ARC DOCUMENT SOLUTIONS, INC.
Form 10-K
March 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2012

or

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

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

1981 N. Broadway, Suite 385

Walnut Creek, California 94596

(925) 949-5100

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

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 x

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 x

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

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

Indicate by check mark 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. x

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

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

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

Based on the closing price of $5.03 of the registrant s Common Stock on the New York Stock Exchange on June 29, 2012 (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 $191,552,193.

As of March 1, 2013, there were 46,257,765 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2013 Annual Meeting of Stockholders scheduled to be held on May 3, 2013 are incorporated by reference in this Annual Report on Form 10-K in response Items 10, 11, 12, 13 and 14 of Part III.

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ARC DOCUMENT SOLUTIONS, INC.

ANNUAL REPORT ON FORM 10-K

for the fiscal year ended December 31, 2012

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ARC DOCUMENT SOLUTIONS, INC.

2012 ANNUAL REPORT ON FORM 10-K

Effective December 31, 2012, American Reprographics Company changed its name to ARC Document Solutions, Inc. See Item 1 Business Our Company for additional information.

In this Annual Report on Form 10-K, ARC Document Solutions, ARC, the Company, we, us, and our refer to ARC Document Solutions, 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, 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 American Reprographics Company®, PlanWell®, PlanWell PDS®, PlanWell Enterprise℠, and various design marks associated therewith. The combined name of ARC Document Solutions is currently undergoing registration 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 the operation of our segments. 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, provides specialized document solutions 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, 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, 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 more than 170 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 AEC 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.

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, ishipdocs, 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 in one of our partner locations around the world.

Archive and Information Management (AIM) We address our customers needs for archiving information and intellectual property by scanning existing paper documents, organizing them, and storing them in a secure and searchable database in the cloud. We also offer the ability to archive documents as they are printed.

Specialized Color Printing ARC operates 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.

Software and 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 management tasks.

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

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

Our online services are administered via a powerful cloud solution providing best-in-class speed, reliability, scalability and reliability. As part of our business line diversification in 2012, the company also made significant progress in expanding the capabilities of its cloud-based services for mobile platforms.

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 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 nearly 7,000 locations, and via a combination of more than 170 service centers, 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 significant operations in China and Canada, and we have a growing presence in the United Kingdom and India.

As our origins lie in reprographics industry and we still maintain robust reprographics operations, we also believe that ARC remains 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 more than 100 of the largest architectural, engineering, and construction firms. Our legacy as the largest reprographics company in 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 ARC s overall revenue.

American Reprographics Holdings L.L.C. (Holdings), was formed in 1997 and, in 2005, was reorganized into a Delaware corporation and conducted an initial public offering. While our service centers historically marketed their offerings under local brand names, the AEC market has consolidated in recent years and we believe that national service providers have a greater marketing advantage. In January of 2011, we consolidated our operations under a single brand, ARC, to highlight the scope and scale of our business. At the end of 2012 we formally updated our Delaware 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, American Reprographics Company, L.L.C., a California limited liability company, and its subsidiaries.

Principal Products and Services

ARC Document Solutions service and product offerings are reported under the following revenue 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 its revenue reported from the sale of large- and small-format black and white printing.

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

Operations

Our products and services are available from any of ARC Document Solutions more than 170 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, India, and the United Kingdom. Our corporate headquarters are located in Walnut Creek, California.

ARC Document Solutions has historically pursued acquisitions to expand its share of the reprographics market and enhance its geographic footprint to serve its larger customers. Since the company s 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 plan to limit acquisition activity in the near future and instead focus on organic sales growth. Our origin as a company was in California, and our early acquisition activity was concentrated there. Thus we still derive 31% of our total revenue from California.

We operate a technology center in Silicon Valley with approximately 25 employees who develop, maintain, and support our software that enables and enhances the services we provide. We operate a similar facility in Kolkata, India, with approximately 70 employees who 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 and our operating facilities. We employ a combination of proprietary and industry-leading technology to provide redundancy, backup and security of all data in our system.

Historically, the majority of ARC Document Solutions revenue has been derived from the seasonal non-residential construction market. While our Traditional Reprographics business is still influenced by the nature of building cycles, our remaining offerings are less so. Onsite Services are driven by the desire to improve business processes and the reduction of costs in print management. 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 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, 2012, the company employed approximately 2,600 employees, with no meaningful representation by labor unions. We believe our employee relations are good.

Our Customers and Markets

ARC Document Solutions serves both the enterprise and project needs of companies primarily within 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), 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). We believe the market forces of the recent recession and its aftermath are forcing our customers in the construction industry to increase efficiency in their production and distribution of printed documents, 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 activity in the AEC industry is influencing 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 for ARC Document Solutions for four reasons: first, we are well-positioned to provide our customers with software, web applications, and cloud-based offerings to meet their demand for technology-enabled services; second, our diversification into services such as MPS allow us to capture revenue streams that are less exposed to the volatility and cyclicality of project-related printing; third, as our customers merge, consolidate, and grow larger, we believe ARC Document Solutions becomes a more compelling choice because of our uniquely 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 building projects.

In addition to the AEC industry, we also provide document management and printing services to 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, frequently updated promotional, advertising and marketing materials. We began to market these services in 2010 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, ARC Document Solutions addresses customers based on customer size and geographic reach. ARC serves smaller customers in local markets which tend to be highly-fragmented with a wide variety of specialized business practices. ARC tailors its local offerings for this important customer base to align with local market expectations. ARC serves large regional, national and international customers with a corporate sales force called Global Solutions. These customers often consolidate purchasing and the acquisition of services through a single corporate department, and seek centralized management of document solutions.

Competition

The level of competition varies in each of the areas in which we provide services. 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 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. In addressing larger local and regional customers, there are several companies that provide reprographic and onsite print services but in general, these companies cannot provide or integrate software or technology that enables digital management of documents and centralized cost control management that ARC provides. 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 ARC Document Solutions has 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 Océ, Xerox, Canon, Konica Minolta, Ricoh and Sharp, but most offerings from these companies are focused on ultimately selling equipment as opposed to ARC Document Solutions offering of comprehensive document management services.

We believe that we have a strong competitive position in the marketplace for the following important 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 more than 15 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 system that can cater to both large and small customers. We operate service centers in more than 150 cities in the U.S., and in 38 states. We also have a significant market presence in Canada, and growing operations in China, India and the UK. 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 capabilities.

Equipment agnostic: We are not required to sell certain 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. This, combined with the competitive market for printing and imaging products, provides ARC with an advantage relative to onsite service providers owned by equipment manufacturers.

Capabilities in a wide variety of formats: Several 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 are able to provide the breadth of services and technology related to large- and small-format document production that we possess.

Unique combination Onsite, Offsite, and Cloud-based offerings: ARC is the only national company that integrates document production on customer sites (Onsite) with document production at company service centers (Offsite) with digital management of documents in the Cloud. We have proprietary technology built by our own development team of more than 90 employees that integrates 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

ARC Document Solutions purchases or leases equipment for use in our production facilities and at our customers sites. The Company also purchases 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 Océ, Azerty, and Xpedx, a division of International Paper Company. Purchases from these vendors during 2012 comprised approximately 34% of our total purchases of inventory and supplies.

Research and Development

We conduct research and development to support our document management services, enhance our existing software and web-based applications, and create new proprietary technology products. In total, research and development amounted to $5.4 million, $4.9 million, and $4.7 million during the fiscal years ended December 31, 2012, 2011, and 2010, 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.

The combined name of ARC Document Solutions is currently undergoing registration with the United States Patent and Trademark Office (USPTO), and we have registered our historical combined name and design, American Reprographics Company, as a trademark. We have registered PlanWell and PlanWell PDS as trademarks with the USPTO and in Canada, Australia and the European Union. 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 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 8, 2013:

Name	Age	Position
Kumarakulasingam Suriyakumar	59	Chairman, President and Chief Executive Officer Director
John E.D. Toth	43	Chief Financial Officer, Secretary
Rahul K. Roy	53	Chief Technology Officer
Dilantha Wijesuriya	51	Chief Operating Officer
Jorge Avalos	37	Chief Accounting Officer, Vice President Finance

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.

John E.D. Toth was appointed Chief Financial Officer and Secretary in July 2011. Prior to his joining the Company, Mr. Toth was Chief Financial Officer of Bell-Carter Foods, Inc., a $200 million privately-held company operating in the food manufacturing industry. From 2006 to 2008, Mr. Toth served as Chief Financial Officer of Fresh Express, Inc., a subsidiary of Chiquita Brands International, Inc. Mr. Toth began his career in investment banking where he was an analyst with Goldman, Sachs & Co. and later joined J.P. Morgan s investment banking division. From 2001 until 2006, Mr. Toth was a Managing Partner of Tennyson West, LLC, a boutique mergers and acquisitions advisory firm. Mr. Toth received a Master s Degree in Economics, and Bachelor s degree in Economics and Political Science, from Stanford University.

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 Wijesuriya joined Ford Graphics, a division of the Company, in January of 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.

Jorge Avalos was appointed Chief Accounting Officer/Vice President Finance of the Company on 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, and left as an audit and assurance manager.

Available Information

ARC Document Solutions 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 Document Solutions, that file electronically with the SEC. ARC Document Solutions 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 calling ARC Document Solutions as set forth on the Info Request link on the main Investor web page.

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.

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, have continued to adversely affect our business and financial condition in a number of ways, including effects beyond those that were experienced in 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. Although there have been recent signs of economic improvement, we are unable to predict the duration and severity of the current economic downturn and disruption in financial markets and their effects on our business and results of operations. These events may, in the aggregate, have a material adverse effect on our results of operations and financial condition.

A decline in the architectural, engineering and construction (AEC) industry could adversely affect our future revenue and profitability.

We estimate that customers in the AEC industry accounted for approximately 76% of our net sales for the year ended December 31, 2012. Our historical operating results reflect the cyclical and variable nature of the AEC industry. We believe that this industry generally experiences downturns several months after a downturn in the general economy and that there may be a similar delay in the recovery in the AEC industry following a recovery in 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.

Because a significant portion of our overall costs are fixed, changes in economic activity, positive or negative, affect our results of operations.

Because approximately 45% of our overall costs were fixed for the year ended December 31, 2012, changes in economic activity, positive or negative, affect our results of operations. As a consequence, our results of operations are subject to volatility and could deteriorate rapidly in a prolonged environment of declining revenues. Failure to maintain adequate cash reserves and to effectively manage our costs could adversely affect our ability to offset our fixed costs and may have a material adverse effect 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. Based on our goodwill impairment assessment, we recorded an impairment of $16.7 million during 2012.

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 operating segments (or 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.

The reduction in our number of service center locations and employee headcount could adversely affect our future revenue and profitability.

During the fourth quarter of 2012, management implemented a restructuring plan which included the closure of 33 of our service centers and a reduction in our workforce of approximately 300 employees. The reduction in our service centers and headcount may lead to a reduction in revenue and profitability due to the loss of customers serviced through the closed locations.

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, product performance 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 2012, our Traditional Reprographics sales represented approximately 31% of our total net sales, and our Onsite Services represented approximately 27% 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 31% of our net sales in 2012 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 California, including general and local economic conditions, macroeconomic trends, and natural disasters (including earthquakes and wildfires). In recent years, the real estate development projects (both residential and non-residential) in California have significantly declined which, in turn, has resulted in a decline in sales from within the California-based AEC industry. 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 are unable to successfully monitor and manage our operations, our business and profitability could suffer.

Since 1997, we delegated the responsibility for marketing, pricing, and selling practices to local and operational managers. Over the past three years we have centralized, and continue to centralize, many of these functions, but during the transition period, if we do not successfully manage our operations under this decentralized operating structure, we risk having disparate results, lost market opportunities, lack of economic synergies, and a loss of vision and planning, all of which could harm our business and profitability.

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 technolog, including 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 and Canada. Approximately 13% of our revenues for fiscal 2012 were derived from our international operations, with approximately 8% 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, changes in a country s political condition, trade protection measures, licensing and other legal requirements and local tax issues.

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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. If we lose key personnel and/or are unable to recruit qualified personnel, our ability to manage the day-to-day aspects of 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 execute our business strategy.

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.

We currently store most of our customer data at our technology center located in Silicon Valley near known earthquake fault zones. Although we have redundant systems and offsite backup procedures in place, 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 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.

Downgrades in our credit rating may adversely affect our business, financial condition and results of operations.

From time to time, independent credit rating agencies rate our credit worthiness. Credit market deterioration and its actual or perceived effects on our business, financial condition and results of operation, along with deterioration in general economic conditions, may increase the likelihood that major independent credit agencies will downgrade our credit rating. Any downgrade in our credit rating could increase our cost of borrowing, which would adversely affect our financial condition and results of operations, perhaps materially. Any downgrade in our credit rating may also cause a decline in the market price of our common stock.

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 operating and financial restrictions on us and, in the event of a default, would have a material adverse effect on our business and results of operations.

Our credit agreement and high-yield notes indenture impose operating and other restrictions on us and many of our subsidiaries.

A breach of any of these covenants could result in a default under our debt instruments. If any such default occurs, our creditors under those instruments may declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, in addition to other remedies.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

At the end of 2012, we operated 186 service centers, of which 162 were in the United States, 8 were in Canada, 13 were in China, two were in India and one in London, England. We also occupied a technology center in Silicon Valley, California, a software programming facility in Kolkata, India, as well as other facilities including our executive offices located in Walnut Creek, California.

In total the Company occupied approximately 1.5 million square feet as of December 31, 2012.

We lease nearly all of our reprographics service centers, each of our administrative facilities and our technology centers. The two facilities that we own are subject to liens under our credit agreements. 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, the plaintiff, a former employee, filed a class action civil complaint against defendants American Reprographics Company, LLC and American Reprographics Company in the Superior Court of California, County of Orange. The class action complaint seeks to represent all current and former non-exempt hourly employees who worked for Defendants in California since October 21, 2006. The civil complaint alleges causes of action for failure to provide meal periods and rest periods in violation of California Labor Code § 226.7 as well as several derivative claims. The civil complaint seeks recovery of wages, restitution, penalties, interest, equitable relief, attorneys fees and costs. The parties are currently engaged in pre-certification class discovery process. The Company cannot reasonably estimate the amount or range of possible loss, if any, at this time, and accordingly has not accrued for any potential liability in its Consolidated Financial Statements in connection with this matter.

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

Item 4. ***Mine Safety Disclosures***

Not applicable.

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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.

	2012		2011	
	High	**Low**	**High**	**Low**
First Quarter	**$ 6.99**	**$ 4.53**	$ 10.37	$ 7.28
Second Quarter	**6.08**	**4.63**	10.50	6.63
Third Quarter	**5.95**	**3.68**	7.66	3.22
Fourth Quarter	**4.38**	**2.19**	5.11	3.08

Performance Graph

The following graph compares the cumulative 5-Year total return to shareholders on ARC Document Solutions common stock relative to the cumulative total returns of the Russell 2000 index, and a customized peer group of six companies that includes: G & K Services Inc., Healthcare Services Group Inc., Mobile Mini Inc., School Specialty Inc., Tetra Tech Inc. and Viad Corp. 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 12/31/2007 and tracks it through 12/31/2012.

	12/07	12/08	12/09	12/10	12/11	12/12
ARC Document Solutions, Inc.	**100.00**	**41.87**	**42.54**	**46.06**	**27.85**	**15.53**
Russell 2000	**100.00**	**66.21**	**84.20**	**106.82**	**102.36**	**119.09**
Diversified Commercial & Professional Services	**100.00**	**79.76**	**90.89**	**96.67**	**85.20**	**110.73**

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

Holders

As of March 4, 2013, the approximate number of stockholders of record of our common stock was 281 and the closing price of our common stock was $2.28 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.

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Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased[1]	(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, 2012 October 31, 2012	12	$ 3.74		
November 1, 2012 November 30, 2012				
December 1, 2012 December 31, 2012				
Total	12	$ 3.74		

(1) Our 2005 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. To the extent permitted, employees may elect to satisfy all or part of such withholding requirements by having us withhold 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 withheld during the fourth quarter of 2012 in connection with the settlement of vested restricted stock awards to satisfy tax withholding requirements.

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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, 2012, 2011, 2010, 2009, and 2008. 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.

	Fiscal Year Ended December 31, (In thousands)				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Service Sales					
Traditional reprographics	**$ 126,785**	$ 145,449	$ 173,364	$ 225,824	$ 357,697
Color	**79,080**	84,062	81,552	81,873	105,911
Digital	**35,578**	38,020	39,639	42,794	54,454
Subtotal [(1)]	**241,443**	267,531	294,555	350,491	518,062
Onsite services [(2)]	**108,817**	100,682	89,994	97,401	120,983
Equipment and supplies sales	**55,858**	54,519	57,090	53,657	61,942
Total net sales	**406,118**	422,732	441,639	501,549	700,987
Cost of sales	**282,599**	288,434	299,307	323,360	415,715
Gross profit	**123,519**	134,298	142,332	178,189	285,272
Selling, general and administrative expenses	**93,073**	101,315	107,744	115,020	154,728
Amortization of intangibles	**11,035**	18,715	11,657	11,367	12,004
Goodwill impairment	**16,707**	65,444	38,263	37,382	35,154
Impairment of long-lived assets				781	
Restructuring expense	**3,320**				
(Loss) income from operations	**(616)**	(51,176)	(15,332)	13,639	83,386
Other income, net	**(100)**	(103)	(156)	(171)	(517)
Interest expense, net	**28,165**	31,104	24,091	25,781	25,890
Loss on early extinguishment of debt			2,509		
(Loss) income before income tax provision (benefit)	**(28,681)**	(82,177)	(41,776)	(11,971)	58,013
Income tax provision (benefit)	**2,784**	50,931	(14,186)	3,018	21,200
Net (loss) income	**(31,465)**	(133,108)	(27,590)	(14,989)	36,813
(Income) loss attributable to noncontrolling interest	**(503)**	21	88	104	(59)
Net (loss) income attributable to ARC Document Solutions	**$ (31,968)**	$ (133,087)	$ (27,502)	$ (14,885)	$ 36,754

	Fiscal Year Ended December 31, (In thousands, except per share amounts)				
	2012	2011	2010	2009	2008
(Loss) earnings per share attributable to ARC shareholders:					
Basic	**$ (0.70)**	$ (2.93)	$ (0.61)	$ (0.33)	$ 0.82
Diluted	**$ (0.70)**	$ (2.93)	$ (0.61)	$ (0.33)	$ 0.81
Weighted average common shares outstanding:					
Basic	**45,668**	45,401	45,213	45,123	45,060
Diluted	**45,668**	45,401	45,213	45,123	45,398

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	Fiscal Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Other Financial Data:					
Depreciation and amortization	**$ 39,522**	$ 47,876	$ 45,649	$ 49,543	$ 50,121
Capital expenditures	**$ 20,348**	$ 15,553	$ 8,634	$ 7,506	$ 9,033
Interest expense, net	**$ 28,165**	$ 31,104	$ 24,091	$ 25,781	$ 25,890

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	**$ 28,021**	$ 25,437	$ 26,293	$ 29,377	$ 46,542
Total assets	**$ 415,839**	$ 441,357	$ 569,085	$ 620,954	$ 725,931
Long term obligations	**$ 241,429**	$ 240,900	$ 221,088	$ 228,711	$ 315,165
Total ARC stockholders equity	**$ 103,896**	$ 130,677	$ 256,506	$ 276,007	$ 281,781
Working capital	**$ 40,650**	$ 40,405	$ 22,387	$ (3,739)	$ 29,798

(1) For comparison purposes to public reporting prior to December 2012, this subtotal agrees with the Reprographics services sales line historically reported.

(2) 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 1, 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 provides specialized document management services 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, and store documents.

In an effort to increase the visibility into the nature and changing dynamics of our consolidated business, we have categorized our service and product offerings to better report distinct sales recognized from our Onsite Services, Color Services, Digital Services, Traditional Reprographics Services, and Equipment and Supplies Sales. Under our previous revenue reporting structure, the categories of Traditional Reprographics, Color Services, and Digital Services presented below were combined and reported as Reprographics Services.

Onsite Services, consists of placement, management, and optimization of print and imaging equipment into our customer s 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. This category has been renamed from Facilities Management , but the service offerings reported in this category remain unchanged.

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 archive 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, and 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. This category remains unchanged from prior filings.

Traditional Reprographics, Color Services, and Digital Services were previously disclosed as Reprographic Services sales. We believe the updated presentation of our sales categories reflects the drivers of our consolidated sales and will provide greater insight into the opportunities and risk diversification provided by our portfolio of service and product offerings.

We are diversifying our business beyond the services we have traditionally provided to the AEC industry and are currently focused on growing managed print services, digital color imaging, and technology-based document management services, 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), 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). We deliver both our traditional and evolving services through a nationwide network of service centers, locally-based sales executives, technical specialists, and a national/regional sales force known as Global Solutions, which is managed from our corporate offices in Walnut Creek, California.

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

We believe ARC Document Solutions offers a distinct portfolio of services within the AEC industry that include its legacy reprographics business as well as its newer offerings in Onsite Services, Color Services, and Digital Services. Our customer base for these services, however, is still distinctly related to the AEC industry. Based on our analysis of our operating results, we estimate that sales to the AEC industry accounted for approximately 76% of our net sales for the year ended December 31, 2012, with the remaining 24% consisting of sales to non-AEC industries.

Historically, our local production facilities have operated under their acquired brand. In response to changes in our markets, consisting primarily of the consolidation of our larger customers and prospects as noted above, we branded all of our operations ARC in 2011 to highlight the scope and scale of our services, and refined our identity further at the end of 2012 by renaming our Delaware corporation ARC Document Solutions, Inc. Our non-AEC Color Services are branded separately as Riot Creative Imaging to facilitate marketing to a specialized customer base.

We identify operating segments based on the various business activities that earn revenue and incur expense. Since operating segments have similar products and services, classes of customers, production processes and economic characteristics, we are deemed to operate as 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 expenses for 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. During 2012, 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 interest savings. As we continue to foster our relationships with credit providers and obtain attractive lease rates, we may increasingly choose to lease rather than purchase equipment.

Research and development costs consist mainly of the salaries, leased building space, and computer equipment that comprise 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 document and printing needs. While the construction market appeared to begin its slow recovery in 2012, we believe that there was a growing body of evidence by the third quarter of 2012 that proved Traditional Reprographics sales, produced at our service centers, would not recover at the same pace due to these factors.

To ensure that the Company s costs and resources were in line with our current portfolio of services and products, and that our primary offerings were tied to growing markets, management initiated a restructuring plan in October of 2012. The restructuring plan implemented in the fourth quarter of 2012 included the closure of 33 of the Company s service centers, which represents more than 10% of our total number of service center locations. In addition, as part of the restructuring plan, we reduced headcount and middle management associated with our service center locations, streamlined the upper management team, and allocated more resources into growing sales categories such as managed print services and digital services. The reduction in headcount totaled approximately 300 full-time employees, which represents approximately 10% of our total workforce.

In the fourth quarter of 2012, our gross margins improved by 20 basis points compared to the third quarter of 2012, which we attribute to our restructuring efforts initiated in October. The improvement was in contrast to historical decreases in fourth quarter gross margins due to weather, the number of working days and related issues, and as such, suggest continuing 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 present 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 also use EBIT to measure performance for determining operating segment-level compensation and we use EBITDA to measure performance for determining consolidated-level compensation. In addition, we use EBIT and EBITDA to evaluate potential acquisitions and potential capital expenditures.

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

They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;

They do not reflect changes in, or cash requirements for, our working capital needs;

They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

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

Our presentation of adjusted net income 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 loss attributable to ARC and adjusted (loss) earnings per share attributable to ARC shareholders for the years ended December 31, 2012, 2011 and 2010 to reflect the exclusion of goodwill impairment charges, amortization impact related specifically to the change in useful lives of trade names, restructuring expense, loss on early extinguishment of debt, interest rate swap related costs, and the valuation allowance related to certain deferred tax assets and other discrete items. This presentation facilitates a meaningful comparison of our operating results for the fiscal years ended December 31, 2012, 2011 and 2010. 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 presented adjusted EBITDA in 2012, 2011 and 2010 to exclude stock-based compensation expense, loss on early extinguishment of debt, the non-cash impairment charges and restructuring expense. The adjustment of EBITDA for non-cash adjustments 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 loss income attributable to ARC Document Solutions:

	Fiscal Year Ended December 31,		
	2012	**2011**	**2010**
		(In thousands)	
Cash flows provided by operating activities **(1)**	**$ 37,552**	$ 49,168	$ 53,924
Changes in operating assets and liabilities	**(463)**	10,152	955
Non-cash expenses, including depreciation, amortization and restructuring	**(68,554)**	(192,428)	(82,469)
Income tax provision (benefit)	**2,784**	50,931	(14,186)
Interest expense, net	**28,165**	31,104	24,091
Net loss attributable to the noncontrolling interest	**(503)**	21	88
EBIT	**(1,019)**	(51,052)	(17,597)
Depreciation and amortization	**39,522**	47,876	45,649
EBITDA	**38,503**	(3,176)	28,052
Interest expense	**(28,165)**	(31,104)	(24,091)
Income tax (provision)benefit	**(2,784)**	(50,931)	14,186
Depreciation and amortization	**(39,522)**	(47,876)	(45,649)
Net loss attributable to ARC Document Solutions	**$ (31,968)**	$ (133,087)	$ (27,502)

(1) For the twelve months ended December 31, 2012 cash flows provided by operating activities includes $0.9 million cash payments related to our restructuring activities.

The following is a reconciliation of net loss attributable to ARC Document Solutions to EBIT, EBITDA and Adjusted EBITDA:

	Fiscal Year Ended December 31,		
	2012	**2011**	**2010**
		(In thousands)	
Net loss attributable to ARC Document Solutions	**$ (31,968)**	$ (133,087)	$ (27,502)
Interest expense, net	**28,165**	31,104	24,091
Income tax provision (benefit)	**2,784**	50,931	(14,186)
EBIT	**(1,019)**	(51,052)	(17,597)
Depreciation and amortization	**39,522**	47,876	45,649
EBITDA	**38,503**	(3,176)	28,052
Special items:			
Stock-based compensation	**1,999**	4,271	5,922
Loss on early extinguishment of debt			2,509
Goodwill impairment	**16,707**	65,444	38,263
Restructuring expense	**3,320**		
Adjusted EBITDA	**$ 60,529**	$ 66,539	$ 74,746

The following is a reconciliation of our net loss margin to EBIT margin, EBITDA margin and Adjusted EBITDA margin:

	Fiscal Year Ended December 31,		
	2012 (1)	**2011 (1)**	**2010 (1)**
Net loss margin	**(7.9)%**	(31.5)%	(6.2)%
Interest expense, net	**6.9**	7.4	5.5
Income tax provision (benefit)	**0.7**	12.0	(3.2)
EBIT margin	**(0.3)**	(12.1)	(4.0)
Depreciation and amortization	**9.7**	11.3	10.3
EBITDA margin	**9.5**	(0.8)	6.4
Special items:			
Stock-based compensation	**0.5**	1.0	1.3
Loss on early extinguishment of debt			0.6
Goodwill impairment	**4.1**	15.5	8.7
Restructuring expense	**0.8**		
Adjusted EBITDA margin	**14.9%**	15.7%	16.9%

(1) Column does not foot due to rounding.

The following is a reconciliation of net loss attributable to ARC to unaudited adjusted net (loss) income attributable to ARC and loss per share to adjusted (loss) earnings per share (in thousands, except per share data):

	Fiscal Year Ended December 31,		
	2012	2011	2010
	(In thousands, except per share data)		
Net loss attributable to ARC	**$ (31,968)**	$ (133,087)	$ (27,502)
Goodwill impairment	**16,707**	65,444	38,263
Change in trade name impact to amortization	**3,158**	9,475	1,579
Restructuring expense	**3,320**		
Loss on early extinguishment of debt			2,509
Interest rate swap related costs	**3,440**	5,691	1,241
Income tax benefit, related to above items	**(7,676)**	(16,053)	(14,758)
Deferred tax valuation allowance and other discrete tax items	**11,311**	67,556	
Unaudited adjusted net (loss) income attributable to ARC	**$ (1,708)**	$ (974)	$ 1,332
Loss Per Share attributable to ARC (Actual):			
Basic	**$ (0.70)**	$ (2.93)	$ (0.61)
Diluted	**$ (0.70)**	$ (2.93)	$ (0.61)
(Loss) Earnings Per Share attributable to ARC (Adjusted):			
Basic	**$ (0.04)**	$ (0.02)	$ 0.03
Diluted	**$ (0.04)**	$ (0.02)	$ 0.03
Weighted average common shares (Actual) outstanding:			
Basic	**45,668**	45,401	45,213
Diluted	**45,668**	45,401	45,213
Weighted average common shares (Adjusted) outstanding:			
Basic	**45,668**	45,401	45,213
Diluted	**45,668**	45,401	45,383

Free Cash Flows

Free Cash Flows (FCF) is defined as cash flows from operating activities less capital expenditures. FCF is a useful measure in determining our ability to generate excess cash flows for reinvestment in the business in a variety of ways including acquisition opportunities, the potential return of value to shareholders through stock repurchases or the purchase of our own debt instruments. As such, we believe this measure provides relevant and useful information to our current and potential investors.

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

	Fiscal Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cash flows provided by operating activities	**$ 37,552**	$ 49,168	$ 53,924
Capital expenditures	**(20,348)**	(15,553)	(8,634)
Free Cash Flows	**$ 17,204**	$ 33,615	$ 45,290

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Results of Operations

	Fiscal Year Ended December 31,			2012 Versus 2011 Increase (Decrease)		2011 Versus 2010 Increase (Decrease)	
	2012 (1)	2011 (1)	2010 (1)	$	%	$ (1)	%
	(In millions, except percentages)						
Traditional reprographics	**$ 126.8**	$ 145.4	$ 173.4	**$ (18.6)**	**(12.8)%**	$ (28.0)	(16.1)%
Color	**79.1**	84.1	81.6	**(5.0)**	**(5.9)%**	2.5	3.0%
Digital	**35.6**	38.0	39.6	**(2.4)**	**(6.3)%**	(1.6)	(4.0)%
Subtotal(2)	**241.4**	267.5	294.6	**(26.1)**	**(9.8)%**	(27.0)	(9.2)%
Onsite services(3)	**108.8**	100.7	90.0	**8.1**	**8.0%**	10.7	11.9%
Equipment and supplies sales	**55.9**	54.5	57.1	**1.4**	**2.6%**	(2.6)	(4.6)%
Total net sales	**$ 406.1**	$ 422.7	$ 441.6	**$ (16.5)**	**(3.9)%**	$ (18.9)	(4.3)%
Gross profit	**$ 123.5**	$ 134.3	$ 142.3	**$ (10.8)**	**&n**		