

ARC DOCUMENT SOLUTIONS, INC.
Form 10-K
March 13, 2015

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

Form 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2014

or

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

For the transition period from _____ to _____
Commission File Number: 001-32407

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Based on the closing price of \$5.86 of the registrant's Common Stock on the New York Stock Exchange on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting common equity held by non-affiliates of the registrant on that date was approximately \$243,838,415.

As of February 27, 2015, there were 46,836,307 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement on Form 14A for its 2015 Annual Meeting of Stockholders are incorporated by reference in this Annual Report on Form 10-K in Part III.

ARC DOCUMENT SOLUTIONS, INC.
 ANNUAL REPORT ON FORM 10-K
 For the Fiscal Year Ended December 31, 2014
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ARC DOCUMENT SOLUTIONS, INC.

2014 ANNUAL REPORT ON FORM 10-K

In this Annual Report on Form 10-K, “ARC Document Solutions,” “ARC,” “the Company,” “we,” “us,” and “our” refer to ARC Document Solutions, Inc., a Delaware corporation, and its consolidated subsidiaries, unless the context otherwise dictates.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and variations of such words and similar expressions as they relate to our management or to 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 I, 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 report 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 Annual Report on Form 10-K 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 Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments thereto, as well as our proxy statements.

TRADEMARKS AND TRADE NAMES

We own or have rights to a number of trademarks, service marks, and trade names that we use in conjunction with the operation of our business, including the name and design mark “ARC Document Solutions,” “ARC American Reprographics Company®,” “PlanWell®,” “PlanWell PDS” “Riot Creative Imaging®” and various design marks associated therewith. We have a service mark application pending for “SKYSITE” with the United States Patent and Trademark Office (USPTO). In addition, we own or have rights to various trademarks, service marks, and trade names that we use regionally in conjunction with our operations. This report also includes trademarks, service marks and trade names of other companies.

PART I

Item 1. Business

Our Company

ARC Document Solutions, Inc. (“ARC Document Solutions,” “ARC,” “we,” “us,” or “our”), a Delaware corporation, is a leading document solutions provider to businesses of all types, with an emphasis on the non-residential segment of the architecture, engineering and construction (“AEC”) industry. We help our customers reduce their costs and improve efficiency in the use of their documents, improve their access and control over documents, and offer a wide variety of ways to print, produce, distribute, collaborate on, and store documents.

Our offerings include:

Managed Print Services (“MPS”) – An onsite service where we install a complete document solution platform in our customers’ offices on an outsourced basis. We use our proprietary software, Abacus, to capture, control, manage, print, account for and store documents. We also supply, maintain, and manage entire office printing networks, including printing equipment. We bill for this service on a per-use basis and issue a single consolidated invoice.

Facilities Management (“FM”) – An onsite service where we install large-format print devices and other related equipment in our customers’ offices on an outsourced basis, primarily for construction-related project printing. We provide customers with complete cost recovery programs enabled by our proprietary software, Abacus, which allows our customers to capture and pass through their project expenses related to print. We bill for this service on a per-use basis and issue a single consolidated invoice.

Offsite Services – We operate 178 offsite service centers in major metropolitan markets in the U.S. and abroad which offer our MPS and FM customers flexibility and overflow capacity during peak workloads, as well as local support and maintenance staff. Our service centers also provide local customers with high-volume, project-related printing of construction documents, and increasingly support and enhance our customers’ scanning needs in archive and information management (“AIM”) services.

Archive and Information Management (“AIM”) – We enable our customers to store information and intellectual property in a cloud-based and searchable digital archive. We do this by scanning existing paper documents or importing digital documents, organizing them, and storing them in our proprietary content management software. We also offer the ability to add documents to the digital archive as they are printed.

Specialized Color Printing – We operate a nationwide network of production centers focused on color printing, finishing, and assembly of graphic materials for regional and national retailers, franchises, marketing departments, theme parks, and cultural institutions.

Web-Based Document Management Applications – We develop and offer proprietary tools to our customers that facilitate project collaboration, manage print networks, track equipment fleets, create and maintain project document archives, and other document and content management tasks.

Digital Shipping / Managed File Transfer – We enable our customers to “distribute-then-print” documents rather than printing locally and then shipping physical documents to their final destination. Using our cloud-based software, ishpdocs, we save our customers time, money, and support their “green” business practices by digitally transmitting document files closest to their delivery point, and then printing and delivering locally from an ARC service center or from one of our partner locations around the world.

Equipment and Supplies Sales – We sell equipment and supplies primarily to customers in the AEC industry and provide ancillary services such as service and maintenance.

The combination of our services allows us to provide a comprehensive document management ecosystem where any document, anywhere in the enterprise, can be captured, stored, managed, accessed, and distributed anywhere in the world.

Our online services are administered via a powerful cloud solution hosted by Amazon which provides best-in-class speed, reliability, scalability and security. In January 2015, we launched SKYSITE, an integrated cloud-based construction document management solution with automated mobile and desktop syncing capabilities.

We believe we are the largest document solutions provider to the AEC market in North America, and the only national provider offering onsite, offsite and cloud-based document management solutions for regional, national and global

customers. We offer comprehensive services across geographical boundaries and frequently bill under a single monthly invoice, consolidating purchasing, vendor relations, and administration for companies seeking a unified document management platform.

We serve our clients' onsite in their offices in approximately 8,500 locations, and offsite or virtually through a combination of 178 service centers globally, a variety of web-based applications and software, and a global network of service partners. We operate in major metropolitan markets across the U.S., with meaningful operations in China, Canada, and the United Kingdom.

Our origins lie in the reprographics industry and we still maintain robust reprographics operations. We believe that we are the largest reprographics company in the United States as measured by revenue, number of customers, and number of service centers.

Our base of more than 90,000 customers includes most of the largest AEC firms in North America, and many of the top design and construction companies in the world. Our legacy as the largest reprographics company in the U.S. has allowed us to leverage our relationships, domain expertise, and national presence as we have evolved into a technology-enabled document solutions company.

Our largest customers are served by a corporate sales force called Global Solutions. This sales force is focused on large regional and national customers. Our diverse customer base results in no individual customer accounting for more than 4% of our overall revenue.

ARC was organized as a limited liability company under the name American Reprographics Holdings L.L.C. ("Holdings") in 1997. In 2005, we reorganized as a Delaware corporation in connection with our initial public offering. While our service centers historically marketed their offerings under local brand names, we consolidated our operations under a single brand, "ARC," in 2011 in order to highlight the scope and scale of our business, and to generate synergies in our overall national marketing efforts to the consolidating AEC market. At the end of 2012 we formally changed our corporate name to "ARC Document Solutions, Inc.," leaving our New York Stock Exchange ticker symbol "ARC" unchanged. We conduct our operations through our wholly-owned subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

Principal Products and Services

We report revenues from our service and product offerings under the following categories:

Onsite Services consists of MPS and FM service offerings.

Digital Services consists of digital document management services of all kinds, including AIM, "digital shipping" and managed file transfer, software licensing, and technology consulting services.

Color Services consists of specialized digital color printing and finishing services for our non-AEC and traditional AEC customer base. This includes services provided under our Riot Creative Imaging brand.

Traditional Reprographics consists of the management, distribution and print-on-demand of black and white construction drawings (frequently referred to as "blueprints") and specification books, with the majority of revenue reported from the sale of large- and small-format black and white printing. These services are provided "off customer site" at our service centers.

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

Operations

Our products and services are available from any of our 178 service centers around the world, and nearly all of our services can be made available in our customers' offices. Our geographic presence is concentrated in the U.S., with additional service centers in Canada, China, and the United Kingdom. Our corporate headquarters are located in Walnut Creek, California.

Historically, our business grew through acquisitions to expand our share of the reprographics market and enhance our geographic footprint to serve our larger customers. Since our inception we have acquired more than 140 companies. As we have consolidated, diversified our service offerings, and optimized our operations during the past several years, we have limited recent acquisition activity in order to focus on organic sales growth. Our origin as a company was in California, and our early acquisition activity was concentrated there. We still derive approximately 30% of our total revenue from California.

We operate a technology center in Silicon Valley with approximately 20 employees who develop, maintain, and support our software. We operate a similar facility in Kolkata, India, with approximately 140 employees who, in addition to supporting our efforts of our Silicon Valley team, also support our research and development efforts. All of our production facilities are connected via a high-performance, dedicated, wide-area network, to facilitate data transmissions to and from our customers, our operating facilities and our cloud hosted by Amazon. We employ a combination of proprietary and industry-leading technologies to provide redundancy, backup and security of all data in our systems.

Historically, the majority of our revenue has been derived from customers engaged in the seasonal, non-residential construction market. While our Traditional Reprographics business is still influenced by the non-residential seasonality and building cycles, our other offerings are less so. Onsite Services are driven by the generation of office documents and our customers' desire to improve business processes and reduce print-related costs. Color Services are affected by retail marketing calendars, advertising campaigns, as well as the marketing needs of our architectural and real estate development clients. Our Digital Services are influenced primarily by the desire for document workflow improvements and our ability to market our technology-based solutions. Equipment and Supplies Sales are driven by purchasing cycles of individual customers, as well as by new features and advancements by manufacturers. As of December 31, 2014, the company employed approximately 2,600 employees.

Our Customers and Markets

We serve both the enterprise and project content management needs of companies primarily within the AEC industry. Our customers include senior management teams, IT and procurement departments, project architects, engineers, general contractors, and others.

The mix of services demanded by the AEC industry continues to shift toward document management for a wide variety of document types provided at customer locations (represented primarily by our Onsite Services revenues), and away from its historical emphasis on printing of large-format black and white construction drawings in our service centers (represented primarily by our Traditional Reprographics revenue line). We believe the market forces of the recent recession and its aftermath are causing our customers in the construction industry to emphasize efficiency in their production and distribution of printed documents, to reduce their dependence on print as it relates to construction projects, and to improve access and control over all the documents related to their business. We also believe that consolidation in the AEC industry is contributing to this trend as companies seek to reduce costs, eliminate redundant business practices, and procure products and services from vendors who can centrally serve their business with a comprehensive offering.

We believe that these trends are advantageous to us for four reasons: first, we are well-positioned to provide our customers with web applications and cloud-based offerings to meet their demand for technology-enabled content management services; second, our diversification into services such as MPS allow us to capture long-term contracted revenue streams that are less exposed to the volatility and cyclicity of project-related printing; third, as our customers merge, consolidate, and grow larger, we believe ARC becomes a more compelling choice because of our extensive geographic reach and ability to act as a single-source supplier of document solutions; and fourth, our market-leading presence as a traditional reprographer in major metropolitan areas allows us to capture large-format printing and document management work associated with local building projects.

In addition to the AEC industry, we also provide document management and printing services to customers in the retail, technology, entertainment, and healthcare industries, among others. A significant portion of our non-AEC revenues are derived from supplying Color Services to customers with short-run, high quality, frequently updated promotional, advertising and marketing materials. We market these services under a separate brand known as Riot Creative Imaging. Likewise, our Digital Services appeal to companies outside of the construction industry, but with similar document management needs, including manufacturers, airlines, and healthcare/hospital companies.

In general, we address customers based on size and geographic reach. Local markets tend to be highly fragmented with a wide variety of specialized, geographically differentiated business practices. We serve smaller customers in these markets with service offerings aligned with local market expectations. Larger regional, national and international customers often consolidate purchasing and the acquisition of services through a single corporate department, and seek centralized management of document solutions. We serve these customers with a corporate sales force called Global Solutions.

Competition

The level of competition varies in each of the areas in which we provide services. Further, we believe we are unique; that no other company provides the complete portfolio of services and products we provide. We compete with different firms in our different business lines who can provide a portion of our services. However, we do not know of any other firm that can provide a full suite of physical and digital content management services similar to our offering. We believe service levels, breadth of offering, terms and conditions, price, quality, responsiveness, and convenience

to the customer are competitive elements in each of the industry segments in which we compete. In addressing larger local and regional customers, there are several companies that provide onsite and reprographic print services, but in general these companies cannot provide or integrate software or technology that enables the digital management of documents and centralized cost control management that we provide. More specifically, in our local onsite services, we often compete against print equipment resellers. These resellers are limited to enabling customers' print needs by selling or leasing print

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equipment to the customer and the customer thereby incurs a fixed cost. In comparison, our customers pay per use and take advantage of our print recovery and document management software, Abacus and PlanWell. In our Traditional Reprographics and Color Services businesses, local copy shops and self-serve franchises are often aggressive competitors for printing business, but rarely offer the breadth of document management and logistics services we do. With regard to large national and international customers, there are no other document solutions companies in the U.S. with the national presence and global reach that we have established, but we often compete against equipment manufacturers and business suppliers who offer some of the same products and services we do. Related services are offered by large printing/multifunctional device manufacturers such as Xerox, Canon, Konica Minolta, Ricoh, and Sharp, but most offerings from these companies are focused on selling equipment as opposed to ARC's offering of comprehensive document management services for both project and enterprise documents. Further, our deep knowledge of the AEC industry document workflows, which is incorporated into our software, provides us an advantage against local printers and national equipment manufacturers.

We believe that we have a strong competitive position in the marketplace for the following reasons:

Strong domain expertise: No other national vendor/service provider possesses the document management and technology expertise that we have in the AEC market. Construction professionals have highly specialized needs in document capture, short-term storage, management, fulfillment, distribution, and archival services. We believe our domain expertise is unmatched thanks to our legacy in reprographics and software development.

Customer relationships in AEC industry: Our relationships with our local customers frequently span generations, and we do business with nearly all of the top 100 AEC companies in the U.S. In addition, our Global Solutions sales force has established long-term contract relationships with 22 of the largest 50 AEC firms. We believe this provides a competitive advantage by leveraging our success through referrals.

Service center footprint: We possess an extensive national network of service centers creating an extraordinary distribution and customer service solution that can cater to both large and small customers. We operate service centers in more than 140 cities in the U.S., and in 37 states. We also have a significant market presence in Canada and China, and growing operations in India and the U.K. We are not aware of any other provider of MPS that has as extensive a network to supplement their onsite services and provide overflow and remote document management and printing capabilities.

Equipment agnostic: We are not required to sell or use any particular brands of equipment, nor do we manufacture equipment. We are free to place the products best suited for the required task in our own service centers or in our customers' offices, regardless of manufacturer. Additionally, with respect to our Onsite Services, as our customers' document management needs evolve over their respective contract terms, we have the ability to replace the equipment previously deployed to ensure that the equipment placed at our customers' sites are best suited for the required tasks. This, combined with the competitive market for printing and imaging products, provides us with an advantage relative to onsite service providers owned by equipment manufacturers.

Capabilities in a wide variety of formats: Several equipment manufacturers who also market managed print services do not produce the full range of large- and small-format equipment demanded by the AEC, manufacturing, and building industries. In addition, we are not aware of any manufacturers that provide the breadth of services and technology related to large- and small-format document production that we possess.

Unique combination of Onsite, Offsite, and Cloud-based offerings: We are the only national company that integrates (1) document production at customer sites (Onsite), (2) document production at company service centers (Offsite), and (3) digital management of documents in the cloud. We have proprietary technology built by our own development team that interacts with our production machines. We believe we are the only company that both develops document management software and manages the equipment that produces documents.

Suppliers and Vendors

We purchase or lease equipment for use in our production facilities and at our customers' sites. We also purchase paper, toner and other consumables for the operation of our and our customers' production equipment. As a high-volume purchaser, we believe we receive favorable prices as compared to other service providers, and price increases have been historically passed on to customers.

Our primary vendors of equipment, maintenance services, and reprographics supplies include Canon Solutions America (Océ), Azerty, and Veritiv, formerly Xpedx. Purchases from these vendors during 2014 comprised approximately 33% of our total purchases of inventory and supplies. Although there are a limited number of suppliers that could supply our inventory, we believe any shortfalls from existing suppliers would be absorbed from other suppliers on comparable terms.

Research and Development

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We conduct research and development to support the design and testing of new technology or enhancements and maintenance to existing technology. Such costs are expensed as incurred primarily recorded to cost of sales. In total, research and development costs amounted to \$6.3 million, \$5.5 million, and \$5.4 million during the fiscal years ended December 31, 2014, 2013, and 2012, respectively.

Proprietary Rights

We rely on a combination of copyright, trademark and trade secret laws, license agreements, nondisclosure and non-competition agreements, reseller agreements, customer contracts, and technical measures to establish and protect our rights in our proprietary technology. We also rely on a variety of technologies that are licensed from third parties to perform key functions.

We have registered “ARC Document Solutions,” as well as our historical name and logo, “ARC American Reprographics Company,” as service marks in the U.S. with the United States Patent and Trademark Office (USPTO). We have a service mark application, pending registration, for “SKYSITE” with the USPTO, and we have registered “PlanWell,” “PlanWell PDS” and “Riot Creative Imaging” as trademarks with the USPTO and in other countries. We do not own any other registered trademarks or service marks, or any patents, that are material to our business.

For a discussion of the risks associated with our proprietary rights, see Item 1A — “Risk Factors — Our failure to adequately protect the proprietary aspects of our technology, including SKYSITE, PlanWell, and Abacus, may cause us to lose market share.”

Executive Officers of the Registrant

The following sets forth certain information regarding all of our executive officers as of March 3, 2015:

Name	Age	Position
Kumarakulasingam Suriyakumar	61	Chairman, President and Chief Executive Officer Director
Jorge Avalos	39	Chief Financial Officer
Rahul K. Roy	55	Chief Technology Officer
Dilantha Wijesuriya	53	Chief Operating Officer
D. Jeffery Grimes	51	Vice President, Senior Corporate Counsel and Corporate Secretary

Kumarakulasingam (“Suri”) Suriyakumar has served as our President and Chief Executive Officer since June 1, 2007, and he served as the Company’s President and Chief Operating Officer from 1991 until his appointment as Chief Executive Officer. On July 24, 2008, Mr. Suriyakumar was appointed Chairman of our Board of Directors.

Mr. Suriyakumar served as an advisor of Holdings from March 1998 until his appointment as a director of the Company in October 2004. Mr. Suriyakumar joined Micro Device, Inc. (our predecessor company) in 1989. He became the Vice President of Micro Device, Inc. in 1990. Prior to joining the Company, Mr. Suriyakumar was employed with Aitken Spence & Co. LTD, a highly diversified conglomerate and one of the five largest corporations in Sri Lanka.

Jorge Avalos was appointed Chief Financial Officer of the Company on February 1, 2015. Prior to his appointment to Chief Financial Officer, Mr. Avalos served as Chief Accounting Officer and Vice President Finance of the Company, positions he held since April 14, 2011. Mr. Avalos joined the Company in June 2006 as the Company’s Director of Finance, and became the Company’s Corporate Controller in December 2006, and Vice President, Corporate Controller in December 2010. From March 2005 through June 2006, Mr. Avalos was employed with Vendare Media Group, an online network and social media company, as its controller. From September 1998 through March 2005, Mr. Avalos was employed with PricewaterhouseCoopers LLP, a global professional services firm focusing on audit and assurance, tax and advisory services.

Rahul K. Roy joined Holdings as its Chief Technology Officer in September 2000. Prior to joining the Company, Mr. Roy was the founder, President and Chief Executive Officer of MirrorPlus Technologies, Inc., which developed software for the reprographics industry, from August 1993 until it was acquired by the Company in 1999. Mr. Roy

also served as the Chief Operating Officer of InPrint, a provider of printing, software, duplication, packaging, assembly and distribution services to technology companies, from 1993 until it was acquired by the Company in 1999. Dilantha ("Dilo") Wijesuriya joined Ford Graphics, a former division of the Company, in January 1991. He subsequently became president of that division in 2001, and became a Company regional operations head in 2004, which position he retained until his appointment as the Company's Senior Vice President, National Operations in August 2008. Mr. Wijesuriya was appointed Chief Operating Officer of the Company on February 25, 2011. Prior to his employment with the Company, Mr. Wijesuriya was

a divisional manager with Aitken Spence & Co. LTD, a highly diversified conglomerate and one of the five largest corporations in Sri Lanka.

D. Jeffery Grimes was appointed Vice President, Senior Corporate Counsel and Corporate Secretary in March 2014. Prior to joining the Company, Mr. Grimes was Vice President, Legal Affairs, General Counsel and Corporate Secretary of Aradigm Corporation, a publicly traded specialty pharmaceutical company focused on the development and commercialization of drug products for severe respiratory diseases. From 2000 to 2013, Mr. Grimes worked as in-house counsel for medical device, specialty pharmaceutical, and technology companies serving in various senior corporate legal roles. Mr. Grimes received joint J.D./M.B.A. degrees and a Bachelor's degree in Finance, from University of Colorado at Boulder.

Available Information

ARC Document Solutions, Inc. uses its corporate website, www.e-arc.com, as a channel for routine distribution of important information, including news releases, analyst presentations and financial information. The company files with or furnishes to the SEC Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, as well as proxy statements and annual reports to shareholders, and, from time to time, other documents. The reports and other documents filed with or furnished to the SEC are available to investors on or through our corporate website free of charge as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. In addition, the public may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site located at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers, such as ARC, that file electronically with the SEC. ARC's SEC filings and other documents pertaining to the conduct of its business can be found on the "Investors" page of its website. These documents are available in print to any shareholder who requests a copy by writing or by calling ARC Document Solutions.

Item 1A. Risk Factors

Our business faces significant risks. The following risk factors could adversely affect our results of operations and financial condition and the price of our common stock. We may encounter risks in addition to those described below. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair or adversely affect our results of operations and financial condition.

We are highly dependent on the architectural, engineering and construction (AEC) industry and any decline in that industry could adversely affect our future revenue and profitability.

We estimate that customers in the AEC industry accounted for approximately 77% of our net sales for the year ended December 31, 2014, therefore our results largely depend on the strength of that industry. Our historical operating results reflect the cyclical and variable nature of the AEC industry. We believe that the industry generally experiences downturns several months after a downturn in the general economy, and that there may be a similar delay in the recovery of the AEC industry following a recovery of the general economy. A downturn in the AEC industry would diminish demand for some of our products and services, and would therefore negatively affect our revenues and have a material adverse effect on our business, operating results and financial condition.

Adverse domestic and global economic conditions and disruption of financial and commercial real estate markets could have a material adverse effect on our business and results of operations.

During the past several years, domestic and international financial markets have experienced significant disruption, including, among other things, extreme volatility and severely diminished liquidity and credit availability. These developments and the related severe domestic and international economic downturn could adversely affect our business and financial condition in a number of ways, including effects beyond those that were experienced in recent previous recessions. A prolonged economic downturn may adversely affect the ability of our customers and suppliers to obtain financing and to perform their obligations under agreements with us. These restrictions could result in a decrease in, or cancellation of, existing business, could limit new business, and could negatively affect our ability to collect on our accounts receivable on a timely basis, if at all. These events may, in the aggregate, have a material

adverse effect on our results of operations and financial condition.

Because a significant portion of our overall costs are fixed, our earnings are highly sensitive to changes in revenue.

Our network of service centers, equipment and related support activities involves substantial fixed costs which cannot be adjusted quickly to respond to declines in demand for our services. We estimate approximately 36% of our overall costs were fixed for the year ended December 31, 2014. As a consequence, our results of operations are subject to relatively high levels of

volatility and our earnings could deteriorate rapidly in the face of declining revenues because our ability to reduce fixed costs in the short-term is limited. If we fail to manage our fixed costs appropriately, or to maintain adequate cash reserves to cover such costs, we may suffer material adverse effects on our results of operations and financial condition.

Impairment of goodwill may adversely affect future results of operations.

We have intangible assets, including goodwill and other identifiable acquired intangibles on our balance sheet due to prior acquisitions. At September 30, 2014, we assessed goodwill for impairment and determined that goodwill was not impaired.

The results of our impairment analysis are as of a particular point in time. If our assumptions regarding future forecasted revenue or profitability of our reporting units are not achieved, we may be required to record additional goodwill impairment charges in future periods, if any such change constitutes a triggering event prior to the quarter in which we perform our annual goodwill impairment test.

Competition in our industry and innovation by our competitors may hinder our ability to execute our business strategy and adversely affect our profitability.

The markets for our products and services are highly competitive, with competition primarily at local and regional levels. We compete primarily based on the level and quality of customer service, technological leadership, and price. Our future success depends, in part, on our ability to continue to improve our service and product offerings, and develop and integrate new technology solutions. In addition, current and prospective customers may decide to perform certain services themselves instead of outsourcing these services to us. These competitive pressures could adversely affect our sales and consolidated results of operations.

We also face the possibility that competition will continue to increase, particularly if copy and printing or business services companies choose to compete in lines of business similar to ours. Many of these companies are substantially larger and have significantly greater financial resources than us, which could place us at a competitive disadvantage. In addition, we could encounter competition in the future from large, well-capitalized companies such as equipment dealers and system integrators that can produce their own technology and leverage their existing distribution channels. Any such future competition could adversely affect our business and reduce our future revenue and profitability. If we are unable to charge for our value-added services to offset declines in print volumes, our long-term revenue could decline.

Our customers value the ability to view and order prints over the internet and print to output devices in their own offices and other locations throughout the country and the world. In 2014, our Traditional Reprographics sales represented approximately 27% of our total net sales, and our Onsite Services represented approximately 32% of our total net sales. Both categories of revenue are generally derived from a charge per square foot of printed material. Future technology advances may further facilitate and improve our customers' ability to reduce print and the associated costs thereof. As technology continues to improve, this trend toward printing on an "as needed" basis could result in further decreased printing volumes and sales decline in the longer term. Failure to offset these declines in printing volumes by changing how we charge for our services and develop additional revenue sources could significantly affect our business and reduce our long term revenue, resulting in an adverse effect on our results of operations and financial condition.

We derive a significant percentage of net sales from within the State of California and our business could be disproportionately harmed by an economic downturn or natural disaster affecting California.

We derived approximately 30% of our net sales in 2014 from our operations in California. As a result, we are dependent to a large extent upon the AEC industry in California and, accordingly, are sensitive to economic factors affecting AEC activity in California, including general and local economic conditions, macroeconomic trends, political factors affecting commercial and residential real estate development and natural disasters (including drought, earthquakes and wildfires). Any adverse developments affecting California could have a disproportionately negative effect on our results of operations and financial condition.

Our growth strategy depends, in part, on our ability to successfully market and execute several different, but related, service offerings. Failure to do so could impede our future growth and adversely affect our competitive position.

As part of our growth strategy, we intend to continue to offer and grow a variety of service offerings that are relatively new to the company. Our efforts will be affected by our ability to acquire new customers for our new service offerings as well as sell the new service offerings to existing customers. If we fail to procure new customers, our growth may be adversely affected and we may incur operating losses as a result of a failure to realize revenue from investments made in new service offerings.

We are dependent upon our vendors to continue to supply us equipment, parts, supplies, and services at comparable terms and price levels as the business grows.

Our access to equipment, parts, supplies, and services depends upon our relationships with, and our ability to purchase these items on competitive terms from our principal vendors. These vendors are not required to use us to distribute their equipment and are generally free to change the prices and other terms at which they sell to us. In addition, we compete with the selling efforts of some of these vendors. Significant deterioration in relationships with, or in the financial condition of, these significant vendors could have an adverse effect on our ability to sell equipment as well as our ability to provide effective service and technical support. If one of these vendors terminates or significantly curtails its relationship with us, or if one of these vendors ceases operations, we would be forced to expand our relationships with our other existing vendors or seek out new relationships with previously unused vendors.

Our failure to adequately protect the proprietary aspects of our technology, including SKYSITE®, PlanWell® and Abacus®, may cause us to lose market share.

Our success depends on our ability to protect and preserve the proprietary aspects of our technology products. We rely on a combination of copyright, trademark and trade secret protection, confidentiality agreements, license agreements, non-competition agreements, reseller agreements, customer contracts, and technical measures to establish and protect our rights in our proprietary technologies. These protections, however, may not be adequate to remedy harm we suffer due to misappropriation of our proprietary rights by third parties. Furthermore, we may, from time to time, be subject to intellectual property litigation which can be expensive, a burden on management's time and our Company's resources, and the outcome of any such litigation may be uncertain.

In performing our document management services, we handle customers' confidential information. Our failure to protect our customers' confidential information against security breaches could damage our reputation, harm our business and adversely affect our results of operations.

Our document management services involve the handling of our customers' confidential information. Any compromise of security, accidental loss or theft of customer data in our possession could damage our reputation and expose us to risk of liability, which could harm our business and adversely affect our consolidated results of operation.

Added risks are associated with our international operations.

We have international operations in China, India, the United Kingdom, Canada, Hong Kong and Australia.

Approximately 14% of our revenues for fiscal 2014 were derived from our international operations, with approximately 7% derived from China. Our future revenues, costs of operations and net income could be adversely affected by a number of factors related to our international operations, including changes in economic conditions from country to country, currency fluctuations, changes in a country's political condition, trade protection measures, licensing and other legal requirements and local tax issues.

A large percentage of our cash and cash equivalents are held outside of the United States, and we could be subject to repatriation delays and costs which could reduce our financial flexibility.

A large percentage of our cash and cash equivalents are currently held outside the United States. Repatriation of some of the funds could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result of holding cash and cash equivalents outside of the U.S., our financial flexibility may be reduced.

Our business could suffer if we fail to attract, retain, and successfully integrate skilled personnel.

We believe that our ability to attract, retain, and successfully integrate qualified personnel is critical to our success. As we continue to place more emphasis on document management and storage technology, our need to hire and retain software and other technology focused personnel has and can be expected to continue to increase. Competition for such personnel, particularly in the San Francisco Bay Area, is intense. If we lose key personnel and/or are unable to recruit qualified personnel, our ability to manage and grow our business will be adversely affected. In addition, the loss of the services of one or more members of our senior management team would disrupt our business and impede our ability to successfully execute our business strategy.

The market prices of our common stock may be volatile, which could cause the value of an investment in our stock to decline.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control. Between January 1, 2014 and March 6, 2015, the closing price of our common stock has fluctuated from a low of \$5.43 to a high of \$10.36 per share. Factors that may contribute to fluctuations in the market prices of our common stock include:

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- failure to sustain an active, liquid trading market for our shares;
- changes in financial estimates or recommendations by securities analysts or failure to meet analysts' performance expectations;
- changes in market valuations of similar companies;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- sales of our capital stock by our directors or executive officers;
- the gain or loss of significant customers;
- actual or anticipated developments in our business or our competitors' businesses, such as announcements by us or our competitors of significant contracts, acquisitions or strategic alliances, or in the competitive landscape generally;
- litigation involving us, our industry or both;
- additions or departures of key personnel;
- investors' general perception of us; and
- changes in general economic, industry and market conditions.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our common stock.

In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention as well as our other resources and could have a material adverse effect on our business, results of operations and financial condition.

Damage or disruption to our facilities, including our technology center, could impair our ability to effectively provide our services and may have a significant effect on our revenues, expenses and financial condition.

Our IT systems are an important part of our operations. We currently store customer data at servers hosted by Amazon and at our technology center located in Silicon Valley near known earthquake fault zones. Although we have redundant systems and offsite backup procedures in place, interruption in service, damage to or destruction of our technology center or a disruption of our data storage processes resulting from sustained process abnormalities, human error, acts of terrorism, violence, war or a natural disaster, such as fire, earthquake or flood, could result in delays, in reduced levels of customer service and have a material adverse effect on the markets in which we operate and on our business operations.

Although we currently maintain general property damage insurance, if we incur losses from uninsured events, we could incur significant expenses which would adversely affect our results of operations and financial condition.

Results of tax examinations may adversely affect our future results of operations.

We are subject to various tax examinations on an ongoing basis. Adverse results of tax examinations for income, payroll, value added, sales-based and other taxes may require future material tax payments if we are unable to sustain our position with the relevant jurisdiction. Where appropriate, we have made accruals for these matters which are reflected in our Consolidated Balance Sheets and Statements of Operations.

Our debt instruments impose certain restrictions on our ability to operate which in turn could negatively affect our ability to respond to business and market conditions and therefore could have adverse effect on our business and results of operations.

As of December 31, 2014, we had \$203.9 million in outstanding short and long-term borrowings under term loans, lines of credit, and capital leases, excluding trade payables. The terms of the agreements under which this indebtedness was incurred may limit or restrict, among other things, our ability to incur certain additional debt, make certain restricted payments, consummate certain asset sales, and enter into certain transactions with affiliates.

We are also required to maintain specified financial ratios, including leverage and fixed charge coverage ratios, as outlined in our Term A Credit Agreement. Our inability to meet these ratios could result in the acceleration of the repayment of the related

debt, the termination of our revolving line of credit, the increase in our effective cost of funds or the cross-default of other credit arrangements. As a result, our ability to operate may be restricted and our ability to respond to business and market conditions may be limited, which could have an adverse effect on our business and operating results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At the end of 2014, we operated 178 service centers, of which 156 were in the United States, 9 were in Canada, 10 were in China, 2 were in London, England and 1 in India. We also occupied technology centers in Silicon Valley, California and Kolkata, India, as well as other facilities, including our executive offices located in Walnut Creek, California.

In total the Company occupied approximately 1.2 million square feet as of December 31, 2014.

We lease nearly all of our service centers, each of our administrative facilities and our technology centers. The two facilities that we own are subject to liens under our credit agreement. In addition to the facilities that are owned, our fixed assets are comprised primarily of machinery and equipment, vehicles, and computer equipment. We believe that our facilities are adequate and appropriate for the purposes for which they are currently used in our operations and are well maintained.

Item 3. 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 Orange County. 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 \$0.9 million as of December 31, 2014 related to the claim, which represents management's best estimate based on information available.

On February 1, 2013, the Company 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 the Company's 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. The Company 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 December 2014, the court awarded the defendant attorneys' fees related to the case. In February 2015, ARC entered into a settlement with the defendant with regards to attorneys' fees. Legal fees, including the settlement with the defendant, associated with the litigation totaled \$3.8 million in 2014 and were recorded as selling, general and administrative expense.

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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock, par value \$0.001, is listed on the New York Stock Exchange (“NYSE”) under the stock symbol “ARC”. The following table sets forth for the fiscal periods indicated the high and low sales prices per share of our common stock as reported by the NYSE.

	2014		2013	
	High	Low	High	Low
First Quarter	\$8.51	\$6.59	\$3.03	\$2.12
Second Quarter	\$7.92	\$5.67	\$4.25	\$2.76
Third Quarter	\$8.30	\$5.40	\$5.24	\$4.00
Fourth Quarter	\$10.67	\$8.10	\$9.35	\$4.58

Performance Graph

The following graph compares the cumulative 5-year total return to shareholders of ARC Document Solutions’ common stock relative to the cumulative total returns of (a) the Russell 2000 index, (b) a customized peer group of 15 companies identified as: (1) having a business-to-business focus, (2) offering outsourced/managed services, (3) having a digital or technology service that is significant to their customer offering, and (4) involved in print publishing.

The graph assumes that the value of the investment in the company’s common stock, in the peer group, and the index (including reinvestment of dividends) was \$100 on December 31, 2009 and tracks it through December 31, 2014.

	2009	2010	2011	2012	2013	2014
ARC Document Solutions, Inc.	100.00	108.27	65.48	36.52	117.26	145.79
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
Managed Services & Publishing Peer Group	100.00	126.78	125.04	165.53	230.24	233.64

The stock price performance included in the graph above is not necessarily indicative of future stock price performance.

Holders

As of February 23, 2015, the approximate number of stockholders of record of our common stock was 124, and the closing price of our common stock was \$9.38 per share as reported by the NYSE. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these stockholders of record.

Dividends

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to compliance with Delaware corporate law, certain covenants under our debt instruments which restrict or limit our ability to declare or pay dividends, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors may deem relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased(1) (in thousands)	(b) Average Price Paid per Share(1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2014—October 31, 2014	9	\$10.01	—	—
November 1, 2014—November 30, 2014	—	—	—	—
December 1, 2014—December 31, 2014	—	—	—	—
Total	9	\$10.01	—	—

Our stock plan provides us with the right to deduct or withhold, or require employees to remit to us, an amount sufficient to satisfy any applicable tax withholding requirements applicable to stock-based compensation awards.

- (1) To the extent permitted, employees may elect to satisfy all or part of such withholding requirements with the Company's repurchase of shares having a fair market value equal to the minimum statutory tax withholding rate that could be imposed on the transaction. All shares shown in this table were repurchased during the fourth quarter of 2014 in connection with the settlement of vested restricted stock awards to satisfy tax withholding requirements.

Item 6. Selected Financial Data

The selected historical financial data presented below is derived from the audited consolidated financial statements of ARC Document Solutions for the fiscal years ended December 31, 2014, 2013, 2012, 2011, and 2010. The selected historical financial data does not purport to represent what our financial position or results of operations might be for any future period or date. The financial data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements included elsewhere in this report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Statement of Operations Data:					
Service Sales					
Onsite Services (1)	\$ 135,020	\$ 121,550	\$ 108,817	\$ 100,682	\$ 89,994
Traditional Reprographics	113,179	116,673	126,785	145,449	173,364
Color	90,310	83,601	79,080	84,062	81,552
Digital	33,375	33,534	35,578	38,020	39,639
Total service sales	371,884	355,358	350,260	368,213	384,549
Equipment and Supplies Sales	51,872	51,837	55,858	54,519	57,090
Total net sales	423,756	407,195	406,118	422,732	441,639
Cost of sales	279,478	272,858	282,599	288,434	299,307
Gross profit	144,278	134,337	123,519	134,298	142,332
Selling, general and administrative expenses	107,672	96,800	93,073	101,315	107,744
Amortization of intangibles	5,987	6,612	11,035	18,715	11,657
Goodwill impairment	—	—	16,707	65,444	38,263
Restructuring expense	777	2,544	3,320	—	—
Income (loss) from operations	29,842	28,381	(616)	(51,176)	(15,332)
Other income, net	(96)	(106)	(100)	(103)	(156)
Loss on early extinguishment of debt	5,599	16,339	—	—	2,509
Interest expense, net	14,560	23,737	28,165	31,104	24,091
Income (loss) before income tax provision (benefit)	9,779	(11,589)	(28,681)	(82,177)	(41,776)
Income tax provision (benefit)	2,348	2,986	2,784	50,931	(14,186)
Net income (loss)	7,431	(14,575)	(31,465)	(133,108)	(27,590)
(Income) loss attributable to noncontrolling interest	(156)	(748)	(503)	21	88
Net income (loss) attributable to ARC Document Solutions	\$ 7,275	\$ (15,323)	\$ (31,968)	\$ (133,087)	\$ (27,502)

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share amounts)				
Earnings (loss) per share attributable to ARC shareholders:					
Basic	\$ 0.16	\$ (0.33)	\$ (0.70)	\$ (2.93)	\$ (0.61)
Diluted	\$ 0.15	\$ (0.33)	\$ (0.70)	\$ (2.93)	\$ (0.61)

Weighted average common shares
outstanding:

Basic	46,245	45,856	45,668	45,401	45,213
Diluted	47,088	45,856	45,668	45,401	45,213

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Other Financial Data:					
Depreciation and amortization	\$34,135	\$34,745	\$39,522	\$47,876	\$45,649
Capital expenditures	\$13,269	\$18,191	\$20,348	\$15,553	\$8,634
Interest expense, net	\$14,560	\$23,737	\$28,165	\$31,104	\$24,091
	As of December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$22,636	\$27,362	\$28,021	\$25,437	\$26,293
Total assets	\$414,068	\$409,922	\$415,839	\$441,357	\$569,085
Long term obligations	\$212,837	\$233,058	\$241,429	\$240,900	\$221,088
Total ARC stockholders' equity	\$102,775	\$91,690	\$103,896	\$130,677	\$256,506
Working capital	\$20,664	\$28,705	\$40,650	\$40,405	\$22,387

(1) Represents services provided at our customers' sites, which includes both Managed Print Services (MPS) and Facilities Management (FM).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the other sections of this Annual Report on Form 10-K, including Part I, "Item 1 — Business"; Part I, "Item 1A — Risk Factors"; Part II, "Item 6 — Selected Financial Data"; and Part II, "Item 8 — Financial Statements and Supplementary Data."

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.

We help our customers reduce their costs and improve productivity of their documents, improve their access and control over documents, and offer a wide variety of ways to print, produce, distribute, collaborate on, and store documents.

We have categorized our service and product offerings to report distinct sales recognized from our Onsite Services, Color Services, Digital Services, Traditional Reprographics Services, and Equipment and Supplies Sales.

Onsite Services consists of placement, management, and optimization of print and imaging equipment in our customers' facilities, relieving them of the burden of owning and managing print devices and print networks, and shifting their costs to a "per-use" basis. Onsite Services sales are driven by the ongoing print needs of our customers, and are less exposed to the episodic large-format printing needs associated with construction projects.

Color Services consists of specialized color printing and finishing services to marketing departments, regional and national retailers, and our traditional AEC customer base. This includes services provided under our Riot Creative Imaging brand.

Digital Services consists of digital document management services of all kinds, including archiving and information management ("AIM"), "digital shipping" and managed file transfer, software licensing, and technology consulting services.

Traditional Reprographics consists of the management, distribution, and print-on-demand of black and white construction drawings (frequently referred to as "blueprints") and specification books. It derives a majority of its revenue from large-format black and white printing.

Equipment and Supplies 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 managed print services, technology-based document management services, and digital color imaging, as we believe the mix of services demanded by the AEC industry continues to shift toward document management at customer locations (represented primarily by our Onsite Services revenues), and away from its historical emphasis on printing of large-format black and white construction drawings "offsite" in our service centers (represented primarily by our Traditional Reprographics revenues). This belief is supported by the fact that our Onsite Services in 2014 were 32% of our total sales as compared to 27% for Traditional Reprographics. Onsite Services is our largest service offering and continues to grow at a rate of more than 10% on a year-over-year basis. In comparison, our revenue mix in 2013 consisted of 30% of our sales coming from Onsite Services as compared to 29% Traditional Reprographics.

We deliver our services 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 that include our legacy reprographics business as well as our newer offerings in Onsite Services, Color Services, and Digital Services. Our customer base for these services, however, is still primarily the AEC industry. 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 year ended December 31, 2014, 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, whose 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 2 “Summary of Significant Accounting Policies” 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 expenses for service center (“offsite”) facilities and equipment. 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. As we continue to foster our relationships with credit providers and obtain attractive lease rates, we are increasingly choosing to lease rather than purchase equipment. During most of 2013, we were more frequently electing to purchase equipment for our facilities and onsite service installations rather than lease equipment due to the availability of cash to fund capital expenditures and the interest savings thereby. 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 and thereby their document and printing needs. While there were some indications that the non-residential construction market strengthened in 2012, we believe that there was a growing body of evidence by the third quarter of 2012 that demonstrated Traditional Reprographics sales would not likely recover at the same pace due to these factors. To ensure that the Company’s costs and resources were in line with demand for our 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 we closed 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 Onsite Services and Digital Services. The reduction in headcount totaled approximately 300 full-time employees, which represented approximately 10% of our total workforce.

During 2014, our gross margins improved by 100 basis points compared to the same period in 2013. We attribute this improvement primarily to our restructuring efforts initiated in October 2012 and ongoing margin improvement programs, both of which suggest continuing, though abated, year-over-year margin expansion in future periods.

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;

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• 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 and adjusted EBITDA 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 (loss) attributable to ARC and adjusted earnings (loss) per share attributable to ARC shareholders for the years ended December 31, 2014, 2013 and 2012 to reflect the exclusion of loss on extinguishment of debt, restructuring expense, trade secret litigation costs, goodwill impairment, amortization impact related specifically to the change in useful lives of trade names, interest rate swap related 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 years ended December 31, 2014, 2013 and 2012 to reflect the exclusion of cash payments related to trade secret litigation costs, cash payments related to restructuring expenses, and the receipt of a federal income tax refund in 2013 related to the Company's 2009 consolidated federal income tax return. This presentation facilitates a meaningful comparison of our operating results for the years ended December 31, 2014, 2013 and 2012. 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 for the years ended December 31, 2014, 2013 and 2012 to exclude loss on extinguishment of debt, trade secret litigation costs, stock-based compensation expense, goodwill impairment, and restructuring 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 (loss) attributable to ARC Document Solutions, Inc. shareholders:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Cash flows provided by operating activities	\$50,012	\$46,798	\$37,552
Changes in operating assets and liabilities, net of effect of business acquisitions	4,438	(2,388)	(463)
Non-cash expenses, including depreciation, amortization and restructuring	(47,019)	(58,985)	(68,554)
Income tax provision	2,348	2,986	2,784
Interest expense, net	14,560	23,737	28,165
Income attributable to the noncontrolling interest	(156)	(748)	(503)
EBIT	24,183	11,400	(1,019)
Depreciation and amortization	34,135	34,745	39,522
EBITDA	58,318	46,145	38,503
Interest expense, net	(14,560)	(23,737)	(28,165)

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Income tax provision	(2,348)	(2,986)	(2,784)
Depreciation and amortization	(34,135)	(34,745)	(39,522)
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	\$7,275		\$(15,323)	\$(31,968)

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

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	\$7,275	\$(15,323)	\$(31,968)
Interest expense, net	14,560	23,737	28,165
Income tax provision	2,348	2,986	2,784
EBIT	24,183	11,400	(1,019)
Depreciation and amortization	34,135	34,745	39,522
EBITDA	58,318	46,145	38,503
Loss on extinguishment of debt	5,599	16,339	—
Trade secret litigation costs ⁽¹⁾	3,766	—	—
Goodwill impairment	—	—	16,707
Restructuring expense	777	2,544	3,320
Stock-based compensation	3,802	3,207	1,999
Adjusted EBITDA	\$72,262	\$68,235	\$60,529

⁽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 our 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 December 2014, the court awarded the defendant attorneys' fees related to the case. In February 2015, ARC entered into a settlement with the defendant. Legal fees associated with the litigation, including the settlement with the defendant, totaled \$3.8 million for the year ended December 31, 2014 and 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:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Cash flows provided by operating activities	\$50,012	\$46,798	\$37,552
Payments related to trade secret litigation costs	2,744	—	—
Payments related to restructuring expenses	1,203	4,304	940
Receipt of federal income tax refund ⁽¹⁾	—	(3,762)	—
Adjusted cash flows provided by operating activities	\$53,959	\$47,340	\$38,492

⁽¹⁾ In March 2013, ARC received a federal income tax refund of \$3.8 million related to its 2009 consolidated federal income tax return.

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

	Year Ended December 31,				
	2014	2013 (1)	2012 (1)		
Net income (loss) margin attributable to ARC	1.7	% (3.8)% (7.9)%	
Interest expense, net	3.4	5.8	6.9		
Income tax provision	0.6	0.7	0.7		
EBIT margin	5.7	2.8	(0.3)	
Depreciation and amortization	8.1	8.5	9.7		
EBITDA margin	13.8	11.3	9.5		
Loss on extinguishment of debt	1.3	4.0	—		
Trade secret litigation costs	0.9	—	—		
Goodwill impairment	—	—	4.1		
Restructuring expense	0.2	0.6	0.8		
Stock-based compensation	0.9	0.8	0.5		
Adjusted EBITDA margin	17.1	% 16.8	% 14.9	%	

(1) Column does not foot due to rounding.

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

(In thousands, except per share amounts)	Year Ended December 31,				
	2014	2013	2012		
Net income (loss) attributable to ARC Document Solutions, Inc.	\$7,275	\$(15,323) \$(31,968)	
Loss on extinguishment of debt	5,599	16,339	—		
Goodwill impairment	—	—	16,707		
Restructuring expense	777	2,544	3,320		
Trade secret litigation costs	3,766	—	—		
Change in trade name impact to amortization	—	—	3,158		
Interest rate swap related costs	—	—	3,440		
Income tax benefit related to above items	(3,953) (7,667) (7,676)	
Deferred tax valuation allowance and other discrete tax items	(1,657) 8,245	11,311		
Unaudited adjusted net income (loss) attributable to ARC Document Solutions, Inc.	\$11,807	\$4,138	\$(1,708)	
Actual:					
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:					
Basic	\$0.16	\$(0.33) \$(0.70)	
Diluted	\$0.15	\$(0.33) \$(0.70)	
Weighted average common shares outstanding:					
Basic	46,245	45,856	45,668		
Diluted	47,088	45,856	45,668		
Adjusted:					
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:					
Basic	\$0.26	\$0.09	\$(0.04)	
Diluted	\$0.25	\$0.09	\$(0.04)	
Weighted average common shares outstanding:					

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Basic	46,245	45,856	45,668
Diluted	47,088	46,157	45,668

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Results of Operations

(In millions, except percentages)	Year Ended December 31,			2014 Versus 2013		2013 Versus 2012		
	2014 (1)	2013(1)	2012(1)	Increase (decrease)		Increase (decrease)		
	\$	\$	\$	\$(1)	%	\$(1)	%	%
Onsite Services ⁽²⁾	\$135.0	\$121.6	\$108.8	\$13.4	11.0	% \$12.8	11.8	%
Traditional Reprographics	113.2	116.7	126.8	(3.5)	(3.0)%	(10.1)	(8.0)%	%
Color	90.3	83.6	79.1	6.7	8.0	% 4.5	5.7	%
Digital	33.4	33.5	35.6	(0.1)	(0.3)%	(2.1)	(5.9)%	%
Total services sales	\$371.9	\$355.4	\$350.3	\$16.5	4.6	% \$5.1	1.5	%
Equipment and Supplies Sales	51.9	51.8	55.9	0.1	0.2	% (4.1)	(7.3)%	%
Total net sales	\$423.8	\$407.2	\$406.1	\$16.6	4.1	% \$1.1	0.3	%
Gross profit	\$144.3	\$134.3	\$123.5	\$10.0	7.4	% \$10.8	8.7	%
Selling, general and administrative expenses	\$107.7	\$96.8	\$93.1	\$10.9	11.3	% \$3.7	4.0	%
Amortization of intangibles	\$6.0	\$6.6	\$11.0	\$(0.6)	(9.1)%	\$(4.4)	(40.0)%	%
Goodwill impairment	\$—	\$—	\$16.7	\$—	—	% \$(16.7)	(100.0)%	%
Restructuring expense	\$0.8	\$2.5	\$3.3	\$(1.7)	(68.0)%	\$(0.8)	(24.2)%	%
Loss on extinguishment of debt	\$5.6	\$16.3	\$—	\$(10.7)	(65.6)%	\$16.3	100.0	%
Interest expense, net	\$14.6	\$23.7	\$28.2	\$(9.1)	(38.4)%	\$(4.5)	(16.0)%	%
Income tax provision	\$2.3	\$3.0	\$2.8	\$(0.7)	(23.3)%	\$0.2	7.1	%
Net income (loss) attributable to ARC	\$7.3	\$(15.3)	\$(32.0)	\$22.6	(147.7)%	\$16.7	(52.2)%	%
Adjusted net income (loss) attributable to ARC	\$11.8	\$4.1	\$(1.7)	\$7.7	187.8	% \$5.8	(341.2)%	%
Cash flows provided by operating activities	\$50.0	\$46.8	\$37.6	\$3.2	6.8	% \$9.2	24.5	%
Adjusted cash flows provided by operating activities	\$54.0	\$47.3	\$38.5	\$6.7	14.2	% \$8.8	22.9	%
EBITDA	\$58.3	\$46.1	\$38.5	\$12.2	26.5	% \$7.6	19.7	%
Adjusted EBITDA	\$72.3	\$68.2	\$60.5	\$4.0	5.9	% \$7.7	12.7	%

(1) Column does not foot due to rounding.

(2) Represents services provided at our customers' sites, which includes both Managed Print Services (MPS) and Facilities Management (FM).

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					
	Year Ended December 31,					
	2014(1)	2013(1)	2012(1)			
Net Sales	100.0	% 100.0	% 100.0	%		%
Cost of sales	66.0	67.0	69.6			
Gross profit	34.0	33.0	30.4			
Selling, general and administrative expenses	25.4	23.8	22.9			
Amortization of intangibles	1.4	1.6	2.7			
Goodwill impairment	—	—	4.1			
Restructuring expense	0.2	0.6	0.8			
Income (loss) from operations	7.0	7.0	(0.2))		
Other income, net	—	—	—			
Loss on extinguishment of debt	1.3	4.0	—			
Interest expense, net	3.4	5.8	6.9			
Loss before income tax provision	2.3	(2.8)	(7.1)))
Income tax provision	0.6	0.7	0.7			
Net income (loss)	1.8	(3.6)	(7.7)))
Income attributable to the noncontrolling interest	—	(0.2)	(0.1)))
Net income (loss) attributable to ARC	1.7	% (3.8))% (7.9))%)%
EBITDA	13.8	% 11.3	% 9.5	%		%
Adjusted EBITDA	17.1	% 16.8	% 14.9	%		%

(1)Column does not foot due to rounding.

Fiscal Year Ended December 31, 2014 Compared to Fiscal Year Ended December 31, 2013

Net Sales

Net sales in 2014 increased 4.1%. The increase in net sales was primarily due to the higher sales activity for Onsite and Color Services, which were partially offset by lower sales activity in Traditional Reprographics Services. In 2014, Onsite Services generated the largest percentage of net sales, and it produced the highest percentage change from 2013 (11.0% growth). Declines in Traditional Reprographics sales remain influenced by the continuing trend of a greater use of digital processes for document workflow and less reliance on print.

Onsite Services. Onsite Services sales increased \$13.4 million or 11.0%, in 2014, and represented approximately 32% of total net sales for 2014, as compared to approximately 30% during 2013. Onsite Services revenue is derived from two sources: 1) an engagement with the customer to place primarily large-format equipment, that we own or lease, in our customers' offices, typically referred to as a facilities management engagement or "traditional FM," and 2) an arrangement by which our customers outsource their printing function to us, including all office printing, copying, and reprographics printing, typically referred to as Managed Print Services, or "MPS." In both cases, we establish long-term contracted revenue streams for which we are paid a single cost per unit of material used, often referred to as a "click charge."

The number of Onsite Services locations has grown to approximately 8,500 as of December 31, 2014, an increase of approximately 800 locations compared to December 31, 2013, due primarily to growth in new MPS placements. We believe Onsite Services is a high growth area for us as demonstrated by the adoption of our MPS services by large, multi-national firms in the AEC space over the past several years. We intend to continue the expansion of our Onsite Service offering through our regional sales force and through Global Solutions, our national accounts group. Our Global Solutions sales force has established long-term contract relationships with 22 of the largest 50 AEC firms. As our Onsite Services, and more specifically MPS services, become a larger percentage of our sales, our overall sales

will be less exposed to the seasonality associated with construction projects. MPS services are driven primarily by the number of customer employees at an office and largely by non-construction project related work such as office printing and copying.

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Traditional Reprographics. Traditional Reprographics sales decreased \$3.5 million or 3.0% in 2014, and represented approximately 27% of total net sales for 2014, as compared to approximately 29% during 2013.

Overall Traditional Reprographics Services sales nationwide were negatively affected lower volume of printed construction drawings due to the adoption of technology referenced above, poor weather conditions over much of the US during the early part of the first quarter, as well as increased production of documents on customer sites as opposed to documents being produced at our service centers.

Color Services. Color Services sales increased \$6.7 million or 8.0%, and comprised approximately 21% of our total net sales in 2014. The increase in sales from Color Services is primarily due to additional sales realized from the acquisition of two businesses in the United Kingdom during the second quarter of 2014. Also contributing to our color sales growth is our continued focus on the expansion and enhancement of our Color Services offerings through our Riot Creative Imaging brand and to our AEC industry customer base.

Digital. Digital Services sales decreased \$0.1 million or 0.3% in 2014. Sales of Digital Services decreased slightly to 7.9% of total net sales for 2014, as compared to 8.2% for 2013, primarily due to a decline in those services related to project-based work performed at our service centers, offset in part by sales of our AIM services which were introduced into the market in 2013. New digital service offerings such as AIM experienced growth, but not at a rate sufficient to offset the decline in digital service sales related to project work.

Equipment and Supplies Sales. Equipment and Supplies Sales increased by \$0.1 million or 0.2% in 2014, primarily due to increased equipment sales in the United States during 2014 partially offset by the decline in equipment sales in China. Revenues from Equipment and Supplies Sales represented approximately 12% of total net sales in 2014, compared to approximately 13% in 2013. The growth of equipment sales in the United States in 2014 was driven by large equipment purchases from customers who prefer to own their own equipment. Equipment and Supplies Sales derived from UNIS Document Solutions Co. Ltd (“UDS”), our Chinese business venture, were \$19.3 million in 2014, as compared to \$19.9 million in 2013. The decrease in Equipment and Supplies Sales from our Chinese operations was driven by a softening Chinese economy and a corresponding decrease in capital expenditures from several of our largest customers in China. Quarterly movements 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, as we are placing more focus on growth in our Onsite Services and converting sales contracts to Onsite Services agreements.

Gross Profit

Gross profit and gross margin increased to \$144.3 million, and 34.0%, in 2014, compared to \$134.3 million, and 33.0%, in 2013, on a sales increase of \$16.6 million.

We were able to achieve expansion of our gross margins of 100 basis points in 2014 due primarily to (1) increased sales that allow us to better leverage our fixed costs, (2) margin expansion programs at our service centers and customer onsite locations, and (3) expense reductions associated with the Company's restructuring in 2012.

Specifically, year-over-year overhead costs as a percentage of sales decreased by approximately 100 basis points in 2014. We believe the savings from these efforts are sustainable, and we believe the effect of these measures, coupled with leveraging our fixed costs in an environment of increasing sales, should result in continued margin expansion in 2015, though at an abated level from 2014.

Selling, General and Administrative Expenses

Selling, marketing, general and administrative expenses increased by \$10.9 million or 11.3% in 2014 compared to 2013.

Year-over-year sales and marketing expenses increased \$3.3 million in 2014, driven by increased sales commissions resulting from an increase in sales year-over-year, as well as our continued investment in our sales team which included: (1) hiring of new sales and sales administrative personnel, and (2) expanded training of new and existing sales personnel to implement specific sales initiatives supporting our digital services, onsite, and color offerings.

General and administrative expenses increased \$7.6 million in 2014 primarily due to legal fees related to trade secret litigation during 2014, as well as an increase in accrued incentive bonuses due to an improvement in the Company's financial performance in 2014.

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 our 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

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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 December 2014, the court awarded the defendant attorneys' fees related to the case. In February 2015, we entered into a settlement with the defendant. Legal fees associated with the litigation, including the settlement with the defendant, totaled \$3.8 million for the year ended December 31, 2014.

Amortization of Intangibles

Amortization of intangibles of \$6.0 million in 2014, decreased by \$0.6 million or 9.1% compared to 2013, primarily due to the complete amortization of certain customer relationships related to historical acquisitions.

Goodwill Impairment

We assess goodwill at least annually for impairment as of September 30, or more frequently if events and circumstances indicate that goodwill might be impaired. Goodwill impairment testing is performed at the reporting unit level. At September 30, 2014, we assessed goodwill for impairment and determined that goodwill was not impaired.

See "Critical Accounting Policies" section for further information related to our goodwill impairment test.

Restructuring Expense

Restructuring expenses totaled \$0.8 million in 2014, and 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 Consolidated Financial Statements.

Loss on extinguishment of debt

In November 2014, we entered into a new \$175.0 million term loan credit agreement ("Term A Loan Facility") with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto. The proceeds from the new term loan credit agreement were used to pay in full and terminate our previous term loan credit agreement ("Term B Loan Facility"). The \$5.6 million loss on extinguishment of debt is due to the write-down of the unamortized original issue discount and deferred financing fees related to the Term B Loan Facility and previous revolving credit facility.

Interest Expense, Net

Net interest expense totaled \$14.6 million in 2014, compared to \$23.7 million in 2013. The decrease was due to the purchase and redemption of all our outstanding 10.5% senior notes in 2013, and the replacement of the notes with the \$200.0 million Term B Loan Facility with an effective interest rate of 6.25%. During 2014, we made principal payments on our Term B Loan Facility totaling \$25.0 million. In November 2014, we were able to further reduce our effective interest rate on long-term debt by entering into the \$175.0 million Term A Loan Facility with an initial effective interest rate of 2.74% at December 31, 2014. We expect additional interest savings related to the 2014 refinancing of approximately \$6 million in 2015.

Income Taxes

We recorded an income tax provision of \$2.3 million on pretax income of \$9.8 million for 2014, which yields an effective income tax rate of 24.0%. Our income tax provision was primarily due to the impact of amortization of tax basis goodwill in a deferred tax liability position. Our income tax provision includes a reduction of our valuation allowance of \$3.6 million against certain of our deferred tax assets which included a \$1.6 million shortfall in stock based compensation. Excluding the valuation allowance reduction, shortfall in stock based compensation and other nondeductible compensation, our tax provision would have been \$3.9 million which yields an effective income tax rate of 39.8%.

Noncontrolling Interest

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

Net Income (Loss) Attributable to ARC

Net income attributable to ARC was \$7.3 million in 2014, as compared to a net loss attributable to ARC of \$15.3 million in 2013. The net income attributable to ARC in 2014 is primarily due to increased sales and gross margins as noted above, and

reductions in loss on extinguishment of debt and interest expense in 2014. This increase was partially offset by the increase in selling, general and administrative expenses, as noted above.

EBITDA

EBITDA margin increased to 13.8% in 2014, as compared to 11.3% in 2013. Excluding the effect of stock-based compensation, trade secret litigation costs, restructuring expense, and loss on extinguishment of debt, adjusted EBITDA margin increased to 17.1% in 2014, as compared to 16.8% in 2013. The increases in EBITDA and adjusted EBITDA were due primarily to the increase in gross margins described above partially offset by the increase in selling, marketing, general and administrative expenses.

Fiscal Year Ended December 31, 2013 Compared to Fiscal Year Ended December 31, 2012

Net Sales

Net sales in 2013 increased 0.3%. The increase in net sales was primarily due to the higher sales activity for Onsite and Color Services, which were partially offset by lower sales activity in Traditional Reprographics Services and Equipment and Supplies Sales. In the second half of 2013, Onsite Services was our largest offering as a percentage of total net sales, and for the full year, had the highest percentage change from 2012 (11.8% growth).

Onsite Services. Onsite Services sales increased \$12.8 million or 11.8%, in 2013, and represented approximately 30% of total net sales for 2013, as compared to approximately 27% during 2012.

The number of Onsite Services locations grew to approximately 7,700 as of December 31, 2013, an increase of approximately 700 locations compared to December 31, 2012, due primarily to growth in new MPS placements.

Traditional Reprographics. Traditional Reprographics sales decreased \$10.1 million or 8.0% in 2013, and represented approximately 29% of total net sales for 2013, as compared to approximately 31% during 2012.

Overall Traditional Reprographics Services sales nationwide were negatively affected by the lower volume of construction drawings produced through large-format black and white printing driven by the effect of technology adoption referenced above, as well as increased production of documents on customer sites as opposed to documents being produced at our service centers.

Color Services. Color Services sales increased \$4.5 million or 5.7%, and comprised approximately 21% of our total net sales in 2013. We attribute this increase to our continued focus on the expansion and enhancement of our Color Services offerings through our Riot Creative Imaging brand and to our AEC industry customer base.

Digital. Digital Services sales decreased \$2.1 million or 5.9% in 2013. Sales of Digital Services decreased slightly to approximately 8% of total net sales for 2013, as compared to approximately 9% for 2012. We attribute this decrease in Digital Services to a decline in those services related to project-based work performed at our service centers, offset in part by sales of our AIM services which were formally introduced into the market in 2013.

Equipment and Supplies Sales. Equipment and Supplies Sales decreased by \$4.1 million or 7.3% in