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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from __________ to __________

Commission File Number: 001-32407

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

Delaware	**20-1700361**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

12657 Alcosta Blvd, Suite 200	**San Ramon**	**California**	**94583**
(Address of principal executive offices)			**(Zip Code)**

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		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. ☐

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	ARC	The New York Stock Exchange

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 43,863,017 as of October 29, 2020.

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended September 30, 2020

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These "forward-looking statements," include but are not limited to expectations regarding the impact of the COVID-19 pandemic on our financial results and the effectiveness of the Company's responses to the pandemic; future cash flows, and capital requirements, the impact of foreign exchange rate movements on sales and net income, and the Company's anticipated effective tax rate. When used in this Form 10-Q, the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and variations of such words and similar expressions as they relate to our management or to ARC Document Solutions, Inc. (the “Company”) are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties that we have identified as having the potential to cause actual results to differ materially from those contemplated herein, especially factors relating to the COVID-19 pandemic. We have described in Part II, Item 1A-“Risk Factors” a number of factors that could cause our actual results to differ from our projections or estimates. These factors and other risk factors described in this Form 10-Q are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Many of these risks and uncertainties are currently amplified by and will continue to be amplified by, or in the future may be amplified by, the COVID-19 outbreak. It is not possible to predict or identify all such risks. 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. There may be additional risks that we consider immaterial or which are unknown. Given these uncertainties, you are cautioned not to place undue reliance on the substance or comprehensive nature of such forward-looking statements.

Except where otherwise indicated, the statements made in this Form 10-Q are made as of the date we filed this report with the U.S. Securities and Exchange Commission and should not be relied upon as of any subsequent date. All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation, and specifically disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we make in future filings of our Forms 10-K, Forms 10-Q, and Forms 8-K, and any amendments thereto, as well as our proxy statements.

PART I—FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except per share data)	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 50,342**	$ 29,425
Accounts receivable, net of allowances for accounts receivable of **$2,305** and $2,099	**41,322**	51,432
Inventory	**10,502**	13,936
Prepaid expenses	**4,663**	4,783
Other current assets	**4,051**	6,807
Total current assets	**110,880**	106,383
Property and equipment, net of accumulated depreciation of **$223,197** and $210,849	**62,971**	70,334
Right-of-use assets from operating leases	**37,743**	41,238
Goodwill	**121,051**	121,051
Other intangible assets, net	**641**	1,996
Deferred income taxes	**17,287**	19,755
Other assets	**2,127**	2,400
Total assets	**$ 352,700**	$ 363,157
Liabilities and Equity		
Current liabilities:		
Accounts payable	**$ 19,317**	$ 23,231
Accrued payroll and payroll-related expenses	**10,798**	14,569
Accrued expenses	**17,167**	20,440
Current operating lease liability	**11,779**	11,060
Current portion of finance leases	**18,748**	17,075
Total current liabilities	**77,809**	86,375
Long-term operating lease liabilities	**34,082**	37,260
Long-term debt and finance leases	**87,374**	89,082
Other long-term liabilities	**500**	400
Total liabilities	**199,765**	213,117
Commitments and contingencies (Note 6)		
Shareholders' equity:		
ARC Document Solutions, Inc. shareholders' equity:		
Preferred stock, $0.001 par value, 25,000 shares authorized; **0** shares issued and outstanding	**—**	—
Common stock, $0.001 par value, 150,000 shares authorized; **49,911** and 49,189 shares issued and **43,863** and 45,228 shares outstanding	**50**	49
Additional paid-in capital	**127,505**	126,117
Retained earnings	**36,477**	31,969
Accumulated other comprehensive loss	**(3,611)**	(3,357)
	160,421	154,778
Less cost of common stock in treasury, **6,048** and 3,960 shares	**13,842**	11,410
Total ARC Document Solutions, Inc. shareholders' equity	**146,579**	143,368
Noncontrolling interest	**6,356**	6,672
Total equity	**152,935**	150,040
Total liabilities and equity	**$ 352,700**	$ 363,157

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

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

(In thousands, except per share data)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net sales	**$ 72,379**	$ 94,104	**$ 225,123**	$ 290,099
Cost of sales	**48,186**	63,702	**152,888**	195,174
Gross profit	**24,193**	30,402	**72,235**	94,925
Selling, general and administrative expenses	**19,186**	26,025	**60,816**	80,881
Amortization of intangible assets	**285**	718	**1,353**	2,480
Restructuring expense	**—**	311	**—**	311
Income from operations	**4,722**	3,348	**10,066**	11,253
Other income, net	**(11)**	(17)	**(44)**	(53)
Interest expense, net	**871**	1,264	**3,111**	4,066
Income before income tax provision	**3,862**	2,101	**6,999**	7,240
Income tax provision	**1,234**	1,042	**2,489**	5,222
Net income	**2,628**	1,059	**4,510**	2,018
Loss attributable to the noncontrolling interest	**163**	16	**425**	173
Net income attributable to ARC Document Solutions, Inc. shareholders	**$ 2,791**	$ 1,075	**$ 4,935**	$ 2,191
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.07**	$ 0.02	**$ 0.11**	$ 0.05
Diluted	**$ 0.07**	$ 0.02	**$ 0.11**	$ 0.05
Weighted average common shares outstanding:				
Basic	**42,747**	44,978	**43,017**	45,107
Diluted	**42,918**	44,992	**43,160**	45,213

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

ARC DOCUMENT SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income	**$ 2,628**	$ 1,059	**$ 4,510**	$ 2,018
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments, net of tax	**444**	201	**(145)**	(753)
Other comprehensive income (loss), net of tax	**444**	201	**(145)**	(753)
Comprehensive income	**3,072**	1,260	**4,365**	1,265
Comprehensive income (loss) attributable to noncontrolling interest	**44**	102	**(316)**	(537)
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	**$ 3,028**	$ 1,158	**$ 4,681**	$ 1,802

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

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

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders: Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at June 30, 2019	49,144	$ 49	$ 124,837	$ 30,513	$ (3,823)	$ (10,217)	$ 6,394	$ 147,753
Stock-based compensation	—	—	623					623
Issuance of common stock under Employee Stock Purchase Plan	25		28					28
Treasury shares						(319)		(319)
Comprehensive income				1,075	83		102	1,260
Balance at September 30, 2019	49,169	$ 49	$ 125,488	$ 31,588	$ (3,740)	$ (10,536)	$ 6,496	$ 149,345

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders: Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at June 30, 2020	**49,891**	**$ 50**	**$ 127,077**	**$ 33,686**	**$ (3,848)**	**$ (13,842)**	**$ 6,312**	**$ 149,435**
Stock-based compensation	**—**	**—**	**413**					**413**
Issuance of common stock under Employee Stock Purchase Plan	**20**		**15**					**15**
Comprehensive income				**2,791**	**237**		**44**	**3,072**
Balance at September 30, 2020	**49,911**	**$ 50**	**$ 127,505**	**$ 36,477**	**$ (3,611)**	**$ (13,842)**	**$ 6,356**	**$ 152,935**

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders: Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2018	48,492	$ 48	$ 123,525	$ 29,397	$ (3,351)	$ (9,350)	$ 7,033	$ 147,302
Stock-based compensation	607	1	1,854					1,855
Issuance of common stock under Employee Stock Purchase Plan	70		109					109
Treasury shares						(1,186)		(1,186)
Comprehensive income (loss)				2,191	(389)		(537)	1,265
Balance at September 30, 2019	49,169	$ 49	$ 125,488	$ 31,588	$ (3,740)	$ (10,536)	$ 6,496	$ 149,345

(In thousands, except per share data)	ARC Document Solutions, Inc. Shareholders: Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2019	**49,189**	**$ 49**	**$ 126,117**	**$ 31,969**	**$ (3,357)**	**$ (11,410)**	**$ 6,672**	**$ 150,040**
Stock-based compensation	**643**	**1**	**1,333**					**1,334**
Issuance of common stock under Employee Stock Purchase Plan	**79**		**55**					**55**
Treasury shares						**(2,432)**		**(2,432)**
Cash Dividends - common stock ($0.01 per share)				**(427)**				**(427)**
Comprehensive income (loss)				**4,935**	**(254)**		**(316)**	**4,365**
Balance at September 30, 2020	**49,911**	**$ 50**	**$ 127,505**	**$ 36,477**	**$ (3,611)**	**$ (13,842)**	**$ 6,356**	**$ 152,935**

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

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

(In thousands)	Nine Months Ended September 30, 2020	2019
Cash flows from operating activities		
Net income	$ 4,510	$ 2,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for accounts receivable	706	430
Depreciation	21,402	21,600
Amortization of intangible assets	1,353	2,480
Amortization of deferred financing costs	48	162
Stock-based compensation	1,333	1,854
Deferred income taxes	2,419	4,684
Deferred tax valuation allowance	22	115
Restructuring expense, non-cash portion	—	46
Other non-cash items, net	226	(209)
Changes in operating assets and liabilities:		
Accounts receivable, net	9,310	(258)
Inventory	3,469	1,242
Prepaid expenses and other assets	10,765	7,094
Accounts payable and accrued expenses	(16,548)	(11,464)
Net cash provided by operating activities	39,015	29,794
Cash flows from investing activities		
Capital expenditures	(5,053)	(8,406)
Other	250	342
Net cash used in investing activities	(4,803)	(8,064)
Cash flows from financing activities		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	55	109
Share repurchases	(2,432)	(1,186)
Contingent consideration on prior acquisitions	—	(3)
Payments on finance leases and long-term debt agreements	(10,236)	(17,551)
Borrowings under revolving credit facilities	45,000	19,750
Payments under revolving credit facilities	(45,000)	(31,000)
Dividends paid	(870)	—
Net cash used in financing activities	(13,483)	(29,881)
Effect of foreign currency translation on cash balances	188	(479)
Net change in cash and cash equivalents	20,917	(8,630)
Cash and cash equivalents at beginning of period	29,425	29,433
Cash and cash equivalents at end of period	$ 50,342	$ 20,803
Supplemental disclosure of cash flow information		
Noncash investing and financing activities		
Finance lease obligations incurred	$ 9,624	$ 13,010
Operating lease obligations incurred	$ 4,582	$ 3,257

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

ARC DOCUMENT SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data or where otherwise noted)
(Unaudited)

1. Description of Business and Basis of Presentation

ARC Document Solutions, Inc. (“ARC Document Solutions,” “ARC” or the “Company”) is a leading document solutions provider to architectural, engineering, construction, and facilities management professionals, while also providing document solutions to businesses of all types. ARC offers a variety of services including: Construction Document Information Management ("CDIM"), Managed Print Services ("MPS"), and Archive and Information Management ("AIM"). In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conformity with the requirements of the U.S. Securities and Exchange Commission ("SEC"). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management’s opinion, the accompanying interim Condensed Consolidated Financial Statements reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

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

These interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes included in the Company’s 2019 Form 10-K.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Net sales of the Company’s principal services and products were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
CDIM	**$ 47,107**	$ 50,502	**$ 137,337**	$ 155,701
MPS[1]	**17,648**	30,607	**61,189**	93,092
AIM	**2,910**	3,516	**9,163**	10,380
Equipment and supplies sales	**4,714**	9,479	**17,434**	30,926
Net sales	**$ 72,379**	$ 94,104	**$ 225,123**	$ 290,099

[1] MPS includes $16.1 million of rental income and $1.6 million of service income for the three months ended September 30, 2020 and $56.2 million of rental income and $5.0 million of service income for the nine months ended September 30, 2020. MPS includes $28.5 million of rental income and $2.1 million of service income for the three months ended September 30, 2019 and $86.5 million of rental income and $6.6 million of service income for the nine months ended September 30, 2019.

CDIM consists of professional services and software services to (i) reproduce and distribute large-format and small-format documents in either black and white or color (“Ordered Prints”) and (ii) specialized graphic color printing. Substantially all of the Company’s revenue from CDIM comes from professional services to reproduce Ordered Prints. Sales of Ordered Prints are initiated through a customer order or quote and are governed by established terms and conditions agreed upon at the onset of the customer relationship. Revenue is recognized when the performance obligation under the terms of a contract with a customer are satisfied, which generally occurs with the transfer of control of the Ordered Prints. Transfer of control occurs at a specific point in time, when the Ordered Prints are delivered to the customer’s site or handed to the customer for walk-in orders. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Taxes collected concurrent with revenue-producing activities are excluded from revenue.

MPS consists of placement, management, and optimization of print and imaging equipment in customers' offices, job sites, and other facilities. MPS relieves the Company’s customers of the burden of purchasing print equipment and related supplies and maintaining print devices and print networks, and it shifts their costs to a “per-use” basis. MPS is supported by our hosted proprietary technology, Abacus®, which allows our customers to capture, control, manage, print, and account for their documents. Under its MPS contracts, the Company is paid a fixed rate per unit for each print produced (per-use), often referred to as a “click charge”. MPS sales are driven by the ongoing print needs of the Company’s customers at their facilities. Upon the issuance of Accounting Standards Codification ("ASC") 842, *Leases,* the Company concluded that certain of its MPS arrangements, which had previously been accounted for as service revenue under ASC 606, *Revenue from Contracts with Customers,* are accounted for as operating leases under ASC 842.

AIM combines software and professional services to facilitate the capture, management, access and retrieval of documents and information that have been produced in the past. AIM includes our hosted SKYSITE® software to organize, search and retrieve documents, as well as the provision of services that include the capture and conversion of hardcopy and electronic documents into digital files (“Scanned Documents”), and their cloud-based storage and maintenance. Sales of AIM professional services, which represents the majority of AIM revenue, are initiated through a customer order or proposal and are governed by established terms and conditions agreed upon at the onset of the customer relationship. Revenue is recognized when the performance obligation under the terms of a contract with a customer are satisfied, which generally occurs with the transfer of control of the digital files. Transfer of control occurs at a specific point in time, when the Scanned Documents are delivered to the customer either through SKYSITE or on electronic media. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Taxes collected concurrent with revenue-producing activities are excluded from revenue.

Equipment and Supplies sales consist of reselling printing, imaging, and related equipment (“Goods”) to customers primarily in architectural, engineering and construction firms. Sales of equipment and supplies are initiated through a customer order and are governed by established terms and conditions agreed upon at the onset of the customer relationship. Revenue is recognized when the performance obligations under the terms of a contract with a customer are satisfied, which occurs with the transfer of control of the Goods. Transfer of control occurs at a specific point in time, when the Goods are delivered to the customer’s site. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Taxes collected concurrent with revenue-producing activities are excluded from revenue. The Company has experienced minimal customer returns or refunds and does not offer a warranty on equipment that it is reselling.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted. The Company elected to early adopt ASU 2019-12 on January 1, 2020. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Loss (Topic 326)* (“ASU 2016-13”), which updates the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU 2016-13 must be adopted on a modified-retrospective approach. This update was effective for fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. In October 2019, the FASB approved an extension for all non-SEC filers, including small reporting companies, to extend the effective date to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Therefore, the effective date for this update will be January 1, 2023. The Company is currently evaluating the potential impact of the adoption of the new standard on its consolidated statements of financial condition and results of operations.

Segment Reporting

The provisions of ASC 280, *Segment Reporting*, require public companies to report financial and descriptive information about their reportable operating segments. The Company identifies operating segments based on the various business activities that earn revenue and incur expense and whose operating results are reviewed by the Company's Chief Executive Officer, who is the Company's chief operating decision maker. Because its operating segments have similar products and services, classes of customers, production processes, distribution methods and economic characteristics, the Company operates as a single reportable segment.

Risk and Uncertainties

The Company generates the majority of its revenue from sales of services and products to customers in the architectural, engineering, construction and building owner/operator ("AEC/O") industry. As a result, the Company's operating results and financial condition can be significantly affected by economic factors that influence the AEC/O industry, such as non-residential construction spending, GDP growth, interest rates, unemployment rates, and office vacancy rates, all of which have been amplified due to the COVID-19 pandemic. Reduced activity (relative to historic levels) in the AEC/O industry would diminish demand for some of ARC's services and products, and it would therefore negatively affect revenues and have a material adverse effect on ARC's business, operating results and financial condition.

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

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if common shares subject to outstanding options and acquisition rights had been issued and if the additional common shares were dilutive. Common share equivalents are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2020, 5.2 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share, because they were anti-dilutive. For the three and nine months ended September 30, 2019, 5.0 million and 5.4 million common shares were excluded from the calculation of diluted net loss attributable to ARC per common share, because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's stock plan.

Basic and diluted weighted average common shares outstanding were calculated as follows for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Weighted average common shares outstanding during the period—basic	**42,747**	44,978	**43,017**	45,107
Effect of dilutive stock awards	**171**	14	**143**	106
Weighted average common shares outstanding during the period—diluted	**42,918**	44,992	**43,160**	45,213

3. Goodwill and Other Intangibles

Goodwill

In accordance with ASC 350, *Intangibles - Goodwill and Other*, the Company assesses goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired. At September 30, 2020, the Company performed its assessment and determined that goodwill was not impaired.

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. In 2017, the Company elected to early-adopt ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test.

The Company determines the fair value of its reporting units using an income approach. Under the income approach, the Company determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. The level of judgment and estimation is inherently higher in the current environment considering the uncertainty created by the COVID-19 pandemic. The Company has evaluated numerous factors disrupting its business and made significant assumptions which include the severity and duration of the business disruption, the timing and degree of economic recovery and the combined effect of these assumptions on the Company's future operating results and cash flows.

Given the uncertainty regarding the ultimate financial impact of the COVID-19 pandemic and the ensuing economic recovery, there can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment analysis in 2020 will prove to be accurate predictions of the future. If the Company's assumptions, including forecasted EBITDA of certain reporting units, are not achieved, or its assumptions regarding disruptions caused by the pandemic, and its impact on the recovery from COVID-19 change, then the Company may be required to record goodwill impairment charges in future periods, whether in connection with the next annual impairment testing in the third quarter of 2021, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles-Goodwill and Other*) outside of the quarter when the Company regularly performs its annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material. There was no change in the carrying amount of goodwill from January 1, 2019 through September 30, 2020.

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

Long-lived and Other Intangible Assets

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

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

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

The following table sets forth the Company's other intangible assets resulting from business acquisitions as of September 30, 2020 and December 31, 2019 which continue to be amortized:

	September 30, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	**$ 99,190**	**$ 98,828**	**$ 362**	$ 99,127	$ 97,430	$ 1,697
Trade names and trademarks	**20,295**	**20,016**	**279**	20,279	19,980	299
	$ 119,485	**$ 118,844**	**$ 641**	$ 119,406	$ 117,410	$ 1,996

Estimated future amortization expense of other intangible assets for the remainder of the 2020 fiscal year, and each of the subsequent four fiscal years and thereafter, are as follows:

2020 (excluding the nine months ended September 30, 2020)	**$ 150**
2021	**172**
2022	**109**
2023	**42**
2024	**40**
Thereafter	**128**
	$ 641

4. Income Taxes

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

The Company recorded an income tax provision of $1.2 million and $2.5 million in relation to pretax income of $3.9 million and $7.0 million for the three and nine months ended September 30, 2020, respectively, which resulted in an effective income tax rate of 32.0% and 35.6%, respectively. The Company recorded an income tax provision of $1.0 million and $5.2 million in relation to pretax income of $2.1 million and $7.2 million for the three and nine months ended September 30, 2019, respectively, which resulted in an effective income tax rate of 49.6% and 72.1%, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2020 was primarily impacted by certain stock-based compensation, change in valuation allowances against certain deferred tax assets and non-deductible expenses.

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

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

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

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

The Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative income/losses in recent years, as adjusted for permanent differences. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's current estimates, due to unanticipated events, such as the ultimate financial impact of and recovery from the COVID-19 pandemic or otherwise, could have a material effect on its financial condition and results of operations. The Company has a $2.3 million valuation allowance against certain deferred tax assets as of September 30, 2020.

Based on the Company's current assessment, the remaining net deferred tax assets as of September 30, 2020 are considered more likely than not to be realized. The valuation allowance of $2.3 million may be increased or reduced as conditions change or if the Company is unable to implement certain available tax planning strategies. The realization of the Company's net deferred tax assets ultimately depends on future taxable income, reversals of existing taxable temporary differences or through a loss carry back. The Company has income tax receivables of $0.2 million as of September 30, 2020 included in other current assets in its interim Condensed Consolidated Balance Sheet primarily related to income tax refunds for prior years.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2020	December 31, 2019
Revolving Loans; **1.7%** and 3.63% interest rate at September 30, 2020 and December 31, 2019	**60,000**	60,000
Various finance leases; weighted average interest rate of **4.8%** and 4.9% at September 30, 2020 and December 31, 2019; principal and interest payable monthly through January 2026	**46,122**	46,157
	106,122	106,157
Less current portion	**(18,748)**	(17,075)
	$ 87,374	$ 89,082

Credit Agreement

On December 17, 2019, the Company amended its Credit Agreement which was originally entered into on November 20, 2014 with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto.

The amendment increased the maximum aggregate principal amount of revolving loans under the Credit Agreement from $65 million to $80 million. Proceeds of a portion of the revolving loans available to be drawn under the Credit Agreement were used to fully repay the $49.5 million term loan that was outstanding under the Credit Agreement.

As of September 30, 2020, the Company's borrowing availability of Revolving Loans under the Revolving Loan commitment was $17.8 million, after deducting outstanding letters of credit of $2.2 million and outstanding Revolving Loans of $60.0 million.

Loans borrowed under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.25% to 1.75%, based on the Company's Total Leverage Ratio (as defined in the Credit Agreement). Loans borrowed under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00%, per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its "prime rate," plus (ii) a margin ranging from 0.25% to 0.75%, based on the Company's Total Leverage Ratio.

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

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of the Company and its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of the Company or its subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend their organizational documents; or enter into certain restrictive agreements. In addition, the Credit Agreement contains financial covenants which requires the Company to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 2.75 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. We were in compliance with our covenants as of September 30, 2020.

The amendment also modified certain tests the Company is required to meet in order to pay dividends, repurchase stock and make other restricted payments. In order to make such payments which are permitted subject to certain customary conditions set forth in the Credit Agreement, the amount of all such payments will be limited to $15 million during any twelve-month period. Pursuant to the amendment, when calculating the fixed charge coverage ratio, the Company may exclude up to $10 million of such restricted payments that would otherwise constitute fixed charges in any twelve month period.

The amendment allows for payment of dividends. In February 2020, the Company's board of directors declared a quarterly cash dividend of $0.01 per share that was paid on May 29, 2020 to shareholders of record as of April 30, 2020. Due to the impact of the COVID-19 pandemic, the Company has temporarily suspended its dividend program.

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

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

6. Commitments and Contingencies

Operating Leases. The Company leases machinery, equipment, and office and operational facilities under non-cancelable operating lease agreements used in the ordinary course of business. Certain lease agreements for the Company's facilities generally contain renewal options and provide for annual increases in rent based on the local Consumer Price Index. Refer to Note 8, *Leasing,* on our Annual Report on Form 10-K for a schedule of the Company's future minimum operating lease payments.

Indemnification Agreements. The Company has entered into indemnification agreements with each director and named executive officer which provide indemnification under certain circumstances for acts and omissions which may not be covered by any directors’ and officers’ liability insurance. The indemnification agreements may require the Company, among other things, to indemnify its officers and directors against certain liabilities that may arise by reason of their status or service as officers and directors (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain officers’ and directors’ insurance if available on reasonable terms. There have been no events to date which would require the Company to indemnify its officers or directors.

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

7. Stock-Based Compensation

The Company's stock plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards, to employees, directors and consultants of the Company. On April 26, 2018, the Company's shareholders approved an amendment to the Company's stock plan to increase the aggregate number of shares authorized for issuance under such plan by 3.5 million shares. As of September 30, 2020, 1.0 million shares remained available for issuance under the stock plan.

Stock options granted under the Company's stock plan generally expire no later than ten years from the date of grant. Options generally vest and become fully exercisable over a period of three to four years from date of award, except that options granted to non-employee directors may vest over a shorter time period. The exercise price of options is equal to at least 100% of the fair market value of the Company’s common stock on the date of grant. The Company allows for cashless exercises of vested outstanding options.

During the nine months ended September 30, 2020, the Company granted options to acquire a total of 0.5 million shares of the Company's common stock to certain key employees with an exercise price equal to the fair market value of the Company’s common stock on the date of grant. During the nine months ended September 30, 2020, the Company granted 0.3 million shares of restricted stock awards to certain key employees with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. These stock options and restricted stock awards vest annually over three years from the grant date. In addition, the Company granted approximately 86 thousand shares of restricted stock awards to each of the Company's four non-employee members of its board of directors with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted.

Stock-based compensation expense was $0.4 million and $1.3 million for the three and nine months ended September 30, 2020, respectively compared to stock-based compensation expense of $0.6 million and $1.9 million for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2020, total unrecognized compensation cost related to unvested stock-based payments totaled $1.9 million and is expected to be recognized over a weighted-average period of approximately 1.6 years.

8. Fair Value Measurements

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

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

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

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

As of September 30, 2020, the Company's assets and liabilities that are measured at fair value were not material.

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

Cash equivalents: Cash equivalents are time deposits with maturity of three months or less when purchased, which are highly liquid and readily convertible to cash. Cash equivalents reported in the Company's interim Condensed Consolidated Balance Sheet were $7.2 million as of September 30, 2020 and $9.3 million as of December 31, 2019, and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Short and long-term debt: The carrying amount of the Company's finance leases reported in the interim Condensed Consolidated Balance Sheets approximates fair value based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount reported in the Company's interim Condensed Consolidated Balance Sheet as of September 30, 2020 for borrowings under its Credit Agreement is $60.0 million. The Company has determined, utilizing observable market quotes, that the fair value of borrowings under its Credit Agreement is $60.0 million as of September 30, 2020.

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

The following discussion should be read in conjunction with our interim Condensed Consolidated Financial Statements and the related notes and other financial information appearing elsewhere in this report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2019 Form 10-K and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020.

Business Summary

ARC Document Solutions, Inc. ("ARC Document Solutions," "ARC," "we," "us," or "our") is a leading document solutions provider to design, engineering, construction, and facilities management professionals, while also providing document solutions to businesses of all types.

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

Each of our service offerings is enabled through a suite of supporting proprietary technology and a wide variety of value-added services. We have categorized our service and product offerings to report distinct sales recognized from:

Construction Document and Information Management (CDIM), which consists of professional services and software services to manage and distribute documents and information. CDIM sales include software services such as SKYSITE®, our cloud-based project communication application, as well as providing document and information management services that are often technology-enabled. The bulk of our current revenue from CDIM comes from large-format and small-format printing services we provide in both black and white and in color.

The sale of services addresses a variety of customer needs including the provision of project communication tools, project information management, building information modeling, digital document distribution services, printing services, and others.

Managed Print Services (MPS), consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a "per-use" basis. MPS is supported by our proprietary technology, Abacus®, which allows our customers to capture, control, manage, print, and account for their documents. MPS revenue is derived from two sources: 1) an engagement with the customer to place primarily large-format equipment, that we own or lease, at a construction site or in our customers' offices, and 2) an arrangement by which our customers outsource their printing function to us, including all office printing, copying, and reprographics printing. In both cases this is recurring, contracted revenue in which we are paid a single cost per unit of material used, often referred to as a "click charge." MPS sales are driven by the ongoing print needs of our customers at their facilities.

Archiving and Information Management (AIM), combines software and professional services to facilitate the capture, management, access and retrieval of documents and information that have been produced in the past. AIM includes our SKYSITE software to organize, search and retrieve documents, as well as the provision of services that include the capture and conversion of hardcopy and electronic documents, and their cloud-based storage and maintenance. AIM sales are driven by the need to leverage past legacy information and documents for present or future use, facilitate cost savings and efficiency improvements over current hardcopy and digital storage methods, as well as comply with regulatory and records retention requirements.

Equipment and Supplies, which consists of reselling printing, imaging, and related equipment to customers primarily in architectural, engineering and construction firms.

We have expanded our business beyond the services we traditionally provided to the architectural, engineering, construction, and building owner/operator (AEC/O) industry in the past and have diversified our offerings ranging beyond the construction vertical and historical print segments. We believe the mix of services demanded by the AEC/O industry continues to shift toward document management and color graphics and away from its historical emphasis on large-format construction drawings produced "offsite" in our service centers.

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

Based on our analysis of our operating results, we estimate that sales to the AEC/O industry accounted for approximately 70%

of our net sales for the nine months ended September 30, 2020, with the remaining 30% consisting of sales to businesses outside of the AEC/O industry.

Costs and Expenses

Our cost of sales consists primarily of materials (paper, toner, and other consumables), labor, and indirect costs, which consist primarily of equipment expenses related to our MPS contracts and our service center facilities. Facilities and equipment expenses include maintenance, repairs, rental payments, 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 finance lease lines of credit. Our relationships with credit providers have provided attractive lease rates over the recent years, and as a result, we chose to lease rather than purchase equipment in a significant portion of our engagements.

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

COVID-19 Pandemic

The global spread of the novel coronavirus (COVID-19) has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The impact of this pandemic has created significant prolonged uncertainty in the global economy and has negatively affected our business, employees, suppliers, and customers. Despite a strong start to the year, the decline in demand for our products and services that began in late March 2020 as a result of the COVID-19 pandemic, negatively impacted our sales and profitability during 2020. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors, many of which are outside management's control, including those presented in Item 1A. *Risk Factors* of this Quarterly Report. To adapt to the uncertainty and shifting demands brought on by the COVID-19 pandemic, we began to transform our business during the second quarter of 2020 into a smaller but stronger company, offering a range of products beyond the construction vertical and our historical print segments, and reconfiguring our operations and cost structure to fit the needs of our customers in the current market. We have repositioned the Company based on the belief that there is potential for new growth and similar, if not better margins, barring any unforeseen changes that may arise due to the COVID-19 pandemic or otherwise.

Sustained adverse impacts to us, as well as to certain of our suppliers, dealers or customers may also affect our future valuation of certain assets and therefore may increase the likelihood of an impairment charge, write-off, or reserve associated with such assets, including goodwill, intangible assets, property and equipment, inventories, accounts receivable, tax assets, and other assets.

We believe that we have taken appropriate measures to mitigate the impacts of the COVID-19 pandemic as it relates to the health and safety of our employees and customers. As the situation continues to persist, we will continue to analyze additional mitigation measures that may be needed to preserve the health and safety of our workforce and our customers, and the ongoing continuity of our business operations. Those measures might include temporarily suspending operations at select service centers, modifying workspaces, continuing social distancing protocols, incorporating additional personal protective equipment and/or incorporating health screening policies at our facilities, or such other industry best practices needed to comply with applicable government orders and to continue to maintain a healthy and safe environment for our employees during the COVID-19 pandemic.

Given the ongoing economic uncertainty resulting from the COVID-19 pandemic, we have taken actions to improve our current liquidity position, including reducing working capital, temporarily suspending share repurchases and future dividends, postponing capital expenditures, reducing operating costs, initiating workforce reductions and salary reductions, and substantially reducing discretionary spending.

We are the largest document services provider to industries that build and maintain our country's infrastructure and thus were considered an essential business and permitted to remain open in most markets during 2020. We also serve the housing, healthcare, and technology industries, and we were able to keep almost all of our 170 service centers open, though at reduced volumes, in order to fulfill our customers' needs. However, there is uncertainty around the extent and duration of interruptions to our business related to the COVID-19 pandemic, as well as the pandemic's overall impact on the U.S. economy, on our clients' ongoing business operations, and on our results of operations and financial condition. While our management team is actively monitoring the impacts of the COVID-19 pandemic, and may take further actions altering our business operations that we determine are in the best interests of our employees and clients or as required by federal, state, or local authorities, the full impact of the COVID-19 pandemic on the results of our operations, financial condition, or liquidity for the remainder of fiscal year 2020 and beyond cannot be estimated at this point. The following discussions are subject to the future effects of the COVID-19 pandemic on our ongoing business operations.

Results of Operations

(In millions, except percentages)	Three Months Ended September 30, 2020[(2)]	Three Months Ended September 30, 2019	Increase (decrease) $	Increase (decrease) %	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (decrease) $	Increase (decrease) %
CDIM	**$ 47.1**	$ 50.5	$ (3.4)	(6.7)%	**$ 137.3**	$ 155.7	$ (18.4)	(11.8)%
MPS	**17.6**	30.6	(13.0)	(42.3)%	**61.2**	93.1	(31.9)	(34.3)%
AIM	**2.9**	3.5	(0.6)	(17.2)%	**9.2**	10.4	(1.2)	(11.7)%
Equipment and supplies sales	**4.7**	9.5	(4.8)	(50.3)%	**17.4**	30.9	(13.5)	(43.6)%
Total net sales	**$ 72.4**	$ 94.1	$ (21.7)	(23.1)%	**$ 225.1**	$ 290.1	$ (65.0)	(22.4)%
Gross profit	**$ 24.2**	$ 30.4	$ (6.2)	(20.4)%	**$ 72.2**	$ 94.9	$ (22.7)	(23.9)%
Selling, general and administrative expenses	**$ 19.2**	$ 26.0	$ (6.8)	(26.3)%	**$ 60.8**	$ 80.9	$ (20.1)	(24.8)%
Amortization of intangible assets	**$ 0.3**	$ 0.7	$ (0.4)	(60.3)%	**$ 1.4**	$ 2.5	$ (1.1)	(45.4)%
Restructuring expense	**$ —**	$ 0.3	$ (0.3)	(100.0)%	**$ —**	$ 0.3	$ (0.3)	(100.0)%
Interest expense, net	**$ 0.9**	$ 1.3	$ (0.4)	(31.1)%	**$ 3.1**	$ 4.1	$ (1.0)	(23.5)%
Income tax provision	**$ 1.2**	$ 1.0	$ 0.2	18.4 %	**$ 2.5**	$ 5.2	$ (2.7)	(52.3)%
Net income attributable to ARC	**$ 2.8**	$ 1.1	$ 1.7	159.6 %	**$ 4.9**	$ 2.2	$ 2.7	125.2 %
Non-GAAP [(1)]								
Adjusted net income attributable to ARC [(1)]	**$ 2.9**	$ 1.6	$ 1.3	77.7 %	**$ 5.3**	$ 5.4	$ (0.1)	(1.3)%
EBITDA [(1)]	**$ 12.1**	$ 11.1	$ 1.0	8.9 %	**$ 33.3**	$ 35.6	$ (2.3)	(6.4)%
Adjusted EBITDA [(1)]	**$ 12.5**	$ 12.1	$ 0.5	3.9 %	**$ 34.6**	$ 37.7	$ (3.1)	(8.2)%

(1) See "Non-GAAP Financial Measures" on pg. 24 for additional information.
(2) Column does not foot due to rounding.

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

	As Percentage of Net Sales Three Months Ended September 30,		As Percentage of Net Sales Nine Months Ended September 30,	
	2020 (1)	2019 (1)	2020	2019
Net Sales	**100.0 %**	100.0 %	**100.0 %**	100.0 %
Cost of sales	**66.6**	67.7	**67.9**	67.3
Gross profit	**33.4**	32.3	**32.1**	32.7
Selling, general and administrative expenses	**26.5**	27.7	**27.0**	27.9
Amortization of intangible assets	**0.4**	0.8	**0.6**	0.9
Restructuring expense	**—**	0.3	**—**	0.1
Income from operations	**6.5**	3.6	**4.5**	3.9
Interest expense, net	**1.2**	1.3	**1.4**	1.4
Income before income tax provision	**5.3**	2.2	**3.1**	2.5
Income tax provision	**1.7**	1.1	**1.1**	1.8
Net income	**3.6**	1.1	**2.0**	0.7
Loss attributable to the noncontrolling interest	**0.2**	—	**0.2**	0.1
Net income attributable to ARC	**3.9 %**	1.1 %	**2.2 %**	0.8 %
Non-GAAP (2)				
EBITDA (2)	**16.7 %**	11.8 %	**14.8 %**	12.3 %
Adjusted EBITDA (2)	**17.3 %**	12.8 %	**15.4 %**	13.0 %

(1) Column does not foot due to rounding.
(2) See "Non-GAAP Financial Measures" on pg. 24 for additional information.

Three and Nine Months Ended September 30, 2020 Compared to Three and Nine Months Ended September 30, 2019

Net Sales

Net sales for the three and nine months ended September 30, 2020 decreased 23.1% and 22.4%, respectively, compared to the same period in 2019 due to the negative impact of the COVID-19 pandemic on revenues from all of our service offerings. The material decline in our net sales began in March 2020 when shelter-at-home orders were put in place by several states in the U.S. following the World Health Organization's declaration of COVID-19 as a pandemic. We have experienced modest improvement in net sales sequentially after April 2020 when the stay-at-home orders started to lift in most states.

CDIM. Year-over-year sales of CDIM services decreased $3.4 million, or 6.7%, and $18.4 million, or 11.8%, for the three and nine months ended September 30, 2020, respectively, due to the impact of the COVID-19 pandemic. CDIM services represented 65% and 61% of total net sales for the three and nine months ended September 30, 2020, respectively, compared to 54% for the three and nine months ended September 30, 2019. The impact of the pandemic on CDIM was not as pronounced as other parts of our business due to the transition away from new construction related printing to offerings of products beyond the construction vertical and our historical print segments, such as COVID-19-related and other color signage.

MPS. Year-over-year sales of MPS services for the three and nine months ended September 30, 2020 decreased $13.0 million, or 42.3%, and $31.9 million, or 34.3%, respectively. The decline in MPS sales was driven primarily by office employees in the U.S. and Canada who followed directives to shelter-at-home, significantly reducing the volume of printing done in our customers' offices. MPS engagements on construction job sites continued to operate, and many customers must meet required minimums that remain in effect to offset our equipment costs. MPS sales represented approximately 24% and 27% of total net sales for the three and nine months ended September 30, 2020, respectively, compared to 33% and 32% for the three and nine months ended September 30, 2019, respectively.

The number of MPS locations have remained relatively flat year over year at approximately 10,800 as of September 30, 2020.

AIM. Year-over-year sales of AIM services decreased $0.6 million, or 17.2%, and $1.2 million, or 11.7%, for the three and nine months ended September 30, 2020, respectively. The decrease in sales of our AIM services was primarily due to the lack of office activity resulting from the COVID-19 pandemic, which caused a reduction in scanning opportunities. We continue to drive an expansion of our addressable market for AIM services by targeting building owners and facility managers that require on-demand access to their legacy documents to operate their assets efficiently. We believe that, with the expansion of our addressable market and the desire of our customers to have digital access to documents, our AIM services will grow in the future.

Equipment and Supplies Sales. Year-over-year sales of Equipment and Supplies decreased $4.8 million, or 50.3%, and $13.5 million, or 43.6%, for the three and nine months ended September 30, 2020, respectively. The decline in Equipment and Supplies sales was primarily driven by the slowdown in China related to the COVID-19 pandemic, which decreased sales from UNIS Document Solutions Co. Ltd (“UDS”), our Chinese joint venture. Equipment and Supplies sales at UDS were $1.3 million and $6.1 million for the three and nine months ended September 30, 2020, respectively, compared to $4.6 million and $15.7 million for the three and nine months ended September 30, 2019, respectively. Traditionally, our customers in China have exhibited a preference for owning print and imaging related equipment as opposed to using equipment through onsite services arrangements. Equipment and Supplies sales continued to decline in the U.S. for the three and nine months ended September 30, 2020, in part due to the COVID-19 pandemic. We do not anticipate growth in Equipment and Supplies sales as we continue to place more focus on growing MPS sales and converting sales contracts to MPS agreements.

Gross Profit

During the three months ended September 30, 2020, gross profit decreased to $24.2 million while gross margin increased to 33.4%, compared to $30.4 million, or 32.3%, during the same period in 2019, on a sales decline of $21.7 million.

During the nine months ended September 30, 2020, gross profit and gross margin decreased to $72.2 million, or 32.1%, compared to $94.9 million, or 32.7%, during the same period in 2019, on a sales decline of $65.0 million.

Despite the significant drop in net sales due to the COVID-19 pandemic, gross margin for the three and nine months ended September 30, 2020, remained above 30%. Gross margins were aided by the drop in low margin Equipment and Supplies sales from UDS and cost saving activities in connection with the restructuring plan we initiated in the third quarter of 2019, as well as cost savings initiated in response to the ongoing COVID-19 pandemic. During the second quarter of 2020, we began to reconfigure our operating structure and costs to serve new customer needs and to reflect the reduction in our revenues as a result of the COVID-19 pandemic. The sequential increase in net sales during the third quarter of 2020 of $8.0 million, coupled with our reduced cost structure, resulted in the 110 basis points increase in gross margins in the third quarter of 2020 as compared to the same period in the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $6.8 million, or 26.3%, for the three months ended September 30, 2020 compared to the same period in 2019 and decreased $20.1 million, or 24.8%, for the nine months ended September 30, 2020, compared to the same period in 2019. The reduction was due to cost saving activities in connection with the restructuring plan we initiated in the third quarter of 2019, as well as cost savings initiated in response to the current COVID-19 pandemic that included headcount reductions, suspension of all business travel, reduced consulting expenses, reduced bonuses and commissions, and the elimination of discretionary spending.

Amortization of Intangibles

Amortization of intangibles of $0.3 million and $1.4 million for the three and nine months ended September 30, 2020, respectively, decreased by $0.4 million and $1.1 million, respectively, compared to the same periods in 2019, due to the completed amortization of certain customer relationship intangibles related to historical acquisitions.

Interest Expense, Net

Net interest expense of $0.9 million and $3.1 million for the three and nine months ended September 30, 2020, respectively, decreased compared to the same period in 2019, due to a decrease in the LIBOR rate during 2020.

Income Taxes

We recorded an income tax provision of $1.2 million and $2.5 million in relation to pretax income of $3.9 million and $7.0 million for the three and nine months ended September 30, 2020, respectively, which resulted in an effective income tax rate of 32.0% and 35.6%, respectively. Our effective income tax rate for the three and nine months ended September 30, 2020 was primarily impacted by certain stock-based compensation, a change in valuation allowances against certain deferred tax assets and non-deductible expenses. Excluding the impact of the change in valuation allowances, certain nondeductible stock-based compensation, and other discrete tax items, our effective income tax rate would have been 28.4% and 28.7%, respectively, for the three and nine months ended September 30, 2020.

By comparison, we recorded an income tax provision of $1.0 million and $5.2 million in relation to pretax income of $2.1 million and $7.2 million for the three and nine months ended September 30, 2019, respectively, which resulted in an effective income tax rate of 49.6% and 72.1%. The increase in our effective income tax rate for the three and nine months ended September 30, 2019 was due to deferred tax expense related to certain stock-based compensation that expired in the second quarter of 2019 and an increase to our valuation allowance. Excluding the impact of valuation allowances, certain nondeductible stock-based compensation, and other discrete tax items, our effective income tax rate would have been 34.4% and 31.6% for the three and nine months ended September 30, 2019, respectively.

We have a $2.3 million valuation allowance against certain deferred tax assets as of September 30, 2020.

Noncontrolling Interest

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

Net Income Attributable to ARC

Net income attributable to ARC increased to $2.8 million and $4.9 million during the three and nine months ended September 30, 2020, respectively. The increase in net income attributable to ARC compared to the prior year period for the nine months ending September 30, 2020 was driven by the change in income taxes noted above. The increase in net income attributable to ARC compared to the prior year period for the three months ending September 30, 2020 was driven by the increase in gross margins and reduction in selling, general and administrative expenses noted above.

EBITDA

EBITDA margin increased to 16.7% and 14.8% for the three and nine months ended September 30, 2020, respectively, from 11.8% and 12.3% for the same periods in 2019, respectively. Excluding the effect of stock-based compensation and restructuring expense, adjusted EBITDA margin increased to 17.3% and 15.4% during the three and nine months ended September 30, 2020, respectively, as compared to 12.8% and 13.0% for the same periods in 2019, respectively. The increase in adjusted EBITDA margin for the three and nine months ended September 30, 2020 was primarily due to the significant decline in selling, general and administrative expenses, as noted above.

Impact of Inflation

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

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. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

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

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and nine months ended September 30, 2020 and 2019 to exclude restructuring expense and to reflect 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, 2020 and 2019. We believe these charges were the result of items which are not indicative of our actual operating performance.

We have presented adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019 to exclude stock-based compensation expense and restructuring expense. The adjustment to exclude stock-based compensation expense to EBITDA 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 EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Cash flows provided by operating activities	**$ 12,760**	$ 10,807	**$ 39,015**	$ 29,794
Changes in operating assets and liabilities	**(808)**	(453)	**(6,996)**	3,386
Non-cash expenses, including depreciation and amortization	**(9,324)**	(9,295)	**(27,509)**	(31,162)
Income tax provision	**1,234**	1,042	**2,489**	5,222
Interest expense, net	**871**	1,264	**3,111**	4,066
Loss attributable to the noncontrolling interest	**163**	16	**425**	173
Depreciation and amortization	**7,223**	7,748	**22,755**	24,080
EBITDA	**$ 12,119**	$ 11,129	**$ 33,290**	$ 35,559

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Net income attributable to ARC Document Solutions, Inc.	**$ 2,791**	$ 1,075	**$ 4,935**	$ 2,191
Interest expense, net	**871**	1,264	**3,111**	4,066
Income tax provision	**1,234**	1,042	**2,489**	5,222
Depreciation and amortization	**7,223**	7,748	**22,755**	24,080
EBITDA	**12,119**	11,129	**33,290**	35,559
Restructuring expense	**—**	311	**—**	311
Stock-based compensation	**413**	622	**1,333**	1,854
Adjusted EBITDA	**$ 12,532**	$ 12,062	**$ 34,623**	$ 37,724

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020(1)	**2019(1)**	**2020**	**2019**
Net income margin attributable to ARC Document Solutions, Inc.	**3.9 %**	1.1 %	**2.2 %**	0.8 %
Interest expense, net	**1.2**	1.3	**1.4**	1.4
Income tax provision	**1.7**	1.1	**1.1**	1.8
Depreciation and amortization	**10.0**	8.2	**10.1**	8.3
EBITDA margin	**16.7**	11.8	**14.8**	12.3
Restructuring expense	**—**	0.3	**—**	0.1
Stock-based compensation	**0.6**	0.7	**0.6**	0.6
Adjusted EBITDA margin	**17.3 %**	12.8 %	**15.4 %**	13.0 %

(1) Column does not foot due to rounding.

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

(In thousands, except per share amounts)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income attributable to ARC Document Solutions, Inc.	**$ 2,791**	$ 1,075	**$ 4,935**	$ 2,191
Restructuring expense	**—**	311	**—**	311
Income tax benefit related to above items	**—**	(81)	**—**	(81)
Deferred tax valuation allowance and other discrete tax items	**99**	321	**358**	2,939
Adjusted net income attributable to ARC Document Solutions, Inc.	**$ 2,890**	$ 1,626	**$ 5,293**	$ 5,360
Actual:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.07**	$ 0.02	**$ 0.11**	$ 0.05
Diluted	**$ 0.07**	$ 0.02	**$ 0.11**	$ 0.05
Weighted average common shares outstanding:				
Basic	**42,747**	44,978	**43,017**	45,107
Diluted	**42,918**	44,992	**43,160**	45,213
Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.07**	$ 0.04	**$ 0.12**	$ 0.12
Diluted	**$ 0.07**	$ 0.04	**$ 0.12**	$ 0.12
Weighted average common shares outstanding:				
Basic	**42,747**	44,978	**43,017**	45,107
Diluted	**42,918**	44,992	**43,160**	45,213

Liquidity and Capital Resources

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

Total cash and cash equivalents as of September 30, 2020 was $50.3 million. Of this amount, $15.3 million was held in foreign countries, with $13.7 million held in China. Repatriation of some of our cash and cash equivalents in foreign countries could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result of holding cash and cash equivalents outside of the U.S., our financial flexibility may be reduced.

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

(In thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net cash provided by operating activities	**$ 39,015**	$ 29,794
Net cash used in investing activities	**$ (4,803)**	$ (8,064)
Net cash used in financing activities	**$ (13,483)**	$ (29,881)

Operating Activities

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

The increase in cash flows from operations during the three and nine months ended September 30, 2020, compared to the same period in 2019, resulted from improved management of operating assets and liabilities. Days sales outstanding ("DSO") was 51 days as of September 30, 2020 as compared to 55 days as of September 30, 2019. We are closely managing cash collections which have remained consistent since the outbreak of the COVID-19 pandemic.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling $5.1 million and $8.4 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in capital expenditures is driven primarily by a concerted effort to reduce and closely manage capital expenditures during the COVID-19 pandemic.

Financing Activities

Net cash of $13.5 million used in financing activities during the nine months ended September 30, 2020 primarily relates to payments on finance leases and share repurchases. As part of our cash management initiatives during the COVID-19 pandemic, we successfully negotiated a deferment of approximately $4.4 million of equipment capital lease payments during 2020, which were primarily added to the back end of each individual equipment lease end date.

Our cash position, working capital, and debt obligations as of September 30, 2020 and December 31, 2019 are shown below and should be read in conjunction with our interim Condensed Consolidated Balance Sheets and related notes contained elsewhere in this report.

(In thousands)	September 30, 2020		December 31, 2019	
Cash and cash equivalents	**$**	**50,342**	$	29,425
Working capital	**$**	**33,071**	$	20,008
Borrowings from revolving credit facility	**$**	**60,000**	$	60,000
Other debt obligations		**46,122**		46,157
Total debt obligations	**$**	**106,122**	$	106,157

We have taken a conservative and cautious approach to the current COVID-19 pandemic with respect to our cash management practices. To that end, we drew down $15 million from our revolving credit facility in March 2020 which we paid back in September 2020, as we did not have a use for the additional funds once the impact of the COVID-19 pandemic became more apparent. To manage our working capital, we chiefly focus on our DSO and monitor the aging of our accounts receivable, as receivables are the most significant element of our working capital.

We believe that our current cash and cash equivalents balance of $50.3 million, combined with availability under our revolving credit facility, availability under our equipment lease lines, and cash flows provided by operations should be sufficient to cover the next twelve months working capital needs, leasing requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. An extended period of global supply chain and economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition. Given the economic uncertainty as a result of the COVID-19 pandemic, we have taken actions to improve our current liquidity position by reducing working capital, temporarily suspending share repurchases and dividend payouts, postponing capital expenditures, reducing operating costs, initiating workforce reductions and salary reductions, and substantially reducing discretionary spending. Additionally, we have actively deferred equipment lease payments with certain lessors and deferred facility rent payments with some landlords. We have already seen the benefits of these action plans as evidenced by the increase of our U.S. cash balance as of September 30, 2020, by more than $20 million since December 31, 2019. Based upon our recent financial performance, as well as the improved liquidity position, we intend to reinstate dividends and our share repurchase program in the near future. See “Debt Obligations” section for further information related to our revolving credit facility.

We generate the majority of our revenue from sales of services and products to the AEC/O industry. As a result, our operating results and financial condition can be significantly affected by economic factors that influence the AEC/O industry, including the COVID-19 pandemic which has already reduced non-residential and residential construction spending. Additionally, a general economic downturn may adversely affect the ability of our customers and suppliers to obtain financing for significant operations and purchases, and to perform their obligations under their agreements with us. We believe that credit constraints in the financial markets could result in a decrease in, or cancellation of, existing business, could limit new business, and could negatively affect our ability to collect our accounts receivable on a timely basis.

We have not been actively seeking growth through acquisition, nor do we intend to in the near future.

Debt Obligations

Credit Agreement

On December 17, 2019, we entered into an amendment (the "2019 Amendment") to our Credit Agreement, dated as of November 20, 2014 ("Credit Agreement") with Wells Fargo Bank.

The 2019 Amendment increased the maximum aggregate principal amount of Revolving Loans under the Credit Agreement from $65 million to $80 million. Proceeds of a portion of the Revolving Loans drawn under the Credit Agreement were used to fully repay the $49.5 million term loan that was then outstanding under the Credit Agreement (the "Term Loan").

The 2019 Amendment also modified certain tests we are required to meet in order to pay dividends, repurchase stock and make other restricted payments. In order to make such payments which are permitted subject to certain customary conditions set forth in the Credit Agreement, the amount of all such payments will be limited to $15 million during any twelve-month period. Per the 2019 Amendment, when calculating the fixed charge coverage ratio, we may exclude up to $10 million of such restricted payments that would otherwise constitute fixed charges in any twelve-month period.

As of September 30, 2020, our borrowing availability under the Revolving Loan commitment was $17.8 million, after deducting outstanding letters of credit of $2.2 million and outstanding Revolving Loans of $60.0 million.

Loans borrowed under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.25% to 1.75%, based on our Total Leverage Ratio (as defined in the Credit Agreement). Loans borrowed under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00%, per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its “prime rate,” plus (ii) a margin ranging from 0.25% to 0.75%, based on our Total Leverage Ratio. We pay certain recurring fees with respect to the Credit Agreement, including administration fees to the administrative agent.

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of us and our subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of us or our subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend our organizational documents; or enter into certain restrictive agreements. In addition, the Credit Agreement contains financial covenants which requires us to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 2.75 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. We were in compliance with our covenants as of September 30, 2020. After considering a variety of potential effects the COVID-19 pandemic could have on our consolidated sales, as well as the actions we have already taken and other options available to us, we currently believe we will be in compliance with our covenants for the remainder of the term of the Credit Agreement. The impact of the COVID-19 pandemic, however, and the speed of economic recovery in the markets we serve is highly uncertain. If conditions change in the future due to the ongoing COVID-19 pandemic or for other reasons and we expect to be out of compliance as a result, we will likely seek waivers from the lenders prior to any covenant violation. Any covenant waiver may lead to increased costs, increased interest rates, additional restrictive covenants and other available lender protections that would be applicable. There can be no assurance that we would be able to obtain any such waivers in a timely manner, or on acceptable terms, or at all. If we were not able to obtain covenant violation waivers or repay our debt facilities, this would lead to an event of default and potential acceleration of amounts due under all of our outstanding debt. As a result, the failure to obtain covenant violation waivers or repay our debt obligations when they become due would have a material adverse effect on us. Refer to Part I, Item 1A. *Risk Factors,* for more information.

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

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

Finance Leases

As of September 30, 2020, we had $46.1 million of finance lease obligations outstanding, with a weighted average interest rate of 4.8% and maturities between 2019 and 2026. Refer to Note 8, *Leasing,* as previously disclosed on our 2019 Annual Form 10-K for the schedule on maturities of finance lease liabilities, as there have been no material changes to report as of September 30, 2020.

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations and Other Commitments

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business. Refer to Note 8, *Leasing*, as previously disclosed on our 2019 Annual Form 10-K for the schedule on maturities of operating lease liabilities as there were no material changes as of September 30, 2020.

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

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our 2019 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to goodwill, revenue recognition, and income taxes. There have been no material changes to our critical accounting policies described in our 2019 Annual Report on Form 10-K.

Goodwill Impairment

In accordance with ASC 350, *Intangibles - Goodwill and Other*, we assess goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired. At September 30, 2020, the Company performed its assessment and determined that goodwill was not impaired.

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. In 2017, we elected to early-adopt ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test. As a result, we compare the fair value of a reporting unit with its respective carrying value, and recognized an impairment charge, if any, for the amount by which the carrying amount exceeds the reporting unit's fair value.

We determine the fair value of our reporting units using an income approach. Under the income approach, we determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. The level of judgment and estimation is inherently higher in the current environment considering the uncertainty created by the COVID-19 pandemic. We have evaluated numerous factors disrupting our business and made significant assumptions which include the severity and duration of our business disruption, the timing and degree of economic recovery and ultimately, the combined effect of these assumptions on our future operating results and cash flows.

The results of the annual goodwill impairment test, as of September 30, 2020, were as follows:

(Dollars in thousands)	Number of Reporting Units	Representing Goodwill of
No goodwill balance	6	$ —
Fair value of reporting units exceeds their carrying values by more than 50%	2	121,051
	8	$ 121,051

Based upon a sensitivity analysis, a reduction of approximately 50-basis points of projected EBITDA in 2020 and beyond, assuming all other assumptions remain constant, would result in no impairment of goodwill.

Based upon a separate sensitivity analysis, a 50-basis point increase to the weighted average cost of capital would result in no further impairment of goodwill.

Given the uncertainty regarding the ultimate financial impact of the COVID-19 pandemic and the proceeding economic recovery, and the changing document and printing needs of our customers and the uncertainties regarding the effect on our business, there can be no assurance that the estimates and assumptions made for purposes of our goodwill impairment testing in 2020 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, or our assumptions change regarding disruptions caused by the pandemic, and the impact on the recovery from COVID-19 change, then we may be required to record goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 2020, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles - Goodwill and Other*) outside of the quarter when we regularly perform our annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

Income Taxes

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

When establishing a valuation allowance, we consider future sources of taxable income such as future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards and tax planning strategies. A tax planning strategy is an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets. In the event we determine that our deferred tax assets, more likely than not, will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have a $2.3 million valuation allowance against certain deferred tax assets as of September 30, 2020.

In future quarters we will continue to evaluate our historical results for the preceding twelve quarters and our future projections to determine whether we will generate sufficient taxable income to utilize our deferred tax assets, and whether a valuation allowance is required.

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

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

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

Recent Accounting Pronouncements

See Note 1, "Description of Business and Basis of Presentation" to our interim Condensed Consolidated Financial Statements for disclosure on recent accounting pronouncements not yet adopted.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Not applicable.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 ("Exchange Act") are recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2020. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the three months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

The following risk factors should be read in conjunction with, and supplement, the risk factors set forth in "Part I - Item 1A. Risk Factors" of our Form 10-K for the fiscal year ended December 31, 2019, together with the other information in this Quarterly Report on Form 10-Q, including the sections entitled “Forward-Looking Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the other reports and materials filed by the Company with the SEC. Additional risks and uncertainties not presently known by the Company or that are currently deemed immaterial may also impair the Company’s business operations. If any of these risks actually occur, the Company’s business, financial condition and results of operations could be materially affected.

Our financial condition and results of operations for fiscal 2020 and beyond have been and are expected to continue to be adversely affected by the recent novel coronavirus (or COVID-19) pandemic.

In December 2019, a novel coronavirus disease (“COVID-19”) was initially reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. COVID-19 has had a widespread and detrimental effect on the global economy and has created significant volatility and disruption of financial markets as a result of the continued increase in the number of cases and affected countries and actions by public health and governmental authorities, businesses, other organizations and individuals to address the outbreak, including travel bans and restrictions, quarantines, shelter in place, stay at home or lock-down orders and business limitations and shutdowns. The duration and severity of COVID-19 and the degree of its impact on our business is uncertain and difficult to predict. The continued spread of the outbreak could result in one or more of the following conditions that could have a material adverse impact on our business operations and financial condition: decreased business spending by our customers and prospective customers; reduced demand for our products and services; increased customer losses; increased challenges in or cost of acquiring new customers; increased competition; increased risk in collectability of accounts receivable; reduced productivity due to remote work arrangements; lost productivity due to illness and/or illness of family members or adherence to mandated stay-at-home order; inability to hire key roles; adverse effects on our strategic partners’ businesses; impairment charges; inability to recover costs from insurance carriers; business continuity concerns for us and our third-party vendors and suppliers; increased risk of privacy and cybersecurity breaches from increased remote working; and challenges with Internet infrastructure due to high loads. If we are not able to respond to and manage the potential impact of such events effectively, our business could be harmed.

Furthermore, while many governmental authorities around the world have and continue to enact legislation to address the impact of COVID-19, including measures intended to mitigate some of the more severe anticipated economic effects of the virus, we may not benefit from such legislation or such legislation may prove to be ineffective in addressing COVID-19’s impact on our and our customer’s businesses and operations. Even after the COVID-19 outbreak has subsided, we may continue to experience impacts to our business as a result of the coronavirus’ global economic impact and any recession that has occurred or may occur in the future. Since the COVID-19 situation is unprecedented and continuously evolving, COVID-19 may also affect our operating and financial results in a manner that is not presently known to us, or in a manner that we currently do not consider as presenting significant risks to our operations.

The market price of our common stock is volatile and is impacted by factors other than our financial performance.

The stock market in recent years has experienced significant price and volume fluctuations that have affected our stock price. Recent stock market fluctuations related to the current COVID-19 pandemic have been particularly significant. These fluctuations have often been unrelated to our operating performance. Factors that can cause such fluctuations include the impact of natural disasters and global events, such as the current COVID-19 pandemic, general market fluctuations and macroeconomic conditions, any of which may cause the market price of our common stock to fluctuate widely.

We may not be able to maintain compliance with the New York Stock Exchange’s requirements for the continued listing of our common stock on the exchange. As a result, an active trading market for our common stock may not be sustained.

Our common stock is currently listed on the New York Stock Exchange ("NYSE") under the symbol "ARC." On April 7, 2020, we were notified by the New York Stock Exchange (“NYSE”) that we were no longer in compliance with the NYSE’s continued listing standards because the average closing price of our common stock had fallen below $1.00 per share over a period of 30 consecutive trading days. We believe the decline in stock price was due, in part, to recent volatility in the stock market.

On September 1, 2020, the Company received notification from the NYSE that the Company has regained compliance with the minimum share price requirement of $1.00 over a 30 trading-day period, as set forth in Section 802.01C of the NYSE's Listed Company Manual. As a result, the matter of the Company's noncompliance with the minimum share price requirement under the NYSE continued listing requirements, as previously disclosed in the Company's Current Report on Form 8-K dated April 10, 2020, has been closed. We intend to monitor the closing share price of our common stock on the NYSE, and there can be no assurance that we will be able to maintain compliance with the NYSE's continued listing standards.

Any failure to maintain compliance with applicable NYSE continued listing standards could result in delisting of our common stock from the NYSE and negatively impact our company and holders of our common stock, including by reducing the willingness of investors to hold our common stock because of the resulting decreased price, liquidity and trading of our common stock, limited availability of price quotations, and reduced news and analyst coverage. Delisting may adversely impact the perception of our financial condition, cause reputational harm with investors, our employees and parties conducting business with us, and limit our access to debt and equity financing.

There can be no assurance that we will declare cash dividends or repurchase shares of our common stock.

Our Board of Directors has declared quarterly dividends in the past. Our ability to continue to pay quarterly dividends and to repurchase our shares is subject to capital availability and periodic determinations by our Board of Directors that cash dividends and share repurchases are in the best interest of our shareholders and are in compliance with applicable laws. Our dividend payments and share repurchases may change from time to time. Management currently intends to resume quarterly dividends, subject to approval by our Board of Directors, and share repurchases, but cannot provide any assurance as to the timing, sustainability, or of any particular amounts of any such dividends and share repurchases in the future. A suspension in our dividend payments or share repurchases could have a negative effect on the price of our common stock and returns on investment to our shareholders.

A substantial and sustained downturn in our operations due to the COVID-19 pandemic or other factors may cause us to be in breach of our Credit Agreement.

We are required to maintain certain financial ratios, specifically a total leverage ratio and a fixed charge coverage ratio, under our Credit Agreement. We may be unable to comply with those financial ratios as a result of a substantial and sustained downturn in our operations due to the COVID-19 pandemic. If conditions change in the future and we expect to be out of compliance as a result, we would seek waivers from the lenders prior to any covenant violation. Any covenant waiver may lead to increased costs, increased interest rates, additional restrictive covenants and other available lender protections that would be applicable. Absent a waiver or amendment from participating lenders, failure to meet the financial ratios and other covenants under our Credit Agreement would constitute an event of default and cause acceleration of the outstanding obligations under the Credit Agreement, termination of the lenders' commitment to provide a revolving line of credit, an increase in our effective cost of funds and cross-default of other credit arrangements, which would have a material adverse impact on our financial condition.

Impairment of goodwill due to the impact of the COVID-19 pandemic 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. We conduct annual goodwill impairment assessments, and interim impairment analyses on an as-needed basis if a triggering event occurs. Our 2020 annual assessment resulted in no goodwill impairment. The results of our impairment analyses, however, are as of a particular point in time. If our assumptions regarding future forecasted revenue or profitability of our reporting units are not achieved, we may be required to record goodwill impairment charges in future periods. The impact of COVID-19 has negatively affected certain key assumptions used in our analysis, and if the severity of the impact increases, we will need to assess the long-term impact to determine if we will be required to record charges for asset impairments in the future.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities

(In thousands, except for price per share)	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share ($)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (1)(2)
Period				
March 1, 2020 - March 31, 2020	2,011	$ 1.17	2,011	$ 10,704
Total	2,011		2,011	

(1) On May 1, 2019, the Company's Board of Directors approved a stock repurchase program that authorizes the Company to purchase up to $15.0 million of the Company's outstanding common stock through March 31, 2021. Under the repurchase program, purchases of shares of common stock may be made from time to time in the open market, or in privately negotiated transactions, in compliance with applicable state and federal securities laws. The timing and amounts of any purchases will be based on market conditions and other factors including price, regulatory requirements, and capital availability. The stock repurchase program does not obligate the Company to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time without prior notice.

(2) The Company temporarily suspended share repurchases for the second and third quarters of 2020 due to the COVID-19 pandemic.

Item 6. ***Exhibits***

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *

* Filed herewith

SIGNATURES

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

Date: November 5, 2020

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
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* Filed herewith

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kumarakulasingam Suriyakumar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ARC Document Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 5, 2020

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jorge Avalos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ARC Document Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 5, 2020

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kumarakulasingam Suriyakumar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents in all material respects the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jorge Avalos, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)