

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

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: November 7, 2018
(Date of earliest event reported)

ARC Document Solutions, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-32407
(Commission File Number)

20-1700361
(IRS Employer
Identification Number)

12657 Alcosta Blvd, Suite 200, San Ramon, CA
(Address of principal executive offices)

94583
(Zip Code)

(925) 949-5100
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On November 7, 2018, ARC Document Solutions, Inc. (the “Company”) issued a press release reporting its financial results for the third quarter 2018. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference herein.

The information contained in Item 2.02 of this Current Report on Form 8-K, including Exhibit 99.1 attached hereto, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits**(d) Exhibits**

[99.1 Press Release of ARC Document Solutions, Inc. dated November 7, 2018](#)

SIGNATURE

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

Dated: November 7, 2018

ARC DOCUMENT SOLUTIONS, INC.

By: /s/ Jorge Avalos

Jorge Avalos

Chief Financial Officer

Exhibit Index

Exhibit No.

Description

99.1

[ARC Document Solutions, Inc. Press Release dated November 7, 2018.](#)

ARC Document Solutions Reports Results for Third Quarter 2018

SAN RAMON, CA – (November 7, 2018) – ARC Document Solutions, Inc. (NYSE: ARC), a leading document solutions provider to design, engineering, construction, and facilities management professionals, today reported its financial results for the third quarter ended September 30, 2018.

Financial Highlights:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| <i>(All dollar amounts in millions, except EPS)</i> | | | | |
| Net Sales | \$ 100.5 | \$ 96.5 | \$ 302.4 | \$ 297.5 |
| Gross Margin | 32.5% | 30.3% | 32.6% | 31.8% |
| Goodwill impairment | \$ — | \$ 17.6 | \$ — | \$ 17.6 |
| Net income (loss) attributable to ARC | \$ 2.6 | \$ (14.8) | \$ 7.3 | \$ (9.4) |
| Adjusted net income attributable to ARC | \$ 2.3 | \$ 0.4 | \$ 7.0 | \$ 5.9 |
| Earnings (loss) per share - Diluted | \$ 0.06 | \$ (0.32) | \$ 0.16 | \$ (0.20) |
| Adjusted earnings per share - Diluted | \$ 0.05 | \$ 0.01 | \$ 0.15 | \$ 0.13 |
| Cash provided by operating activities | \$ 7.1 | \$ 11.3 | \$ 30.1 | \$ 36.8 |
| EBITDA | \$ 13.0 | \$ (7.0) | \$ 38.9 | \$ 21.9 |
| Adjusted EBITDA | \$ 13.6 | \$ 11.5 | \$ 40.7 | \$ 42.1 |
| Capital Expenditures | \$ 3.7 | \$ 2.3 | \$ 10.5 | \$ 7.2 |
| Debt & Capital Leases (including current), net of unamortized deferred financing fees | | | \$ 132.2 | \$ 149.2 |

Management Commentary

“I am pleased to announce another successful quarter,” said Suri Suriyakumar, Chairman, President and CEO of ARC Document Solutions. “As I’ve mentioned previously this year, we continue to make steady progress toward our strategic objectives to protect print revenues in spite of the market’s inherent challenges, while investing in technology initiatives that further strengthen our position in the construction and real estate space. Our decision to invest in the business last year has paid solid dividends, and the print market and its use of technology continues to evolve in our favor. We have strengthened our revenue base and expanded our share in most of the major markets where we operate.”

“These achievements, combined with our relentless focus on managing costs, have allowed us to deliver strong gross margins and a meaningful increase in EBITDA during the quarter. Our performance has also driven a gratifying improvement in earnings per share, as well as an upgrade in our annual forecast for the second time this year,” Mr. Suriyakumar said. “We expect ARC’s annual EPS to be in the range of 15 to 18 cents, and adjusted EBITDA to end the year in the range of \$52 to \$55 million.”

“ARC delivered strong financial performance despite increased medical costs compared to the prior year,” said Jorge Avalos, Chief Financial Officer of ARC Document Solutions. “As expected, this year’s self-insurance costs began to moderate as our stop-loss insurance took effect, but the company still had to overcome medical claim costs that were approximately \$600,000 higher than they were in 2017. It’s a testament to our performance during the quarter that we still delivered a year-over-year increase of more than \$2 million to our adjusted EBITDA. We are also affirming our annual forecast for cash flows from operations, having generated over \$30 million year-to-date, and with quarterly trends in line with our expectations.”

2018 Third Quarter Supplemental Information:

Net sales were \$100.5 million , a 4.2% increase compared to the third quarter of 2017 .

Days sales outstanding were 56 in Q3 2018 and 55 in Q3 2017 .

Architectural, engineering, construction and building owner/operators (AEC/O) customers comprised approximately 79% of our total net sales, while customers outside of construction made up approximately 21% of our total net sales.

Total number of MPS locations at the end of the third quarter has grown to approximately 10,500 , a net gain of approximately 500 locations over Q3 2017 .

Adjusted EBITDA excludes goodwill impairment, loss on extinguishment and modification of debt, and stock-based compensation expense.

Sales from Services and Product Lines as a Percentage of Net Sales

| Services and Product Line | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|-------|-------------------|-------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| CDIM | 52.2% | 52.0% | 53.1% | 52.1% |
| MPS | 32.2% | 33.3% | 32.1% | 32.8% |
| AIM | 3.6% | 3.5% | 3.2% | 3.3% |
| Equipment and supplies sales | 12.0% | 11.2% | 11.6% | 11.8% |

Outlook

The outlook for ARC Document Solutions' 2018 fully-diluted annual adjusted earnings per share has been upgraded to a range of \$0.15 to \$0.18, up from its previous range of \$0.12 to \$0.17. The Company's 2018 forecast for annual adjusted EBITDA also has been upgraded to \$52 to \$55 million, up from its previous range of \$48 to \$54 million. ARC's 2018 annual cash provided by operating activities remains unchanged and is projected to be in the range of \$44 to \$50 million.

Teleconference and Webcast

ARC Document Solutions will hold a conference call with investors and analysts on Wednesday, November 7, 2018, at 2 P.M. Pacific Time (5 P.M. Eastern Time) to discuss results for the Company's 2018 third quarter. To access the live audio call, dial (866) 393-4306. International callers may join the conference by dialing (734) 385-2616. The conference code is 4098725. A live webcast will also be made available on the investor relations page of ARC Document Solution's website at <http://ir.e-arc.com>. A replay of the webcast will be available on the website following the call's conclusion.

About ARC Document Solutions (NYSE: ARC)

ARC Document Solutions distributes Documents and Information to facilitate communication for design, engineering and construction professionals, real estate managers and developers, facilities owners, and a variety of similar disciplines. The Company provides cloud and mobile solutions, professional services, and hardware to help its customers around the world reduce costs and increase efficiency, improve information access and control, and communicate faster, easier, and better. Follow ARC at www.e-arc.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on current opinions, estimates and assumptions of management regarding future events and the future financial performance of the Company. Words and phrases such as "steady progress", "continues to evolve", "expectations", "outlook", "sustainable", "projected," and similar expressions identify forward-looking statements and all statements other than statements of historical fact, including, but not limited to, any projections regarding earnings, revenues and financial performance of the Company, could be deemed forward-looking statements. We caution you that such statements are only

predictions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. In addition to matters affecting the construction, managed print services, document management or reprographics industries, or the economy generally, factors that could cause actual results to differ from expectations stated in forward-looking statements include, among others, the factors described in the caption entitled "Risk Factors" in Item 1A in ARC Document Solution's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, Quarterly Reports on Form 10-Q, and other periodic filings and prospectuses. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Contact Information:

David Stickney
VP Corporate Communications & Investor Relations
925-949-5114

ARC Document Solutions, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 18,404 | \$ 28,059 |
| Accounts receivable, net of allowances for accounts receivable of \$2,366 and \$2,341 | 62,478 | 57,011 |
| Inventories, net | 18,301 | 19,937 |
| Prepaid expenses | 6,371 | 4,208 |
| Other current assets | 5,209 | 5,266 |
| Total current assets | 110,763 | 114,481 |
| Property and equipment, net of accumulated depreciation of \$201,126 and \$198,693 | 69,133 | 64,245 |
| Goodwill | 121,051 | 121,051 |
| Other intangible assets, net | 6,078 | 9,068 |
| Deferred income taxes | 25,738 | 28,029 |
| Other assets | 2,601 | 2,551 |
| Total assets | \$ 335,364 | \$ 339,425 |
| Current liabilities: | | |
| Accounts payable | \$ 22,848 | \$ 24,289 |
| Accrued payroll and payroll-related expenses | 13,009 | 12,617 |
| Accrued expenses | 17,896 | 17,201 |
| Current portion of long-term debt and capital leases | 21,334 | 20,791 |
| Total current liabilities | 75,087 | 74,898 |
| Long-term debt and capital leases | 110,889 | 123,626 |
| Other long-term liabilities | 4,474 | 3,290 |
| Total liabilities | 190,450 | 201,814 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| ARC Document Solutions, Inc. stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding | — | — |
| Common stock, \$0.001 par value, 150,000 shares authorized; 48,464 and 47,913 shares issued and 45,790 and 45,266 shares outstanding | 48 | 48 |
| Additional paid-in capital | 122,878 | 120,953 |
| Retained earnings | 27,785 | 20,524 |
| Accumulated other comprehensive loss | (3,457) | (1,998) |
| Total | 147,254 | 139,527 |
| Less cost of common stock in treasury, 2,674 and 2,647 shares | 9,350 | 9,290 |
| Total ARC Document Solutions, Inc. stockholders' equity | 137,904 | 130,237 |
| Noncontrolling interest | 7,010 | 7,374 |
| Total equity | 144,914 | 137,611 |
| Total liabilities and equity | \$ 335,364 | \$ 339,425 |

ARC Document Solutions, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Service sales | \$ 88,419 | \$ 85,625 | \$ 267,160 | \$ 262,459 |
| Equipment and supplies sales | 12,054 | 10,833 | 35,211 | 35,010 |
| Total net sales | 100,473 | 96,458 | 302,371 | 297,469 |
| Cost of sales | 67,801 | 67,231 | 203,679 | 202,918 |
| Gross profit | 32,672 | 29,227 | 98,692 | 94,551 |
| Selling, general and administrative expenses | 26,973 | 25,843 | 81,780 | 76,540 |
| Amortization of intangible assets | 949 | 1,053 | 2,942 | 3,250 |
| Goodwill impairment | — | 17,637 | — | 17,637 |
| Income (loss) from operations | 4,750 | (15,306) | 13,970 | (2,876) |
| Other expense (income), net | 38 | (19) | (63) | (60) |
| Loss on extinguishment and modification of debt | — | 124 | — | 230 |
| Interest expense, net | 1,478 | 1,530 | 4,436 | 4,679 |
| Income before income tax provision (benefit) | 3,234 | (16,941) | 9,597 | (7,725) |
| Income tax provision (benefit) | 647 | (2,174) | 2,526 | 1,574 |
| Net income (loss) | 2,587 | (14,767) | 7,071 | (9,299) |
| (Income) loss attributable to the noncontrolling interest | (28) | (7) | 190 | (55) |
| Net income (loss) attributable to ARC Document Solutions, Inc. shareholders | \$ 2,559 | \$ (14,774) | \$ 7,261 | \$ (9,354) |
| Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders: | | | | |
| Basic | \$ 0.06 | \$ (0.32) | \$ 0.16 | \$ (0.20) |
| Diluted | \$ 0.06 | \$ (0.32) | \$ 0.16 | \$ (0.20) |
| Weighted average common shares outstanding: | | | | |
| Basic | 44,983 | 45,834 | 44,888 | 45,756 |
| Diluted | 45,188 | 45,834 | 44,993 | 45,756 |

ARC Document Solutions, Inc.
Consolidated Statements of Cash Flows (In thousands)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities | | | | |
| Net income (loss) | \$ 2,587 | \$ (14,767) | \$ 7,071 | \$ (9,299) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Allowance for accounts receivable | 82 | 306 | 637 | 867 |
| Depreciation | 7,389 | 7,377 | 21,708 | 21,787 |
| Amortization of intangible assets | 949 | 1,053 | 2,942 | 3,250 |
| Amortization of deferred financing costs | 56 | 69 | 175 | 246 |
| Goodwill impairment | — | 17,637 | — | 17,637 |
| Stock-based compensation | 597 | 699 | 1,824 | 2,251 |
| Deferred income taxes | 468 | (2,380) | 2,175 | 1,045 |
| Deferred tax valuation allowance | 20 | 454 | 71 | 488 |
| Loss on extinguishment and modification of debt | — | 124 | — | 230 |
| Other non-cash items, net | (95) | (205) | (201) | (340) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (1,920) | 554 | (6,594) | 406 |
| Inventory | 217 | (142) | 1,291 | (650) |
| Prepaid expenses and other assets | (1,563) | 1,029 | (2,326) | (1,129) |
| Accounts payable and accrued expenses | (1,690) | (482) | 1,289 | (33) |
| Net cash provided by operating activities | 7,097 | 11,326 | 30,062 | 36,756 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (3,746) | (2,335) | (10,463) | (7,246) |
| Other | 184 | 72 | 556 | 466 |
| Net cash used in investing activities | (3,562) | (2,263) | (9,907) | (6,780) |
| Cash flows from financing activities | | | | |
| Proceeds from stock option exercises | — | 2 | — | 73 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 28 | 37 | 100 | 103 |
| Share repurchases | — | — | (60) | — |
| Contingent consideration on prior acquisitions | (62) | (63) | (176) | (214) |
| Early extinguishment of long-term debt | — | — | — | (14,150) |
| Payments on long-term debt agreements and capital leases | (5,786) | (52,146) | (17,200) | (60,060) |
| Borrowings under revolving credit facilities | 3,125 | 52,350 | 9,250 | 54,850 |
| Payments under revolving credit facilities | (7,000) | (9,375) | (20,875) | (9,675) |
| Payment of deferred financing costs | — | (270) | — | (270) |
| Net cash used in financing activities | (9,695) | (9,465) | (28,961) | (29,343) |
| Effect of foreign currency translation on cash balances | (174) | 161 | (849) | 491 |
| Net change in cash and cash equivalents | (6,334) | (241) | (9,655) | 1,124 |
| Cash and cash equivalents at beginning of period | 24,738 | 26,604 | 28,059 | 25,239 |
| Cash and cash equivalents at end of period | \$ 18,404 | \$ 26,363 | \$ 18,404 | \$ 26,363 |
| Supplemental disclosure of cash flow information | | | | |
| Noncash investing and financing activities | | | | |
| Capital lease obligations incurred | \$ 5,632 | \$ 6,404 | \$ 16,560 | \$ 20,714 |

ARC Document Solutions, Inc.
Net Sales by Product Line
(In thousands)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|-----------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| <i>Service sales</i> | | | | |
| CDIM | \$ 52,418 | \$ 50,089 | \$ 160,270 | \$ 155,031 |
| MPS | 32,384 | 32,153 | 97,181 | 97,697 |
| AIM | 3,617 | 3,383 | 9,709 | 9,731 |
| Total service sales | 88,419 | 85,625 | 267,160 | 262,459 |
| <i>Equipment and supplies sales</i> | 12,054 | 10,833 | 35,211 | 35,010 |
| Total net sales | \$ 100,473 | \$ 96,458 | \$ 302,371 | \$ 297,469 |

ARC Document Solutions, Inc.
Non-GAAP Measures
Reconciliation of cash flows provided by operating activities to EBITDA and Adjusted EBITDA
(In thousands)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows provided by operating activities | \$ 7,097 | \$ 11,326 | \$ 30,062 | \$ 36,756 |
| Changes in operating assets and liabilities | 4,956 | (959) | 6,340 | 1,406 |
| Non-cash expenses, including depreciation and amortization | (9,466) | (25,134) | (29,331) | (47,461) |
| Income tax provision (benefit) | 647 | (2,174) | 2,526 | 1,574 |
| Interest expense, net | 1,478 | 1,530 | 4,436 | 4,679 |
| (Income) loss attributable to the noncontrolling interest | (28) | (7) | 190 | (55) |
| Depreciation and amortization | 8,338 | 8,430 | 24,650 | 25,037 |
| EBITDA | 13,022 | (6,988) | 38,873 | 21,936 |
| Loss on extinguishment and modification of debt | — | 124 | — | 230 |
| Goodwill impairment | — | 17,637 | — | 17,637 |
| Stock-based compensation | 597 | 699 | 1,824 | 2,251 |
| Adjusted EBITDA | \$ 13,619 | \$ 11,472 | \$ 40,697 | \$ 42,054 |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.

Non-GAAP Measures

Reconciliation of net income (loss) attributable to ARC Document Solutions, Inc. to EBITDA and Adjusted EBITDA

(In thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) attributable to ARC Document Solutions, Inc. | \$ 2,559 | \$ (14,774) | \$ 7,261 | \$ (9,354) |
| Interest expense, net | 1,478 | 1,530 | 4,436 | 4,679 |
| Income tax provision (benefit) | 647 | (2,174) | 2,526 | 1,574 |
| Depreciation and amortization | 8,338 | 8,430 | 24,650 | 25,037 |
| EBITDA | 13,022 | (6,988) | 38,873 | 21,936 |
| Loss on extinguishment and modification of debt | — | 124 | — | 230 |
| Goodwill impairment | — | 17,637 | — | 17,637 |
| Stock-based compensation | 597 | 699 | 1,824 | 2,251 |
| Adjusted EBITDA | \$ 13,619 | \$ 11,472 | \$ 40,697 | \$ 42,054 |

See Non-GAAP Financial Measures discussion below.

ARC Document Solutions, Inc.**Non-GAAP Measures****Reconciliation of net income (loss) attributable to ARC to unaudited adjusted net income attributable to ARC****(In thousands, except per share data)****(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) attributable to ARC Document Solutions, Inc. | \$ 2,559 | \$ (14,774) | \$ 7,261 | \$ (9,354) |
| Loss on extinguishment and modification of debt | — | 124 | — | 230 |
| Goodwill impairment | — | 17,637 | — | 17,637 |
| Income tax benefit related to above items | — | (3,144) | — | (3,186) |
| Deferred tax valuation allowance and other discrete tax items | (213) | 515 | (290) | 594 |
| Adjusted net income attributable to ARC Document Solutions, Inc. | \$ 2,346 | \$ 358 | \$ 6,971 | \$ 5,921 |

Actual:

Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:

| | | | | |
|---------|---------|-----------|---------|-----------|
| Basic | \$ 0.06 | \$ (0.32) | \$ 0.16 | \$ (0.20) |
| Diluted | \$ 0.06 | \$ (0.32) | \$ 0.16 | \$ (0.20) |

Weighted average common shares outstanding:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 44,983 | 45,834 | 44,888 | 45,756 |
| Diluted | 45,188 | 45,834 | 44,993 | 45,756 |

Adjusted:

Earnings per share attributable to ARC Document Solutions, Inc. shareholders:

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | \$ 0.05 | \$ 0.01 | \$ 0.16 | \$ 0.13 |
| Diluted | \$ 0.05 | \$ 0.01 | \$ 0.15 | \$ 0.13 |

Weighted average common shares outstanding:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 44,983 | 45,834 | 44,888 | 45,756 |
| Diluted | 45,188 | 46,342 | 44,993 | 46,335 |

See Non-GAAP Financial Measures discussion below.

Non-GAAP Financial Measures

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.

EBITDA represents net income before interest, taxes, depreciation and amortization.

We have presented 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 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. We use EBITDA to compare the performance of our operating segments and to measure performance for determining consolidated-level compensation. In addition, we use EBITDA to evaluate potential acquisitions and potential capital expenditures.

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, 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 EBITDA and related ratios only as supplements.

Our presentation of adjusted net income and adjusted EBITDA 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 above.

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and nine months ended September 30, 2018 and 2017 to reflect the exclusion of the goodwill impairment, loss on extinguishment and modification of debt, and changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and nine months ended September 30, 2018 and 2017 .

We have presented adjusted EBITDA for the three and nine months ended September 30, 2018 and 2017 to exclude the goodwill impairment, loss on extinguishment and modification of debt, and stock-based compensation expense. The adjustment of EBITDA for these items is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.