otherwise, could have a material effect on its financial condition and results of operations. At September 30, 2015 as a result of sustained profitability in the U.S. evidenced by three years of earnings and forecasted continuing profitability, the Company determined it was more likely than not future earnings will be sufficient to realize deferred tax assets in the U.S. Accordingly the Company reversed most of its U.S.valuation allowance resulting in non-cash income tax benefit of $76.1 million for the three months ended September 30, 2015. The Company continues to carry a $1.1 million valuation allowance against certain deferred tax assets as of September 30, 2015.

Based on the Company’s assessment, the remaining net deferred tax assets as of September 30, 2015 are considered more likely than not to be realized. The valuation allowance of $1.1 million may be increased or reduced 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 $20 thousand as of September 30, 2015 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:

	September 30, 2015	December 31, 2014
Term A loan facility maturing 2019; 2.57% and 2.74% interest rate at September 30, 2015 and December 31, 2014	$151,000	$173,000
Various capital leases; weighted average interest rate of 5.9% and 6.8% at September 30, 2015 and December 31, 2014; principal and interest payable monthly through August 2020	29,266	28,789
Borrowings from foreign revolving credit facilities; 0.6% interest rate at December 31, 2014	—	1,897
Various other notes payable with a weighted average interest rate of 8.2% and 6.5% at September 30, 2015 and December 31, 2014; principal and interest payable monthly through November 2019	153	199
	180,419	203,885
Less current portion	(17,268)	(27,969)
	$163,151	$175,916

Term A Loan Facility

On November 20, 2014 the Company entered into a Credit Agreement (the “Term A Credit Agreement”) with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto.

The Term A Credit Agreement provides for the extension of term loans (“Term Loans”) in an aggregate principal amount of $175.0 million, the entirety of which was disbursed on the closing date in order to pay outstanding obligations under the Company’s then-existing Term Loan Credit Agreement dated as of December 20, 2013. The Term A Credit Agreement also provides for the extension of revolving loans in an aggregate principal amount not to exceed $30.0 million. The Company may request incremental commitments to the aggregate principal amount of Term Loans and Revolving Loans available under the Term A Credit Agreement by an amount not to exceed $75.0 million in the aggregate. Unless an incremental commitment to increase the Term Loan or provide a new term loan matures at a later date, the obligations under the Term A Credit Agreement mature on November 20, 2019. As of September 30, 2015, the Company's borrowing availability under the Term A Credit Agreement was $28.1 million, which was the maximum borrowing limit of $30.0 million under the Revolving Loan facility reduced by outstanding letters of credit of $1.9 million.

Loans borrowed under the Term A Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.50% to 2.50% per annum, based on the Company’s Total Leverage Ratio (as defined in the Term A Credit Agreement). Loans borrowed under the Term A Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50% per annum, (B) the one month LIBOR rate plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its “prime rate,” plus (ii) a margin ranging from 0.50% to 1.50% per annum, based on the Company’s Total Leverage Ratio.

The Company will pay certain recurring fees with respect to the credit facility, including administration fees to the administrative agent.

Subject to certain exceptions, including in certain circumstances, reinvestment rights, the loans extended under the Term A Credit Agreement are subject to customary mandatory prepayment provisions with respect to: the net proceeds from certain asset sales; the net proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Term A Credit Agreement); the net proceeds from certain issuances of equity securities; and net proceeds of certain insurance recoveries and condemnation events of the Company.

The Term A Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of the Company and its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or

assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of the Company or its subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend their organizational documents; or enter into certain restrictive agreements. In accordance with the Term A Credit Agreement, the Company is permitted to pay dividends related to its equity securities payable solely in shares of equity securities. In addition, the Term A Credit Agreement contains financial covenants which require the Company to maintain

(i) at all times, a Total Leverage Ratio in an amount not to exceed 3.25 to 1.00 through the Company's fiscal quarter ending September 30, 2016, and thereafter, in an amount not to exceed 3.00 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Term A Credit Agreement), as of the last day of each fiscal quarter, in an amount not less than 1.25 to 1.00.

The Term A Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; material inaccuracy of a representation or warranty when made; cross-default to other material indebtedness; bankruptcy, insolvency and dissolution events; inability to pay debts; monetary judgment defaults; actual or asserted invalidity or impairment of any definitive loan documentation, repudiation of guaranties or subordination terms; certain ERISA related events; or a change of control.

The obligations of the Company's subsidiary that is the borrower under the Term A Credit Agreement are guaranteed by the Company and each other United States domestic subsidiary of the Company. The Term A Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the credit facility or any affiliate of such a lender are secured on a first priority basis by a perfected security interest in substantially all of the borrower's, the Company's and each guarantor's assets (subject to certain exceptions).

As of September 30, 2015, the Company paid $24.0 million in aggregate principal on its $175.0 million Term Loan Credit Agreement, which was $10.9 million above the required principal payments. The $10.9 million early pay down of the term loan resulted in a loss on extinguishment of debt of $0.1 million and $0.2 million for the three and nine months ended September 30, 2015, respectively.

Foreign Credit Agreement

In the third quarter of 2014, in conjunction with its Chinese operations, UNIS Document Solutions Co. Ltd. ("UDS"), the Company's Chinese business venture with Beijing-based Unisplendour, entered into a revolving credit facility with a term of 12 months. The credit agreement expired in September 2015.

Other Notes Payable

Includes notes payable collateralized by equipment previously purchased.

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.

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. Subsequent to the mediation session, the mediator issued a proposal that was accepted by both parties. The Company has received preliminary court approval of the settlement, and awaits final court approval. The Company has a liability of $1.1 million as of September 30, 2015 related to the claim, which represents management's best estimate based on information available.

On February 1, 2013, ARC filed a civil complaint against a competitor and a former employee in the Superior Court of California for Orange County, which alleged, among other claims, the misappropriation of ARC trade secrets; namely, proprietary customer lists that were used to communicate with ARC customers in an attempt to unfairly acquire their business. In prior litigation with the competitor based on related facts, in 2007 the competitor entered into a settlement agreement and stipulated judgment, which included an injunction. ARC instituted this suit to stop the defendant from using similar unfair business practices against it in the Southern California market. The case proceeded to trial in May 2014, and a jury verdict was entered for the defendants. In the first quarter of 2015, the

Company settled with the defendants and paid $1.0 million, which had been accrued as of December 31, 2014.
In addition to the matters 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

At the Company's annual meeting of stockholders held on May 1, 2014, the Company's stockholders approved the Company's 2014 Stock Plan (the “2014 Stock Plan”) as previously adopted by the Company's board of directors. The 2014 Stock Plan replaces the American Reprographics Company 2005 Stock Plan (the "2005 Plan"). The 2014 Stock Plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards to employees, directors and consultants of the Company. The 2014 Stock Plan authorizes the Company to issue up to 3.5 million shares of common stock. As of September 30, 2015, 2.3 million shares remain available for issuance under the Stock Plan.

Stock options granted under the 2014 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 three to four 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% 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 nine months ended September 30, 2015, the Company granted options to acquire a total of 526 thousand shares 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. During the nine months ended September 30, 2015, the Company granted 116 thousand shares of restricted stock to certain key employees at a price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. The granted stock options and restricted stock vest annually over three to four years from the grant date. In addition, the Company granted 7 thousand shares of restricted stock to each of the Company's six non-employee members of its board of directors at a price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. The restricted stock vests on the one-year anniversary of the grant date.

The impact of stock-based compensation before income taxes on the interim Condensed Consolidated Statements of Operations was $0.7 million and $1.0 million for the three months ended September 30, 2015 and 2014, respectively. The impact of stock-based compensation before income taxes on the interim Condensed Consolidated Statements of Operations was $2.7 million and $2.6 million for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, total unrecognized compensation cost related to unvested stock-based payments totaled $4.6 million and is expected to be recognized over a weighted-average period of 2.2 years.

9. Derivatives and Hedging Transactions

The Company uses derivative financial instruments to hedge its exposure to interest rate volatility related to its Term A Loan Facility. The Company does not use derivative financial instruments for speculative or trading purposes. Such derivatives are designated as cash flow hedges and accounted for under ASC 815, Derivatives and Hedging. Derivative instruments are recorded at fair value as either assets or liabilities in the interim condensed consolidated balance sheets. Changes in fair value of cash flow hedges that are designated as effective hedging instruments are deferred in equity as a component of accumulated other comprehensive loss ("AOCL"). Any ineffectiveness in such cash flow hedges is immediately recognized in earnings. Changes in the fair value of hedges that are not designated as effective hedging instruments are immediately recognized in earnings. Cash flows from the Company’s derivative instruments are classified in the condensed consolidated statements of cash flows in the same category as the items being hedged.

In January 2015, the Company entered into three interest rate cap contracts to hedge against its exposure to interest rate volatility: (1) $80.0 million notional interest rate cap effective in 2015, (2) $65.0 million notional forward interest rate cap effective in 2016, and (3) $50.0 million notional forward interest rate cap effective in 2017. Over the next twelve months, the Company expects to reclassify $158 thousand from AOCL to interest expense.

The following table summarizes the fair value and classification on the Condensed Consolidated Balance Sheets of the Company's derivatives as of September 30, 2015:

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	Balance Sheet Classification	Fair Value September 30, 2015
Derivative designated as hedging instrument under ASC 815		
Interest rate cap contracts - current portion	Other current assets	$ 2
Interest rate cap contracts - long-term portion	Other assets	190
Total derivatives designated as hedging instruments		$ 192

As of and for the year ended December 31, 2014 the Company was not party to any derivative or hedging transactions.

The following table summarizes the loss recognized in AOCL of derivatives, designated and qualifying as cash flow hedges for the three and nine months ended September 30, 2015:

	Amount of Loss Recognized in AOCL on Derivative	
	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Derivative in ASC 815 Cash Flow Hedging Relationship		
Interest rate cap contracts, net of tax	$(69)	$(263)

The following table summarizes the effect of the interest rate cap on the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015:

	Amount of Gain or (Loss) Reclassified from AOCL into Income			
	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Effective Portion	Ineffective Portion	Effective Portion	Ineffective Portion
Location of Loss Reclassified from AOCL into Income				
Interest expense	$9	$—	$10	$ —

10. Fair Value Measurements

In accordance with ASC 820, Fair Value Measurement, the Company has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy as set forth below. If the inputs used to measure fair value fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. The three levels of the hierarchy are defined as follows:

Level 1-inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2-inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3-inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the condensed consolidated financial statements as of and for the nine months ended September 30, 2015 and as of and for the year ended December 31 2014:

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	September 30, 2015			December 31, 2014		
	Level 2	Level 3	Total Losses	Level 2	Level 3	Total Losses
Recurring Fair Value Measure						
Interest rate cap contracts	$192	$—	$—	$—	$—	$ —
Contingent purchase price consideration for acquired businesses	$—	$1,117	$—	$—	$1,768	$ —

The Company determines the fair value of its interest rate cap contracts based on observable interest rate yield curves and represent the expected discounted cash flows underlying the financial instruments.

The Company recognizes liabilities for future earnout obligations on business acquisitions, or contingent purchase price consideration for acquired businesses, at their fair value based on discounted projected payments on such obligations. The inputs to the valuation, which are level 3 inputs within the fair value hierarchy, are projected sales to be provided by the acquired businesses based on historical sales trends for which earnout amounts are contractually based. Based on the Company's assessment as of September 30, 2015, the estimated contractually required earnout amounts would be achieved. The following table presents the change in the Level 3 contingent purchase price consideration liability for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$1,479	$924	$1,768	$—
Additions related to acquisitions	—	186	—	1,452
Payments	(360)	—	(502)	(342)
Adjustments included in earnings	32	—	2	—
Foreign currency translation adjustments	(34)	—	(151)	—
Ending balance	$1,117	$1,110	$1,117	$1,110

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:

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 $7.2 million and $9.2 million as of September 30, 2015 and December 31, 2014, 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 September 30, 2015 for borrowings under its Term Loan Credit Agreement is $151.0 million. The Company has determined, utilizing observable market quotes, that the fair value of borrowings under its Term Loan Credit Agreement is $151.0 million as of September 30, 2015.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our interim Condensed Consolidated Financial Statements and the related notes and other financial information appearing elsewhere in this report as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 Form 10-K and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.

Business Summary

ARC Document Solutions, Inc. (“ARC Document Solutions,” “ARC,” “we,” “us,” or “our”) is the nation's leading document solutions provider for the architectural, engineering and construction (“AEC”) industry while also providing document solutions to businesses of all types.

Our customers need us to manage the scale, complexity and workflow of their documents. We help them reduce their costs and increase their efficiency by improving their access and control over documents, and we offer a wide variety of ways to produce, distribute, collaborate on, and store documents.

Each of our service offerings is enabled through a suite of supporting proprietary technology and a wide variety of value-added services. In an effort to more closely align our financial presentation to how we market our services and products to our customers, during the first quarter of 2015, we re-categorized our offerings to better report distinct sales recognized from Construction Document Information Management ("CDIM"), Managed Print Services ("MPS"), Archiving and Information Management ("AIM"), and Equipment and Supplies Sales. MPS is a new categorization of sales, which combines our previously reported Onsite Services sales with sales generated from the servicing of equipment, which was previously included in Traditional Reprographics. In addition, sales generated from our AIM services were split out from our previously reported Digital Services category and presented separately. The remaining sales generated from Traditional Reprographics, Color Services and Digital Services were combined into CDIM. Equipment and Supplies sales remained unchanged. We believe the updated presentation of our sales categories reflects the drivers of our consolidated sales and will provide greater insight into the opportunities and risk diversification provided by our portfolio of service and product offerings.

As noted above, we have categorized our service and product offerings to report distinct sales recognized from:

Construction Document and Information Management (CDIM), which consists of the management, distribution, and production of documents and information related to construction projects, including large-format construction drawings (frequently referred to as “blueprints”), black and white and color signage, specification documents, and marketing material. Primary services include document management, digital document distribution, and black and white and color document production. CDIM services can be managed by our customers through a number of digital tools and services including ARC's SKYSITE™ application, a cloud-based construction document management solution. CDIM sales are driven by the volume of construction and other project-related activity in our local, regional and national markets.

Managed Print Services (MPS), which consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a “per-use” basis. MPS is supported by our proprietary technology, Abacus™, which allows our customers to capture, control, manage, print, and account for their documents. Primary services include the assumption of existing equipment, new equipment placement, and print infrastructure optimization. MPS sales growth is driven by the ongoing print needs of our customers at their facilities, and represents contracted, recurring revenue.

Archiving and Information Management (AIM), which consists of services that facilitate the capture, management, access, workflow and use of documents and information that have been produced in the past. AIM services are enabled by our proprietary technology, PlanWell® Archive. Primary services include the digital capture of hardcopy and digital documents, programming the organization and workflow of such documents, and their cloud-based storage and maintenance. AIM sales are driven by the need to leverage past intellectual property for present or future use, improve business process automation, facilitate cost savings over current hardcopy and digital storage methods, as

well as comply with regulatory and records retention requirements.

Equipment and Supplies, which consists of reselling printing, imaging, and related equipment to customers primarily in the AEC industry.

We have expanded our business beyond the services we traditionally provided to the AEC industry in the past and are currently focused on growing MPS, AIM and CDIM, as we believe the mix of services demanded by the AEC industry continues to shift

toward document management at customer locations and in the cloud (represented primarily by our MPS and AIM revenues), and away from its historical emphasis on large-format construction drawings produced “offsite” in our service centers (represented primarily by our historical Traditional Reprographics revenues). Based on growth percentage AIM is our fastest-growing service offering and has grown 22% in the first nine months of 2015 as compared to the same period in 2014. Based on absolute dollars MPS is our largest growth service offering and has grown $3.7 million, or 4%, in the nine months of 2015 as compared to the same period in 2014.

We deliver our services via the cloud, through a nationwide network of service centers, regionally-based technical specialists, locally-based sales executives, and a national/regional sales force known as Global Solutions.

Acquisition activity during the last three years has been minimal and did not materially affect our overall business.

We believe we offer a distinct portfolio of services within the AEC industry, though non-AEC clients continue to show significant interest in many of our offerings. Based on our analysis of our operating results, we estimate that sales to the AEC industry accounted for approximately 77% of our net sales for the nine months ended September 30, 2015, with the remaining 23% consisting of sales to non-AEC industries.

We identify operating segments based on the various business activities that earn revenue and incur expense. Our operating results are reviewed by the Company's Chief Executive Officer, who is our Company's chief operating decision maker. Since our operating segments have similar products and services, classes of customers, production processes, distribution methods and economic characteristics, we have a single reportable segment. See Note 1 “Description of Business and Basis of Presentation” for further information.

Costs and Expenses

Our cost of sales consists primarily of materials (paper, toner and other consumables), labor, and “indirect costs” which consist primarily of equipment expenses related to our MPS contracts and our service center facilities. Facilities and equipment expenses include maintenance, repairs, rents, insurance, and depreciation. Paper is the largest component of our material cost; however, paper pricing typically does not significantly affect our operating margins due, in part, to our efforts to pass increased costs on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

We maintain low levels of inventory. Historically, our capital expenditure requirements have varied due to the cost and availability of capital lease lines of credit. Our relationships with credit providers have provided attractive lease rates over the past two years, and as a result, we chose to lease rather than purchase equipment in a significant portion of our engagements.

Research and development costs consist mainly of the salaries, leased building space, and computer equipment that comprises our data storage and development centers in Fremont, California and Kolkata, India. Such costs are primarily recorded to cost of sales.

We believe customers are increasingly (1) adopting technology and digital document management practices, and (2) changing their workflow patterns to reduce their hardcopy document and printing needs. We saw the first material evidence of this in 2012. While there were indications that the non-residential construction market strengthened in 2012, by the third quarter we felt that Traditional Reprographics sales would not likely recover at the same pace due to the factors listed above. To ensure that the Company’s costs and resources were in line with demand for our then-current portfolio of services and products, management initiated a restructuring plan in October of 2012 that was completed by the fourth quarter of 2013. The restructuring plan included the closure or downsizing of 33 of the Company’s service centers in 2012, which represented more than 10% of our total number of service center locations, and an additional 23 service centers in 2013. In addition, as part of the restructuring plan, we reduced headcount and middle management associated with our service center locations, streamlined the senior operational management team, and allocated more resources into growing sales categories such as MPS and AIM. The reduction in the then current headcount totaled approximately 300 full-time employees, which represented approximately 10% of our total workforce.

Non-GAAP Financial Measures

EBIT, EBITDA and related ratios presented in this report are supplemental measures of our performance that are not required by or presented in accordance with accounting principles generally accepted in the United States of America

("GAAP"). These measures are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, income from operations, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating, investing or financing activities as a measure of our liquidity.

EBIT represents net income before interest and taxes. EBITDA represents net income before interest, taxes, depreciation and amortization. EBIT margin is a non-GAAP measure calculated by dividing EBIT by net sales. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

We have presented EBIT, EBITDA and related ratios because we consider them important supplemental measures of our performance and liquidity. We believe investors may also find these measures meaningful, given how our management makes use of them. The following is a discussion of our use of these measures.

We use EBIT and EBITDA to measure and compare the performance of our operating segments. Our operating segments' financial performance includes all of the operating activities except debt and taxation which are managed at the corporate level for U.S. operating segments. As a result, we believe EBIT is the best measure of operating segment profitability and the most useful metric by which to measure and compare the performance of our operating segments. We use EBITDA to measure performance for determining consolidated-level compensation. In addition, we use EBIT and EBITDA to evaluate potential acquisitions and potential capital expenditures.

EBIT, EBITDA and related ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

- They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBIT, EBITDA, and related ratios should not be considered as measures of discretionary cash available to us to invest in business growth or to reduce our indebtedness. We compensate for these limitations by relying primarily on our GAAP results and using EBIT, EBITDA and related ratios only as supplements.

Our presentation of adjusted net income, adjusted EBITDA, and adjusted cash flows from operations over certain periods is an attempt to provide meaningful comparisons to our historical performance for our existing and future investors. The unprecedented changes in our end markets over the past several years have required us to take measures that are unique in our history and specific to individual circumstances. Comparisons inclusive of these actions make normal financial and other performance patterns difficult to discern under a strict GAAP presentation. Each non-GAAP presentation, however, is explained in detail in the reconciliation tables below.

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and nine months ended September 30, 2015 and 2014 to reflect the exclusion of loss on extinguishment of debt, restructuring expense, trade secret litigation costs, and changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. We have presented adjusted cash flows from operating activities for the three and nine months ended September 30, 2015 and 2014 to reflect the exclusion of cash payments related to trade secret litigation costs and cash payments related to restructuring expenses. This presentation facilitates a meaningful comparison of our operating results for the three and nine months ended September 30, 2015 and 2014. We believe these charges were the result of the current macroeconomic environment, our capital restructuring, or other items which are not indicative of our actual operating performance.

We have presented adjusted EBITDA in the three and nine months ended September 30, 2015 and 2014 to exclude loss on extinguishment of debt, trade secret litigation costs, restructuring expense and stock-based compensation expense. The adjustment of EBITDA for these items is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

The following is a reconciliation of cash flows provided by operating activities to EBIT, EBITDA, and net income attributable to ARC Document Solutions, Inc. shareholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Cash flows provided by operating activities	$20,965	$15,311	$43,117	$37,049
Changes in operating assets and liabilities, net of effect of business acquisitions	(5,101)	(1,174)	7,243	3,985
Non-cash expenses, including depreciation, amortization and restructuring	64,472	(10,517)	43,844	(31,496)
Income tax (benefit) provision	(73,338)	659	(71,766)	1,930
Interest expense, net	1,679	3,780	5,475	11,637
(Income) loss attributable to the noncontrolling interest	(50)	41	(225)	64
EBIT	8,627	8,100	27,688	23,169
Depreciation and amortization	8,415	8,536	25,490	25,561
EBITDA	17,042	16,636	53,178	48,730
Interest expense, net	(1,679)	(3,780)	(5,475)	(11,637)
Income tax benefit (provision)	73,338	(659)	71,766	(1,930)
Depreciation and amortization	(8,415)	(8,536)	(25,490)	(25,561)
Net income attributable to ARC Document Solutions, Inc. shareholders	$80,286	$3,661	$93,979	$9,602

The following is a reconciliation of net income attributable to ARC Document Solutions, Inc. to EBIT, EBITDA and adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net income attributable to ARC Document Solutions, Inc. shareholders	$80,286	$3,661	$93,979	$9,602
Interest expense, net	1,679	3,780	5,475	11,637
Income tax (benefit) provision	(73,338)	659	(71,766)	1,930
EBIT	8,627	8,100	27,688	23,169
Depreciation and amortization	8,415	8,536	25,490	25,561
EBITDA	17,042	16,636	53,178	48,730
Loss on extinguishment of debt	96	347	193	347
Trade secret litigation costs[1]	—	306	34	2,787
Restructuring expense	4	11	89	765
Stock-based compensation	735	956	2,739	2,618
Adjusted EBITDA	$17,877	$18,256	$56,233	$55,247

(1) On February 1, 2013, we filed a civil complaint against a competitor and a former employee in the Superior Court of California for Orange County, which alleged, among other claims, the misappropriation of ARC trade secrets; namely, proprietary customer lists that were used to communicate with ARC customers in an attempt to unfairly acquire their business. In prior litigation with the competitor based on related facts, in 2007 the competitor entered into a settlement agreement and stipulated judgment, which included an injunction. We instituted this suit to stop the defendant from using similar unfair business practices against us in the Southern California market. The case proceeded to trial in May 2014, and a jury verdict was entered for the defendants. In the first quarter of 2015, we entered into a settlement and paid the defendant. Legal fees associated with the litigation were recorded as selling,

general and administrative expense.

The following is a reconciliation of cash flows provided by operating activities to adjusted cash flows provided by operating activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Cash flows provided by operating activities	$20,965	$15,311	$43,117	$37,049
Payments related to trade secret litigation costs	—	1,101	1,033	2,615
Payments related to restructuring expenses	13	578	154	1,194
Adjusted cash flows provided by operating activities	$20,978	$16,990	$44,304	$40,858

The following is a reconciliation of net income margin attributable to ARC to EBIT margin, EBITDA margin and adjusted EBITDA margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014 (1)	2015 (1)	2014 (1)
Net income margin attributable to ARC	75.4 %	3.4 %	29.0 %	3.0 %
Interest expense, net	1.6	3.5	1.6	3.7
Income tax (benefit) provision	(68.9)	0.6	(22.1)	0.6
EBIT margin	8.1	7.6	8.5	7.3
Depreciation and amortization	7.9	8.0	7.9	8.1
EBITDA margin	16.0	15.6	16.4	15.4
Loss on extinguishment of debt	0.1	0.3	0.1	0.1
Trade secret litigation costs	—	0.3	—	0.9
Restructuring expense	—	—	—	0.2
Stock-based compensation	0.7	0.9	0.8	0.8
Adjusted EBITDA margin	16.8 %	17.1 %	17.3 %	17.5 %

(1) Column does not foot due to rounding

The following is a reconciliation of net income attributable to ARC Document Solutions, Inc. to unaudited adjusted net income attributable to ARC Document Solutions, Inc.:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2015	2014	2015	2014
Net income attributable to ARC Document Solutions, Inc.	$80,286	$3,661	$93,979	$9,602
Loss on extinguishment of debt	96	347	193	347
Restructuring expense	4	11	89	765
Trade secret litigation costs	—	306	34	2,787
Income tax benefit related to above items	(41)	(258)	(125)	(1,519)
Deferred tax valuation allowance and other discrete tax items	(76,147)	(1,172)	(80,554)	(2,798)
Unaudited adjusted net income attributable to ARC Document Solutions, Inc.	$4,198	$2,895	$13,616	$9,184
Actual:				
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
Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	$0.09	$0.06	$0.29	$0.20
Diluted	$0.09	$0.06	$0.29	$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

Results of Operations

(In millions, except percentages)	Three Months Ended September 30,		Increase (decrease)		Nine Months Ended September 30,		Increase (decrease)	
	2015	2014 (1)	$	%	2015	2014 (1)	$	%
CDIM	$54.7	$55.4	$(0.6)	(1.2)%	$168.2	$166.2	$2.0	1.2 %
MPS	35.9	36.5	(0.5)	(1.5)%	108.9	105.2	3.7	3.5 %
AIM	3.8	2.6	1.1	43.7 %	9.9	8.1	1.8	22.4 %
Total service sales	94.4	94.4	—	— %	287.0	279.6	7.5	2.7 %
Equipment and supplies sales	12.0	12.4	(0.3)	(2.8)%	37.1	36.6	0.5	1.3 %
Total net sales	$106.4	$106.8	$(0.4)	(0.4)%	$324.1	$316.2	$8.0	2.5 %
Gross profit	$35.9	$36.2	$(0.3)	(0.8)%	$112.8	$109.4	$3.5	3.2 %
Selling, general and administrative expenses	$25.8	$26.3	$(0.5)	(2.0)%	$80.4	$80.7	$(0.3)	(0.4)%
Amortization of intangibles	$1.4	$1.5	$(0.1)	(8.1)%	$4.3	$4.5	$(0.2)	(4.3)%
Restructuring expense	$—	$—	$—	(63.6)%	$0.1	$0.8	$(0.7)	(88.4)%
Loss on extinguishment of debt	$0.1	$0.3	$(0.3)	(72.3)%	$0.2	$0.3	$(0.2)	(44.4)%
Interest expense, net	$1.7	$3.8	$(2.1)	(55.6)%	$5.5	$11.6	$(6.2)	(53.0)%
Income tax provision	$(73.3)	$0.7	$(74.0)	(11,228.7)%	$(71.8)	$1.9	$(73.7)	(3,818.4)%
Net income attributable to ARC	$80.3	$3.7	$76.6	2,093.0 %	$94.0	$9.6	$84.4	878.7 %
Adjusted net income attributable to ARC	$4.2	$2.9	$1.3	45.0 %	$13.6	$9.2	$4.4	48.3 %
EBITDA	$17.0	$16.6	$0.4	2.4 %	$53.2	$48.7	$4.4	9.1 %
Adjusted EBITDA	$17.9	$18.3	$(0.4)	(2.1)%	$56.2	$55.2	$1.0	1.8 %

(1) Column does not foot due to rounding

The following table provides information on the percentages of certain items of selected financial data as a percentage of net sales for the periods indicated:

	As Percentage of Net Sales Three Months Ended September 30,		As Percentage of Net Sales Nine Months Ended September 30,	
	2015 (1)	2014 (1)	2015 (1)	2014 (1)
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	66.2	66.1	65.2	65.4
Gross profit	33.8	33.9	34.8	34.6
Selling, general and administrative expenses	24.3	24.7	24.8	25.5
Amortization of intangibles	1.3	1.4	1.3	1.4
Restructuring expense	—	—	—	0.2
Income from operations	8.2	7.8	8.6	7.4
Loss on extinguishment of debt	0.1	0.3	0.1	0.1
Interest expense, net	1.6	3.5	1.6	3.7
Income before income tax provision	6.6	4.0	6.9	3.6
Income tax (benefit) provision	(68.9)	0.6	(22.1)	0.6
Net income	75.5	3.4	29.1	3.0
(Income) loss attributable to the noncontrolling interest	—	—	(0.1)	—
Net income attributable to ARC	75.4 %	3.4 %	29.0 %	3.0 %
EBITDA	16.0 %	15.6 %	16.4 %	15.4 %
Adjusted EBITDA	16.8 %	17.1 %	17.3 %	17.5 %

(1) Column does not foot due to rounding

Three and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 2014

Net Sales

Net sales for the three months ended September 30, 2015 decreased by 0.4% compared to prior year primarily due to reduced sales in MPS and CDIM. Net sales in all sales categories for the nine months ended September 30, 2015, however, increased compared to prior year.

CDIM. Year-over-year sales of CDIM services decreased $0.6 million, or 1.2% in the third quarter. By contrast, year-over-year sales for the nine month period ended September 30, 2015 increased $2.0 million, or 1.2%.

For the three months ended September 30, 2015 CDIM services were negatively affected by a reduced demand for printed construction drawings driven by the ongoing adoption of technology replacing traditional print-based service offerings. For the nine months ended September 30, 2015, increased sales of the Company's digital document management services and realized sales from the acquisition of two color imaging businesses in the United Kingdom during the second quarter of 2014 outpaced sales declines resulting from the reduction in print-based service offerings. CDIM services represented 51% and 52% of total net sales for the three and nine months ended September 30, 2015, as compared to approximately 52% and 53% during the same periods in 2014, respectively.

MPS. Year-over-year sales of MPS services for the three months ended September 30, 2015 decreased by $0.5 million, or 1.5% due primarily to the optimization of our customers' in-house printing environment and the timing of new customer acquisitions. The Company's MPS offering delivers value to its customers by optimizing their print infrastructure, which in turn, will lower the print volume derived from the Company's MPS customers over time. Year-over-year sales of MPS services for the nine months ended September 30, 2015 increased $3.7 million, or 3.5%, primarily due to the benefit we are realizing in 2015 of the implementation of MPS with new Global Solutions customers in the first half of 2014. However, this benefit was partially offset by the print environment optimization achieved with existing customers.

Revenues from MPS Services sales represented approximately 34% of total net sales for both the three and nine months ended September 30, 2015, compared to 34% and 33% for the three and nine months ended September 30, 2014, respectively. MPS Services revenue is derived from two sources: 1) an engagement with the customer to place primarily large-format equipment, that we own or lease, at a construction site or in our customers' offices, and 2) an arrangement by which our customers outsource

their printing function to us, including all office printing, copying, and reprographics printing. In both cases this is recurring, contracted revenue with most contracts ranging from 3 to 5 years and we are paid a single cost per unit of material used, often referred to as a “click charge.”

The number of MPS accounts has grown to approximately 8,740 as of September 30, 2015, an increase of approximately 410 locations compared to September 30, 2014, due primarily to growth in new MPS placements in which customers outsource their entire printing function to us. We believe over time MPS is a high growth area for us as demonstrated by the adoption of our services by large, multi-national firms in the AEC space over the past several years. We intend to continue the expansion of our MPS offering through our regional sales force and through our national accounts group "Global Solutions". Our Global Solutions sales force has established long-term contract relationships with 22 of the largest 100 AEC firms. As MPS becomes a larger percentage of our sales, our overall sales will be less exposed to the seasonality associated with construction projects. MPS services are driven in large part by the number of customer employees at an office and largely by non-construction project related work such as office printing and copying.

AIM. Year-over-year sales of AIM Services increased by $1.1 million, or 43.7%, and $1.8 million, or 22.4%, for the three and nine months ended September 30, 2015, respectively. The growth in AIM was driven by new sales and the opening of dedicated AIM service centers in various U.S. locations. Achieving growth in AIM is a primary focus of our management, as we believe we have developed a valuable solution to offer our existing AEC customers and non-AEC customers who wish to leverage past intellectual property for present or future use, improve business process automation, facilitate cost savings over current hardcopy and digital storage methods, and to comply with regulatory and records retention requirements.

Equipment and Supplies Sales. Year-over-year sales of Equipment and Supplies decreased by $0.3 million, or 2.8% in the third quarter. By contrast, sales increased $0.5 million, or 1.3%, for the nine months ended September 30, 2015. The growth in equipment and supplies sales for the nine months ended September 30, 2015 was driven by a temporary increase in equipment sales in the Chinese market, which was offset by a decline in sales of equipment and supplies in the U.S. Equipment and Supplies Sales represented approximately 11% of total net sales for the three and nine months ended September 30, 2015, as compared to 12% for the for the three and nine months ended September 30, 2014. Equipment and Supplies Sales derived from UNIS Document Solutions Co. Ltd (“UDS”), our Chinese business venture, were $5.0 million and $15.2 million for the three and nine months ended September 30, 2015, as compared to $3.9 million and $12.3 million for the three and nine months ended September 30, 2014. Quarterly changes in Equipment and Supplies Sales are largely driven by the timing of replacements of aging equipment fleets for customers who prefer to own their equipment. In the long term we do not anticipate growth in Equipment and Supplies Sales in the United States or China, as we are placing more focus on growth in AIM and MPS sales and converting sales contracts to MPS agreements.

Gross Profit

During the three months ended September 30, 2015, gross profit decreased to $35.9 million from $36.2 million in the prior year on a sales decline of $0.4 million ,and gross margins remained relatively flat at 33.8%.

During the nine months ended September 30, 2015, gross profit and gross margin increased to $112.8 million, and 34.8%, compared to $109.4 million, and 34.6%, during the same period in 2014, on a sales increase of $8.0 million. We were able to achieve expansion of our gross margins of 20 basis points for the nine months ended September 30, 2015, due primarily to: (1) increased sales that allow us to better leverage our fixed costs and labor, and (2) margin expansion programs at our service centers and customer MPS locations. Specifically, year-over-year overhead costs as a percentage of sales decreased by approximately 20 basis points for the nine months ended September 30, 2015. Year-over-year labor costs as a percentage of sales decreased 20 basis points for the nine months ended September 30, 2015. Offsetting these declines was a temporary shift in our business mix during the quarter, including the increase in lower-margin equipment and supplies in China, which contributed to a 20 basis point increase in material costs as a percentage of consolidated sales for the nine months ended September 30, 2015, as compared to the same period in 2014.

Selling, General and Administrative Expenses

Selling, marketing, general and administrative expenses decreased $0.5 million and $0.3 million for the three and nine months ended September 30, 2015 compared to the same periods in 2014.

General and administrative expenses for the three and nine months ended September 30, 2015 decreased $0.2 million or 1.4%, and $1.6 million or 3.4% compared to the same periods in 2014. The reduction in expenses was primarily due to trade secret litigation costs incurred in prior year, which were partially offset by investments in general and administrative staff to support our new technology-enabled offerings.

Year-over-year sales and marketing expenses decreased $0.3 million and increased $1.3 million, for the three and nine months ended September 30, 2015, compared to the same periods in 2014. The decrease for the three months ended September 30, 2015 was primarily due to lower sales commissions as a result of our third quarter 2015 sales decrease. The year-over-year increase for the nine months ended September 30, 2015 was primarily driven by our continued investment in our sales team and sales initiatives, which included: (1) hiring of new sales and sales administrative personnel, (2) expanded training of new and existing sales personnel to implement specific sales initiatives supporting our MPS, AIM, and other technology-enabled offerings and (3) expanded marketing and advertising campaigns to support our newer product offerings such as SKYSITE and AIM.

Amortization of Intangibles

Amortization of intangibles of $1.4 million and $4.3 million for the three and nine months ended September 30, 2015 had a slight decrease compared to the same periods in 2014, primarily due to the completed amortization of certain customer relationships related to historical acquisitions.

Restructuring expense

Restructuring expenses for the nine months ended September 30, 2015 totaled $0.1 million, primarily consisting of revised estimated lease termination and obligation costs resulting from facilities closed in 2013.

For further information, please see Note 3 “Restructuring Expenses” to our Condensed Consolidated Financial Statements.

Loss on Extinguishment of Debt

As of September 30, 2015, we have paid $24.0 million in aggregate principal since the inception of our $175.0 million Term Loan Credit Agreement, which was $10.9 million more than the required principal payments for the nine months ended September 30, 2015. The $10.9 million pay down of the term loan resulted in a loss on the early extinguishment of debt of $0.1 million and $0.2 million for the three and nine months ended September 30, 2015.

Interest Expense, Net

Net interest expense totaled $1.7 million and $5.5 million for the three and nine months ended September 30, 2015, compared to $3.8 million and $11.6 million for the same periods in 2014. The decrease was primarily due to the refinancing of our previous Term B Loan Facility with an effective interest rate of 6.25% into a Term A Loan Facility in November 2014, which has an effective interest rate of 2.57% at September 30, 2015.

Income Taxes

We recorded an income tax benefit of $73.3 million and $71.8 million in relation to pretax income of $7.0 million and $22.4 million for the three and nine months ended September 30, 2015.

For the three and nine months ended September 30, 2015, our income tax benefit was primarily due to the reversal of the valuation allowance on certain of our deferred tax assets. At September 30, 2015, as a result of sustained profitability in the U.S. evidenced by three years of earnings and forecasted continuing profitability, we determined it was more likely than not future earnings will be sufficient to realize deferred tax assets in the U.S. Accordingly we reversed most of our U.S.valuation allowance resulting in non-cash income tax benefit of $76.1 million for the three months ended September 30, 2015. We continue to carry a $1.1 million valuation allowance against certain deferred tax assets as of September 30, 2015.

For the nine months ended September 30, 2015, our effective income tax rate would have been 39.7% after excluding valuation allowance reversals and certain nondeductible stock based compensation.

Our gross deferred tax assets remain available to us for use in future years until they fully expire. As of September 30, 2015, we had approximately $94.3 million of historical consolidated federal, $105.4 million of state and $2.1 million of foreign net operating loss and charitable contribution carryforwards available to offset taxable income in 2015 and future years. The federal net operating loss carryforward began in 2011 and will begin to expire in varying amounts between 2031 and 2034. The charitable contribution carryforward began in 2009 and will begin to expire in varying amounts between 2015 and 2019. The state net operating loss carryforwards expire in varying amounts between 2015 and 2034. The foreign net operating loss carryforwards begin to expire in varying amounts between 2015 and 2034.

Noncontrolling Interest

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Net income attributable to noncontrolling interest represents 35% of the income of UDS and its subsidiaries, which together comprise our Chinese joint-venture operations.

Net Income Attributable to ARC

Net income attributable to ARC was $80.3 million and $94.0 million, during the three and nine months ended September 30, 2015, as compared to $3.7 million and $9.6 million in the same periods in 2014. The increase in net income attributable to ARC in 2015 versus the prior year period is primarily due to the reversal of a previously established income tax valuation allowance.

EBITDA

EBITDA margin increased to 16.0% and 16.4% for the three and nine months ended September 30, 2015 from 15.6% and 15.4% for the same periods in 2014. Excluding the effect of stock-based compensation, loss on extinguishment of debt, legal fees associated with trade secret litigation, and restructuring expense, adjusted EBITDA margin decreased slightly to 16.8% and 17.3% during the three and nine months ended September 30, 2015, as compared to 17.1% and 17.5% for the same periods in 2014.

Impact of Inflation

We believe inflation has not had a significant effect on our operations. Price increases for raw materials, such as paper and fuel charges, typically have been, and we expect will continue to be, passed on to customers in the ordinary course of business.

Liquidity and Capital Resources

Our principal sources of cash have been operations and borrowings under our debt and lease agreements. Our recent historical uses of cash have been for ongoing operations, payment of principal and interest on outstanding debt obligations and capital expenditures.

Total cash and cash equivalents as of September 30, 2015 was $20.8 million. Of this amount, $13.5 million was held in foreign countries, with $12.2 million held in China.

Supplemental information pertaining to our historical sources and uses of cash is presented as follows and should be read in conjunction with our interim Condensed Consolidated Statements of Cash Flows and notes thereto included elsewhere in this report.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net cash provided by operating activities	$20,965	$15,311	$43,117	$37,049
Net cash used in investing activities	$(3,614)	$(3,325)	$(11,003)	$(9,864)
Net cash used in financing activities	$(11,365)	$(11,307)	$(33,381)	$(29,590)

Operating Activities

Cash flows from operations are primarily driven by sales and net profit generated from these sales, excluding non-cash charges.

The overall increase in cash flows from operations during the three and nine months ended September 30, 2015, over the same periods in 2014 were primarily due to the timing of sales and cash collections, and reduction in our interest expense resulting from both our debt refinancing in 2014 and reduction in principal of our Term A Loan Facility. These reductions were partially offset by a reduction in accrued bonuses, the timing of payables and accrued expenses, and a settlement payment of $1.0 million in March 2015 related to trade secret litigation. Days sales outstanding ("DSO") increased to 55 days as of September 30, 2015 compared to 54 as of September 30, 2014 due to the timing of collections. We continue our focus on the timely collection of our accounts receivable.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling $11.5 million and $10.0 million for the nine months ended September 30, 2015 and 2014, respectively. The increase in capital expenditures was primarily due to our decision to purchase more equipment in the second and third quarters of 2015 rather than leasing equipment to take advantage of vendor rebates. As we continue to foster our

relationships with credit providers and obtain attractive lease rates, we may increasingly choose to lease rather than purchase equipment in the future.

Financing Activities

Net cash of $33.4 million used in financing activities during the nine months ended September 30, 2015 primarily relates to payments on our debt agreements and capital leases. As of September 30, 2015, we have paid $24.0 million in aggregate principal amount since the inception of our $175.0 million Term Loan Credit Agreement, which was $10.9 million above the required principal payments.

Our cash position, working capital, and debt obligations as of September 30, 2015 and December 31, 2014 are shown below and should be read in conjunction with our Condensed Consolidated Balance Sheets and notes thereto contained elsewhere in this report.

(In thousands)	September 30, 2015	December 31, 2014
Cash and cash equivalents	$20,824	$22,636
Working capital	$40,847	$20,664
Borrowings from term loan facility and senior secured credit facility	$151,000	$173,000
Other debt obligations	29,419	30,885
Total debt obligations	$180,419	$203,885

The increase of $20.2 million in working capital in 2015 was primarily due to the reduction in the current portion of our long-term debt and capital leases of $10.7 million, the increase in accounts receivable of $2.6 million, a reduction in accrued expenses of $4.1 million, a decrease in accounts payable of $2.1 million, and an increase in the current portion of deferred taxes resulting from the reversal of our valuation allowance. These variances were partially offset by a decrease in cash of $1.8 million. The reduction in the current portion of our long-term debt and capital leases is due to the prepayment of principal on our Term A loan facility. The increase in accounts receivable was due primarily to the growth in sales of 2.5% during the nine months ended September 30, 2015, as compared to the same period in the prior year, and the timing of collections on those sales. The decrease in accounts payable and accrued expenses is primarily due to the timing of trade payables, a reduction in accrued employee bonuses, and the timing of interest payments related to our Term A Loan Facility. To manage our working capital, we chiefly focus on our DSO and monitor the aging of our accounts receivable, as receivables are the most significant element of our working capital.

We believe that our current cash balance of $20.8 million, the availability of cash under our revolving credit facility, the availability of cash under our equipment lease lines, and cash flows provided by operations should be adequate to cover the next twelve months of working capital needs, debt service requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. In addition, we may elect to finance certain of our capital expenditure requirements through borrowings under our revolving credit facility, which had no debt outstanding as of September 30, 2015, other than contingent reimbursement obligations for undrawn standby letters of credit described below that were issued under this facility. See “Debt Obligations” section for further information related to our revolving credit facility.

We generate the majority of our revenue from sales of services and products to the AEC industry. As a result, our operating results and financial condition can be significantly affected by economic factors that influence the AEC industry, such as non-residential and residential construction spending. Additionally, a general economic downturn may adversely affect the ability of our customers and suppliers to obtain financing for significant operations and purchases, and to perform their obligations under their agreements with us. We believe that credit constraints in the financial markets could result in a decrease in, or cancellation of, existing business, could limit new business, and could negatively affect our ability to collect our accounts receivable on a timely basis.

While we have not been actively seeking growth through acquisition during the last three years, the executive team continues to selectively evaluate potential acquisitions.

Debt Obligations

Term A Loan Facility

On November 20, 2014 we entered into a Credit Agreement (the “Term A Credit Agreement”) with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto.

The Term A Credit Agreement provides for the extension of term loans ("Term Loans") in an aggregate principal amount of $175.0 million, the entirety of which was disbursed on the Closing Date in order to pay outstanding obligations under the Company's Term Loan Credit Agreement dated as of December 20, 2013. The Term ACredit Agreement also provides for the extension of revolving loans in an aggregate principal amount not to exceed $30.0 million. The Company may request incremental commitments to the aggregate principal amount of Term Loans and Revolving Loans available under the Term A Credit Agreement by an amount not to exceed $75.0 million in the aggregate. Unless an incremental commitment to increase the Term Loan or provide a new term loan matures at a later date, the obligations under the Term A Credit Agreement mature on November 20, 2019.

Loans borrowed under the Term A Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.50% to 2.50%, based on the Company's Total Leverage Ratio (as defined in the Term A Credit Agreement). Loans borrowed under the Term A Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its "prime rate," plus (ii) a margin ranging from 0.50% to 1.50%, based on our Company's Total Leverage Ratio.

We will pay certain recurring fees with respect to the credit facility, including administration fees to the administrative agent.

Subject to certain exceptions, including in certain circumstances, reinvestment rights, the loans extended under the Term A Credit Agreement are subject to customary mandatory prepayment provisions with respect to: the net proceeds from certain asset sales; the net proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Term A Credit Agreement); the net proceeds from certain issuances of equity securities; and net proceeds of certain insurance recoveries and condemnation events of our Company.

The Term A Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of our Company and its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of our Company or its subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend their organizational documents; or enter into certain restrictive agreements. In accordance with the Term A Credit Agreement, we are permitted to pay dividends related to our equity securities payable solely in shares of equity securities. In addition, the Term A Credit Agreement contains financial covenants which requires us to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 3.25 to 1.00 through the Company's fiscal quarter ending September 30, 2016, and thereafter, in an amount not to exceed 3.00 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Term A Credit Agreement), as of the last day of each fiscal quarter, in an amount not less than 1.25 to 1.00.

The Term A Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; material inaccuracy of a representation or warranty when made; cross-default to other material indebtedness; bankruptcy, insolvency and dissolution events; inability to pay debts; monetary judgment defaults; actual or asserted invalidity or impairment of any definitive loan documentation, repudiation of guaranties or subordination terms; certain ERISA related events; or a change of control.

The obligations of the Company's subsidiary that is the borrower under the Term A Credit Agreement are guaranteed by the Company and each other United States domestic subsidiary of the Company. The Term A Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the credit facility or any affiliate of such a lender are secured on a first priority basis by a perfected security interest in substantially all of the borrower's, the Company's and each guarantor's assets (subject to certain exceptions).

Foreign Credit Agreement

In the third quarter of 2014, UDS, ARC's Chinese operations, entered into a revolving credit facility with a term of 12 months. The credit agreement expired in September 2015.

Capital Leases

As of September 30, 2015, we had $29.3 million of capital lease obligations outstanding, with a weighted average interest rate of 5.9% and maturities between 2015 and 2020.

Other Notes Payable

As of September 30, 2015, we had $0.2 million of notes payable outstanding, with an interest rate of 8.2% and maturities through 2019. These notes include notes payable collateralized by equipment previously purchased.

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations and Other Commitments

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

Contingent Transaction Consideration. We have entered into earnout obligations in connection with prior acquisitions. If the acquired businesses generate sales and/or operating profits in excess of predetermined targets, we are obligated to make additional cash payments in accordance with the terms of such earnout obligations. As of September 30, 2015, we recorded liabilities related to future earnout payments of $1.1 million. Liabilities related to future earnout payments are carried at fair value, and any changes in fair value at each reporting period, are recognized in our consolidated statement of operations.

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, LLC and American Reprographics Company in the State of California at any time from October 21, 2006 through the present—filed an action against us 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, we participated in a private mediation session with claimants' counsel which did not result in resolution of the claim. Subsequent to the mediation session, the mediator issued a proposal that was accepted by both parties. We have received preliminary court approval of the settlement, and we await final court approval. We recorded a liability of $1.1 million as of September 30, 2015 related to the claim, which represents management's best estimate of the probable outcome based on information available.

On February 1, 2013, we filed a civil complaint against a competitor and a former employee in the Superior Court of California for Orange County, which alleged, among other claims, the misappropriation of ARC trade secrets; namely, proprietary customer lists that were used to communicate with ARC customers in an attempt to unfairly acquire their business. In prior litigation with the competitor based on related facts, in 2007 the competitor entered into a settlement agreement and stipulated judgment, which included an injunction. We instituted this suit to stop the defendant from using similar unfair business practices against us in the Southern California market. The case proceeded to trial in May 2014, and a jury verdict was entered for the defendants. In the first quarter of 2015, we settled with the defendants and paid $1.0 million, which had been accrued as of December 31, 2014.

In addition to the matters described above, we are involved in various additional legal proceedings and other legal matters from time to time in the normal course of business. We do not believe that the outcome of any of these matters will have a material effect on our consolidated financial position, results of operations or cash flows.

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our 2014 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to goodwill, revenue recognition, and income taxes. There have been no material changes to our critical accounting policies described in our 2014 Annual Report on Form 10-K.

Goodwill Impairment

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

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In accordance with ASC 350, Intangibles—Goodwill and Other, we assesses goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired. At September 30, 2015, we performed our assessment and noted that one reporting unit failed step one of the impairment analysis; however, step two of the analysis is not yet final due to the complexity and significant amount of work required to calculate the implied fair value of goodwill. The preliminary analysis is subject to finalization, and will be completed in the quarter ended December 31, 2015. The preliminary results of step two of our goodwill impairment analysis indicate that there is no goodwill impairment and represents our best estimate; however, it is possible that material adjustments to our preliminary estimates may be required as the calculations are finalized.

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 our reporting units to their 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.

We determine the fair value of our reporting units using an income approach. Under the income approach, we determined fair value based on estimated discounted future cash flows of each 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. Our projections are driven, in part, by industry data gathered from third parties, including projected growth rates of the AEC industry by segment (i.e., residential and non-residential) and anticipated GDP growth rates, as well as company-specific data such as estimated composition of our customer base (i.e. non-AEC vs. AEC, residential vs. non- residential), historical revenue trends, and EBITDA margin performance of our reporting units. Our revenue projections for each of ARC's reporting units include the estimated respective customer composition for each reporting unit, year-to-date revenue at the time of the goodwill impairment analysis, and projected growth rates for the related customer types. Although we rely on a variety of internal and external sources in projecting revenue, our relative reliance on each source or trend changes from year to year. In 2012 and into 2013, we noted a continued divergence between our historic revenue growth rates and AEC non-residential construction growth rates, as well as the "dilution" of traditional reprographics as the Company's dominant business line. Therefore, we increased our reliance upon internal sources for our short-term and long-term revenue forecasts. Once the forecasted revenue was established for each of the reporting units based on the process noted above, using the current year EBITDA margin as a base line, we forecasted future EBITDA margins. In general, our EBITDA margins are significantly affected by (1) revenue trends and (2) cost management initiatives. Revenue trends impact our EBITDA margins because a significant portion of our cost of sales are considered relatively fixed therefore an increase in forecasted revenue (particularly when combined with any cost management or productivity enhancement initiatives) would result in meaningful gross margin expansion. Similarly, a significant portion of our selling, general, and administrative expenses are considered fixed. Hence, in forecasting EBITDA margins, significant reliance was placed on the historical impact of revenue trends on EBITDA margin.

The estimated fair values of our reporting units were based upon their respective projected EBITDA margins, which were anticipated to vary from a slight decline to a 90 basis point increase from 2015 to 2016, followed by year-over-year increases of less than 100 basis points in 2017 and beyond. These cash flows were discounted using a weighted average cost of capital ranging from 10% to 12%, depending upon the size and risk profile of the reporting unit. We considered market information in assessing the reasonableness of the fair value under the income approach described above.

The results of step one of the goodwill impairment test, as of September 30, 2015, were as follows:

(Dollars in thousands)	Number of Reporting Units	Representing Goodwill of
No goodwill balance	1	$—
Reporting units failing step one that continue to carry a goodwill balance	1	7,285
Fair value of reporting unit exceeds its carrying value by 15%-30%	2	45,946
Fair value of reporting unit exceeds its carrying value by more than 70%	3	159,377
	7	$212,608

Based on the Company's analysis, one of its reporting units that carried a goodwill balance at September 30, 2015 failed step one. The shortfall in step one of the analysis for the reporting unit was primarily related to the increase in its carrying amount driven by the reversal of the Company's valuation allowance against certain of its deferred tax assets at September 30, 2015.

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2015 and beyond, assuming all other assumptions remain constant, would result in no additional reporting units proceeding to step two of the analysis, and no impairment for the reporting unit failing step one of the analysis.

Based upon a separate sensitivity analysis, a 50 basis point increase to the weighted average cost of capital would result in no additional reporting units proceeding to step two of the analysis, and no impairment for the reporting unit failing step one of the analysis.

Given the current economic environment and the changing document and printing needs of our customers and the uncertainties regarding the effect on our business, there can be no assurance that the estimates and assumptions made for purposes of our goodwill impairment testing in 2015 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, we may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 2014, 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 we regularly perform our 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.

Income Taxes

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized. Changes in tax laws or accounting standards and methods may affect recorded deferred taxes in future periods.

In accordance with ASC 740-10, Income Taxes, we Company evaluates the need for deferred tax asset valuation allowances based
on a more likely than not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. We consider the following possible sources of taxable income when assessing the realization of deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback years; and
- Tax-planning strategies.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence factors, including but not limited to:

- Nature, frequency, and severity of recent losses;
- Duration of statutory carryforward periods;
- Historical experience with tax attributes expiring unused; and
- Near- and medium-term financial outlook.

It is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. We utilize a rolling three years of actual and current year anticipated results as the

primary measure of cumulative losses in recent years. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations. At September 30, 2015 as a result of sustained profitability in the U.S. evidenced by three years of earnings and forecasted continuing profitability, we determined it was more likely than not future earnings will be sufficient to realize deferred tax assets in the U.S. Accordingly we reversed most of our U.S.valuation allowance resulting in non-cash income tax benefit of $76.1 million for the three months ended September 30, 2015. We continue to carry a $1.1 million valuation allowance against certain deferred tax assets as of September 30, 2015.

In future quarters we will continue to evaluate our historical results for the preceding twelve quarters and our future projections to determine whether we will generate sufficient taxable income to utilize our deferred tax assets, and whether a partial or full valuation allowance is still required. Should we generate sufficient taxable income, however, we may reverse a portion or all of the then current valuation allowance.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries because such earnings are considered to be permanently reinvested.

The amount of taxable income or loss we report to the various tax jurisdictions is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management’s assessment of relevant risks, facts, and circumstances existing at that time. We use a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

For further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our interim condensed consolidated financial statements see our 2014 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 1, “Description of Business and Basis of Presentation” to our interim condensed consolidated financial statements for disclosure on recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is interest rate risk associated with our debt instruments. We use both fixed and variable rate debt as sources of financing. In 2014, we entered into a $175.0 million Term A Credit Agreement. Borrowings under the Term A Credit Agreement bear interest at a rate equal to an applicable margin plus a variable rate. As such, our Term A Credit Agreement exposes us to market risk for changes in interest rates. To manage our exposure to interest rate volatility associated with borrowings under our Term A Credit, we entered into interest rate cap agreements in the first quarter of 2015. We have not, and do not plan to, enter into any derivative financial instruments for trading or speculative purposes.

As of September 30, 2015, we had $180.4 million of total debt and capital lease obligations, of which approximately 16% was at a fixed rate, with the remainder at variable rates. Given our debt position at September 30, 2015, the effect of a 100 basis point increase in LIBOR on our interest expense would be approximately $1.1 million annually.

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not significant to our financial condition or results of operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 are recorded, processed, summarized, and reported within the time periods specified

in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2015. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the three months ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

This information is included under the caption “Legal Proceedings” in Note 7 to our Condensed Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Information concerning certain risks and uncertainties appears in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. You should carefully consider those risks and uncertainties, which could materially affect our business, financial condition and results of operations. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
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101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 6, 2015

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR
Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer

/s/ JORGE AVALOS
Jorge Avalos
Chief Financial Officer

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