

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

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**Form 10-Q**

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(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, 2019

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

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**ARC DOCUMENT SOLUTIONS, INC.**

(Exact name of Registrant as specified in its Charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

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

**20-1700361**

(I.R.S. Employer  
Identification No.)

**94583**  
(Zip Code)

**(925) 949-5100**

(Registrant's telephone number, including area code)

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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

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<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
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 45,887,122 as of November 5, 2019.

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ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended September 30, 2019

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q, the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and variations of such words 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 could cause actual results to differ materially from those contemplated herein. We have described in Part II, Item 1A-“Risk Factors” a number of factors that could cause our actual results to differ from our projections or estimates. These factors and other risk factors described in this Form 10-Q are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

Except where otherwise indicated, the statements made in this Form 10-Q are made as of the date we filed this report with the 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)

<u>(In thousands, except per share data)</u>	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,803	\$ 29,433
Accounts receivable, net of allowances for accounts receivable of \$2,084 and \$2,016	57,662	58,035
Inventories, net	15,384	16,768
Prepaid expenses	5,586	4,937
Other current assets	7,435	6,202
Total current assets	106,870	115,375
Property and equipment, net of accumulated depreciation of \$208,515 and \$199,480	70,226	70,668
Right-of-use assets from operating leases	40,753	—
Goodwill	121,051	121,051
Other intangible assets, net	2,636	5,126
Deferred income taxes	20,164	24,946
Other assets	2,479	2,550
Total assets	\$ 364,179	\$ 339,716
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 23,197	\$ 24,218
Accrued payroll and payroll-related expenses	12,130	17,029
Accrued expenses	19,690	17,571
Current operating lease liability	10,899	—
Current portion of long-term debt and finance leases	22,976	22,132
Total current liabilities	88,892	80,950
Long-term operating lease liabilities	37,008	—
Long-term debt and finance leases	88,437	105,060
Other long-term liabilities	497	6,404
Total liabilities	214,834	192,414
Commitments and contingencies (Note 8)		
Stockholders' equity:		
ARC Document Solutions, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value, 150,000 shares authorized; 49,169 and 48,492 shares issued and 45,887 and 45,818 shares outstanding	49	48
Additional paid-in capital	125,488	123,525
Retained earnings	31,588	29,397
Accumulated other comprehensive loss	(3,740)	(3,351)
	153,385	149,619
Less cost of common stock in treasury, 3,282 and 2,674 shares	10,536	9,350
Total ARC Document Solutions, Inc. stockholders' equity	142,849	140,269
Noncontrolling interest	6,496	7,033
Total equity	149,345	147,302
Total liabilities and equity	\$ 364,179	\$ 339,716

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

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

<b>(In thousands, except per share data)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales	<b>\$ 94,104</b>	\$ 100,473	<b>290,099</b>	302,371
Cost of sales	<b>63,702</b>	67,801	<b>195,174</b>	203,679
Gross profit	<b>30,402</b>	32,672	<b>94,925</b>	98,692
Selling, general and administrative expenses	<b>26,025</b>	26,973	<b>80,881</b>	81,780
Amortization of intangible assets	<b>718</b>	949	<b>2,480</b>	2,942
Restructuring expense	<b>311</b>	—	<b>311</b>	—
Income from operations	<b>3,348</b>	4,750	<b>11,253</b>	13,970
Other (income) expense, net	<b>(17)</b>	38	<b>(53)</b>	(63)
Interest expense, net	<b>1,264</b>	1,478	<b>4,066</b>	4,436
Income before income tax provision	<b>2,101</b>	3,234	<b>7,240</b>	9,597
Income tax provision	<b>1,042</b>	647	<b>5,222</b>	2,526
Net income	<b>1,059</b>	2,587	<b>2,018</b>	7,071
Loss (income) attributable to the noncontrolling interest	<b>16</b>	(28)	<b>173</b>	190
Net income attributable to ARC Document Solutions, Inc. shareholders	<b>\$ 1,075</b>	\$ 2,559	<b>\$ 2,191</b>	\$ 7,261
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	<b>\$ 0.02</b>	\$ 0.06	<b>\$ 0.05</b>	\$ 0.16
Diluted	<b>\$ 0.02</b>	\$ 0.06	<b>\$ 0.05</b>	\$ 0.16
Weighted average common shares outstanding:				
Basic	<b>44,978</b>	44,983	<b>45,107</b>	44,888
Diluted	<b>44,992</b>	45,188	<b>45,213</b>	44,993

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

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 1,059	\$ 2,587	\$ 2,018	\$ 7,071
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments, net of tax	201	(320)	(753)	(1,633)
Other comprehensive income (loss), net of tax	201	(320)	(753)	(1,633)
Comprehensive income	1,260	2,267	1,265	5,438
Comprehensive income (loss) attributable to noncontrolling interest	102	(202)	(537)	(364)
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	\$ 1,158	\$ 2,469	\$ 1,802	\$ 5,802

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

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

ARC Document Solutions, Inc. Shareholders								
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value						
Balance at June 30, 2018	48,345	\$ 48	\$ 122,252	\$ 25,226	\$ (3,367)	\$ (9,350)	\$ 7,212	\$ 142,021
Stock-based compensation	100	—	597					597
Issuance of common stock under Employee Stock Purchase Plan	19	—	29					29
Comprehensive income (loss)				2,559	(90)		(202)	2,267
Balance at September 30, 2018	48,464	\$ 48	\$ 122,878	\$ 27,785	\$ (3,457)	\$ (9,350)	\$ 7,010	\$ 144,914

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

ARC Document Solutions, Inc. Shareholders								
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value						
Balance at December 31, 2017	47,913	\$ 48	\$ 120,953	\$ 20,524	\$ (1,998)	\$ (9,290)	\$ 7,374	\$ 137,611
Stock-based compensation	490		1,824					1,824
Issuance of common stock under Employee Stock Purchase Plan	61		101					101
Treasury shares						(60)		(60)
Comprehensive income (loss)				7,261	(1,459)		(364)	5,438
Balance at September 30, 2018	48,464	\$ 48	\$ 122,878	\$ 27,785	\$ (3,457)	\$ (9,350)	\$ 7,010	\$ 144,914

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

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



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

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 2,018	\$ 7,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for accounts receivable	430	637
Depreciation	21,600	21,708
Amortization of intangible assets	2,480	2,942
Amortization of deferred financing costs	162	175
Stock-based compensation	1,854	1,824
Deferred income taxes	4,684	2,175
Deferred tax valuation allowance	115	71
Restructuring expense, non-cash portion	46	—
Other non-cash items, net	(209)	(201)
Changes in operating assets and liabilities:		
Accounts receivable	(258)	(6,594)
Inventory	1,242	1,291
Prepaid expenses and other assets	7,094	(2,326)
Accounts payable and accrued expenses	(11,464)	1,289
Net cash provided by operating activities	<u>29,794</u>	<u>30,062</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(8,406)	(10,463)
Other	342	556
Net cash used in investing activities	<u>(8,064)</u>	<u>(9,907)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	109	100
Share repurchases	(1,186)	(60)
Contingent consideration on prior acquisitions	(3)	(176)
Payments on long-term debt agreements and finance leases	(17,551)	(17,200)
Borrowings under revolving credit facilities	19,750	9,250
Payments under revolving credit facilities	(31,000)	(20,875)
Net cash used in financing activities	<u>(29,881)</u>	<u>(28,961)</u>
Effect of foreign currency translation on cash balances	(479)	(849)
Net change in cash and cash equivalents	<u>(8,630)</u>	<u>(9,655)</u>
Cash and cash equivalents at beginning of period	<u>29,433</u>	<u>28,059</u>
Cash and cash equivalents at end of period	<u>\$ 20,803</u>	<u>\$ 18,404</u>
<b>Supplemental disclosure of cash flow information</b>		
<b>Noncash investing and financing activities</b>		
Finance lease obligations incurred	\$ 13,010	\$ 16,560
Operating lease obligations incurred	\$ 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, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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 2018 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,	
	2019	2018	2019	2018
CDIM	\$ 50,502	\$ 52,418	\$ 155,701	\$ 160,270
MPS <sup>(1)</sup>	30,607	32,384	93,092	97,181
AIM	3,516	3,617	10,380	9,709
Equipment and supplies sales	9,479	12,054	30,926	35,211
Net sales	<u>\$ 94,104</u>	<u>\$ 100,473</u>	<u>\$ 290,099</u>	<u>\$ 302,371</u>

<sup>(1)</sup> 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; generally, this occurs with the transfer of control of the reproduced 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 the 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 shifts their costs to a "per-use" basis. MPS is supported by our hosted proprietary technology, Abacus<sup>®</sup>, 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. See Note 7, *Leasing*, for additional information.

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<sup>®</sup> 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; generally, this 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; generally, this 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 February 2016, the FASB issued ASC 842, *Leases*. The new guidance replaced the existing guidance in ASC 840, *Leases*. ASC 842 requires a dual approach for lessee accounting under which a lessee accounts for leases as finance leases or operating leases. Both finance leases and operating leases result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases, the lessee recognizes interest expense and amortization of the ROU asset and for operating leases the lessee will recognize a straight-line total lease expense. The Company adopted ASC 842 on January 1, 2019. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided entities the option to use the effective date as the date of initial application on transition to the new guidance. The Company elected this transition method, and as a result, the Company did not adjust comparative information for prior periods. For additional information about the impact of the adoption of ASC 842, see Note 7, *Leasing*.

In June 2016, the FASB issued ASU No. 2016-13, ("ASU 2016-13"), Financial Instruments - Credit Loss (Topic 326), 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 (SRC) to extend the effective date to fiscal years being 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. Reduced activity (relative to historic levels) in the AEC/O industry would diminish demand for some of ARC's services and products, and would therefore negatively affect revenues and have a material adverse effect on its business, operating results and financial condition.

As part of the Company's growth strategy, ARC intends to continue to offer and grow a variety of service offerings, 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, 2019, 5 million and 5.4 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share, respectively, because they were anti-dilutive. For the three and nine months ended September 30, 2018, 4.0 million and 5.1 million common shares were excluded from the calculation of diluted net loss attributable to ARC per common share, respectively, 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, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average common shares outstanding during the period—basic	<b>44,978</b>	44,983	<b>45,107</b>	44,888
Effect of dilutive stock options	<b>14</b>	205	<b>106</b>	105
Weighted average common shares outstanding during the period—diluted	<b>44,992</b>	45,188	<b>45,213</b>	44,993

## **3. Restructuring**

To better align the Company's costs and resources with demand for its current portfolio of services and products, the Company initiated a restructuring plan in the third quarter of 2019. Activities associated with this restructuring plan are expected to conclude by the fourth quarter of 2019. The Company reduced sales and marketing infrastructure for its ancillary technology services, restructured its regional and corporate organization structure and labor force, and implemented system and equipment upgrades to increase operating efficiency. This restructuring will result in a reduction in headcount of approximately 50 employees, which represents approximately 2% of the Company's total workforce.

Expenses related to employee terminations as a result of this restructuring totaled \$0.3 million for the three months ended September 30, 2019. The Company had no such activities in 2018. The Company expects to pay an additional \$0.05 million in the three months ended December 31, 2019 related to employee termination costs incurred as of September 30, 2019.

#### 4. 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, 2019, 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.

Given the changing document and printing needs of the Company's customers, and the uncertainties regarding the effect on the Company's business, there can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment test in 2019 will prove to be accurate predictions of the future. If the Company's assumptions, including forecasted EBITDA of certain reporting units, are not achieved, the Company may be required to record additional goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing in the third quarter of 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 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, 2018 through September 30, 2019.

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, 2019 and December 31, 2018 which continue to be amortized:

	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	\$ 99,152	\$ 96,813	\$ 2,339	\$ 99,136	\$ 94,345	\$ 4,791
Trade names and trademarks	20,233	19,936	297	20,259	19,924	335
	<u>\$ 119,385</u>	<u>\$ 116,749</u>	<u>\$ 2,636</u>	<u>\$ 119,395</u>	<u>\$ 114,269</u>	<u>\$ 5,126</u>

Estimated future amortization expense of other intangible assets for the remainder of the 2019 fiscal year, and each of the subsequent four fiscal years and thereafter are as follows:

2019 (excluding the nine months ended September 30, 2019)	\$ 652
2020	1,518
2021	169
2022	96
2023	41
Thereafter	160
	<u>\$ 2,636</u>

## 5. Income Taxes

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

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 recorded an income tax provision of \$0.6 million and \$2.5 million and in relation to pretax income of \$3.2 million and \$9.6 million for the three and nine months ended September 30, 2018, respectively, which resulted in an effective income tax rate of 20.0% and 26.3%, respectively. The increase in the Company's 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.

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 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, 2019.

Based on the Company's current assessment, the remaining net deferred tax assets as of September 30, 2019 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 depend on future taxable income, reversals of existing taxable temporary differences or through a loss carry back. The Company has income tax receivables of \$0.1 million as of September 30, 2019 included in other current assets in its interim Condensed Consolidated Balance Sheet primarily related to income tax refunds for prior years.

## 6. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2019	December 31, 2018
Term Loan maturing 2022, net of deferred financing fees of \$417 and \$556; 3.80% and 4.11% interest rate at September 30, 2019 and December 31, 2018	\$ 49,083	\$ 52,694
Revolving Loans; 4.31% and 4.74% interest rate at September 30, 2019 and December 31, 2018	15,500	26,750
Various finance leases; weighted average interest rate of 4.9% and 4.8% at September 30, 2019 and December 31, 2018; principal and interest payable monthly through September 2024	46,821	47,737
Various other notes payable with a weighted average interest rate of 10.7% at September 30, 2019 and December 31, 2018; principal and interest payable monthly through November 2019	9	11
	<u>111,413</u>	<u>127,192</u>
Less current portion	<u>(22,976)</u>	<u>(22,132)</u>
	<u>\$ 88,437</u>	<u>\$ 105,060</u>

### Credit Agreement

On July 14, 2017, 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.

Prior to the amendment, the Credit Agreement provided for the extension of term loans ("Term Loans") in an aggregate principal amount of \$175.0 million. In addition, prior to the amendment, the Credit Agreement provided for the extension of revolving loans ("Revolving Loans") in an aggregate principal amount not to exceed \$30.0 million. The amendment in 2017 increased the maximum aggregate principal amount of Revolving Loans under the agreement from \$30.0 million to \$80.0 million and reduced the outstanding principal amount of the Term Loan under the agreement to \$60.0 million. Upon the execution of the amendment to the Credit Agreement, the total principal amount outstanding under the agreement remained unchanged at \$110.0 million. As a result of the amendment, the principal of the Term Loan amortizes at an annual rate of 7.5% during the first and second years following the date of the amendment and at an annual rate of 10% during the third, fourth and fifth years following the date of the amendment, with any remaining balance payable upon the maturity date. The amendment also extended the maturity date for both the Revolving Loans and the Term Loans until July 14, 2022. In November 2018, the Company reduced the \$80.0 million Revolving Loan commitment by \$15.0 million.

As of September 30, 2019, the Company's borrowing availability of Revolving Loans under the Revolving Loan commitment was \$47.3 million, after deducting outstanding letters of credit of \$2.2 million and outstanding Revolving Loans of \$15.5 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 2.25%, 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 1.25%, based on the Company's Total Leverage Ratio. The amendment reduced the rate of interest payable on the loans borrowed under the Credit Agreement by 0.25%.

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 3.25 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.

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 other United States domestic subsidiary of the Company. 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).

## **7. Leasing**

### **Adoption of ASC Topic 842, *Leases***

In February 2016, the FASB issued ASC 842, *Leases*. The new guidance replaces the existing guidance in ASC 840, *Leases*. ASC 842 requires a dual approach for lessee accounting under which a lessee accounts for leases as finance leases or operating leases. Both finance leases and operating leases result in the lessee recognizing a ROU asset and a corresponding lease liability. For finance leases the lessee recognizes interest expense and amortization of the ROU asset, and for operating leases the lessee will recognize a straight-line total lease expense. In addition, ASC 842 changes the definition of a lease, which resulted in changes to the classification of certain service contracts with customers to lease arrangements. The Company adopted ASC 842 on January 1, 2019.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided entities the option to use the effective date as the date of initial application on transition to the new guidance. The Company elected this transition method, and as a result, the Company did not adjust comparative information for prior periods. The Company elected certain additional practical expedients permitted by the new guidance allowing the Company to carry forward historical accounting related to lease identification and classification for existing leases upon adoption. The Company elected, for its equipment asset classes, the practical expedient that allows lessees to treat the lease and non-lease components of leases as a single lease component. Leases with an initial term of 12 months or less are not recorded on the Company's consolidated balance sheet.

As part of the transition, the Company completed a comprehensive review of its lease portfolio, including significant leases by geography and by asset type that were impacted by the new guidance, and enhanced its controls around leasing. The adoption of ASC 842 resulted in an increase to total assets and liabilities due to the recording of operating lease ROU assets of approximately \$46.9 million and operating lease liabilities of approximately \$53.7 million, as of January 1, 2019. Finance leases were not impacted by the adoption of ASC 842, as finance lease liabilities and the corresponding ROU assets were already recorded in the balance



sheet under the previous guidance, ASC 840. The adoption did not materially impact the Company's Consolidated Statements of Operations or Cash Flows.

### Lessee Accounting

The Company determines whether an arrangement is a lease at contract inception. The Company's material lease contracts are generally for real estate or print equipment, and the determination of whether such contracts contain leases generally does not require significant estimates or judgments. The Company's leases that are classified as operating leases primarily consist of real estate leases. The Company's real estate leases contain both lease and non-lease components, which are accounted for separately. The Company's leases that are classified as finance leases primarily consist of print equipment. Certain print equipment leases have lease and non-lease components, which are accounted for as a single lease component as discussed above. Other than the election to treat the Company's fixed lease payment as a single lease component, the accounting for finance leases will remain unchanged under ASC 842.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU assets also include any lease payments made and are reduced by any lease incentives received. The lease terms primarily range from one to ten years, with renewal terms that can extend the lease term from 1 to 5 years. A portion of the Company's real estate leases are generally subject to annual changes in the Consumer Price Index (CPI), which are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The tables below present financial information associated with the Company's leases. This information is only presented as of, and for the three and nine months ended, September 30, 2019 because, as noted above, the Company adopted ASC 842 using a transition method that does not require application to periods prior to adoption.

	Classification	September 30, 2019	
<b>Assets</b>			
Operating lease assets	Right-of-use assets from operating leases	\$	40,753
Finance lease assets	Property and equipment		85,943
	Less accumulated depreciation		(41,662)
	Property and equipment, net		44,281
Total lease assets		\$	85,034
<b>Liabilities</b>			
<b>Current</b>			
Operating	Current operating lease liabilities	\$	10,899
Finance	Current portion of long-term debt and finance leases		16,967
<b>Long-term</b>			
Operating	Long-term operating lease liabilities		37,008
Finance	Long-term debt and finance leases		29,854
Total lease liabilities		\$	94,728

	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
<b>Operating lease cost</b>	Cost of sales	\$ 3,718	\$ 12,503
	Selling, general and administrative expenses	837	2,578
Total operating lease cost <sup>(1)</sup>		\$ 4,555	\$ 15,081
<b>Finance lease cost</b>			
Amortization of leased assets	Cost of sales	\$ 3,897	\$ 13,197
	Selling, general and administrative expenses	45	172
Interest on lease liabilities	Interest expense, net	650	1,767
Total finance lease cost		4,592	15,136
<b>Total lease cost</b>		\$ 9,147	\$ 30,217

<sup>(1)</sup> Includes variable lease costs and short-term lease costs of \$653 and \$60, respectively for the three months ended September 30, 2019, and variable lease costs and short-term lease costs of \$2,140 and \$364, respectively for the nine months ended September 30, 2019.

Maturity of lease liabilities (as of September 30, 2019)	Operating leases <sup>(1)</sup>	Finance leases <sup>(2)</sup>
2019	\$ 4,065	\$ 5,007
2020	13,995	18,151
2021	11,332	14,084
2022	9,502	8,689
2023	7,923	4,212
2024	5,338	1,172
Thereafter	11,915	10
Total	64,070	51,325
Less amount representing interest	16,163	4,504
Present value of lease liability	\$ 47,907	\$ 46,821

<sup>(1)</sup> Reflects payments for non-cancelable operating leases with initial terms of one year or more as of September 30, 2019. The table above does not include any legally binding minimum lease payments for leases signed but not yet commenced, and such leases are not material in the aggregate.

<sup>(2)</sup> The table above does not include any legally binding minimum lease payments for leases signed but not yet commenced, and such leases are not material in the aggregate.

As previously disclosed in the Company's 2018 Annual Report on Form 10-K and under the previous lease accounting standard, future minimum lease payments for operating leases and capital lease obligation as of December 31, 2018 were as follows:

Maturity of lease liabilities (as of December 31, 2018)	Operating leases	Capital leases
2019	\$ 16,355	\$ 16,872
2020	12,956	13,817
2021	10,130	10,141
2022	8,510	5,274
2023	7,054	1,633
Thereafter	16,650	—
Total	\$ 71,655	\$ 47,737

	<u>September 30, 2019</u>
<b>Weighted average remaining lease term (years)</b>	
Operating leases	5.6
Finance leases	3.1
<b>Weighted average discount rate</b>	
Operating leases	5.9%
Finance leases	4.9%

<b>Other information</b>	<u>Nine Months Ended September 30, 2019</u>	
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows from operating leases	\$	8,888
Operating cash flows from finance leases	\$	1,766
Financing cash flows from finance leases	\$	13,801

### **Lessor Accounting**

The Company concluded that certain of its contracts with customers contain leases under the new leasing standard and accordingly should be accounted for as operating leases upon adoption of ASC 842. Specifically, certain of the Company's MPS arrangements, which had previously been accounted for as service revenue under ASC 606, *Revenue from Contracts with Customers*, are now accounted for as operating leases under ASC 842.

The Company's MPS arrangements consists of the placement, management, and optimization of print and imaging equipment in customers' offices, job sites, and other facilities under which the Company is paid a fixed rate per unit for each print produced (per-use), often referred to as a "click charge." Accordingly, the fixed rate per unit charged to the customer covers the use of the equipment (i.e., the lease component), as well as the additional services performed by the Company as described above (i.e., the non-lease component). Certain of the Company's MPS contracts provide the customer the option to renew or terminate the agreement, which are considered when assessing the lease term. The Company elected the practical expedient to not separate certain lease and non-lease components related to its MPS arrangements, and accounts for the combined component under ASC 842. The pattern of revenue recognition for the Company's MPS revenue has remained substantially unchanged following the adoption of ASC 842.

MPS revenue 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. The Company's property and equipment, net of accumulated depreciation, includes approximately \$40 million of equipment subject to leases with customers under the Company's MPS arrangements. Following termination of an MPS arrangement, the Company will place existing equipment at an alternate customer site pursuant to an MPS arrangement, at one of the Company's service centers, or dispose of the equipment.

### **8. 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.

*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.

## 9. 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. The Company's stock plan, as amended, currently authorizes the Company to issue up to 7.0 million shares of common stock. As of September 30, 2019, 1.9 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, 2019, the Company granted options to acquire a total of 0.7 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, 2019, the Company granted 0.5 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 26 thousand shares of restricted stock awards to each of the Company's six 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 \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2019, respectively, compared to stock-based compensation expense of \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2018.

As of September 30, 2019, total unrecognized compensation cost related to unvested stock-based payments totaled \$3.0 million and is expected to be recognized over a weighted-average period of approximately 1.9 years.

## 10. Fair Value Measurements

In accordance with ASC 820, *Fair Value Measurement*, the Company has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. 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, 2019, 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 \$8.4 million as of September 30, 2019 and \$7.3 million as of December 31, 2018, 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, 2019 for borrowings under its Credit Agreement is \$65.0 million, excluding unamortized deferred financing fees. The Company

has determined, utilizing observable market quotes, that the fair value of borrowings under its Credit Agreement is \$65.0 million as of September 30, 2019.

## **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 2018 Form 10-K and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.*

### **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 primarily related to construction projects. CDIM sales include software services such as SKYSITE<sup>®</sup>, 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<sup>®</sup>, 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 are currently focused on growing MPS, AIM and CDIM, as we believe the mix of services demanded by the AEC/O industry continues to shift toward document management at customer locations and in the cloud, 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 79% of our net sales for the nine months ended September 30, 2019, with the remaining 21% 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, rents, insurance, and depreciation. Paper is the largest component of our material cost; however, paper pricing typically does not significantly affect our operating margins due, in part, to our efforts to pass increased costs on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

We maintain low levels of inventory. Historically, our capital expenditure requirements have varied due to the cost and availability of finance lease lines of credit. Our relationships with credit providers has 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.

### Results of Operations

(In millions, except percentages)	Three Months Ended September 30,		Increase (decrease)		Nine Months Ended September 30,		Increase (decrease)	
	2019	2018 (2)	\$	%	2019 (2)	2018 (2)	\$	%
CDIM	\$ 50.5	\$ 52.4	\$ (1.9)	(3.7)%	\$ 155.7	\$ 160.3	\$ (4.6)	(2.9)%
MPS	30.6	32.4	(1.8)	(5.5)%	93.1	97.2	(4.1)	(4.2)%
AIM	3.5	3.6	(0.1)	(2.8)%	10.4	9.7	0.7	6.9%
Equipment and supplies sales	9.5	12.1	(2.6)	(21.4)%	30.9	35.2	(4.3)	(12.2)%
Total net sales	\$ 94.1	\$ 100.5	\$ (6.4)	(6.3)%	\$ 290.1	\$ 302.4	\$ (12.3)	(4.1)%
Gross profit	\$ 30.4	\$ 32.7	\$ (2.3)	(6.9)%	\$ 94.9	\$ 98.7	\$ (3.8)	(3.8)%
Selling, general and administrative expenses	\$ 26.0	\$ 27.0	\$ (0.9)	(3.5)%	\$ 80.9	\$ 81.8	\$ (0.9)	(1.1)%
Amortization of intangibles	\$ 0.7	\$ 0.9	\$ (0.2)	(24.3)%	\$ 2.5	\$ 2.9	\$ (0.5)	(15.7)%
Restructuring expense	\$ 0.3	\$ —	\$ 0.3	—%	\$ 0.3	\$ —	\$ 0.3	—%
Interest expense, net	\$ 1.3	\$ 1.5	\$ (0.2)	(14.5)%	\$ 4.1	\$ 4.4	\$ (0.4)	(8.3)%
Income tax provision	\$ 1.0	\$ 0.6	\$ 0.4	61.1%	\$ 5.2	\$ 2.5	\$ 2.7	106.7%
Net income attributable to ARC	\$ 1.1	\$ 2.6	\$ (1.5)	(58.0)%	\$ 2.2	\$ 7.3	\$ (5.1)	(69.8)%
<i>Non-GAAP <sup>(1)</sup></i>								
Adjusted net income attributable to ARC <sup>(1)</sup>	\$ 1.6	\$ 2.3	\$ (0.7)	(30.7)%	\$ 5.4	\$ 7.0	\$ (1.6)	(23.1)%
EBITDA <sup>(1)</sup>	\$ 11.1	\$ 13.0	\$ (1.9)	(14.5)%	\$ 35.6	\$ 38.9	\$ (3.3)	(8.5)%
Adjusted EBITDA <sup>(1)</sup>	\$ 12.1	\$ 13.6	\$ (1.6)	(11.4)%	\$ 37.7	\$ 40.7	\$ (3.0)	(7.3)%

(1) See "Non-GAAP Financial Measures" on pg. 25 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		As Percentage of Net Sales	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019 <sup>(1)</sup>	2018 <sup>(1)</sup>	2019	2018 <sup>(1)</sup>
Net Sales	100.0%	100.0 %	100.0%	100.0%
Cost of sales	67.7	67.5	67.3	67.4
Gross profit	32.3	32.5	32.7	32.6
Selling, general and administrative expenses	27.7	26.8	27.9	27.0
Amortization of intangibles	0.8	0.9	0.9	1.0
Restructuring expense	0.3	—	0.1	—
Income from operations	3.6	4.7	3.9	4.6
Interest expense, net	1.3	1.5	1.4	1.5
Income before income tax provision	2.2	3.2	2.5	3.2
Income tax provision	1.1	0.6	1.8	0.8
Net income	1.1	2.6	0.7	2.3
Loss attributable to the noncontrolling interest	—	—	0.1	0.1
Net income attributable to ARC	1.1%	2.5 %	0.8%	2.4%
<i>Non-GAAP <sup>(2)</sup></i>				
EBITDA <sup>(2)</sup>	11.8%	13.0 %	12.3%	12.9%
Adjusted EBITDA <sup>(2)</sup>	12.8%	13.6 %	13.0%	13.5%

(1) Column does not foot due to rounding

(2) See "Non-GAAP Financial Measures" on pg. 25 for additional information.

### **Three and Nine Months Ended September 30, 2019 Compared to Three and Nine Months Ended September 30, 2018**

#### **Net Sales**

Net sales for the three and nine months ended September 30, 2019 decreased 6.3% and 4.1%, respectively, compared to the same periods in 2018 due to declines in our print-based sales, and equipment and supplies sales.

**CDIM.** Year-over-year sales of CDIM services decreased \$1.9 million, or 3.7%, and \$4.6 million, or 2.9%, for the three and nine months ended September 30, 2019, respectively. The decrease in sales of CDIM services was driven by the continued reduction in demand for printed construction drawings and related services being replaced by the ongoing adoption of technology. CDIM services represented 54% of total net sales for the three and nine months ended September 30, 2019, compared to 52% and 53% for the three and nine months ended September 30, 2018, respectively.

**MPS.** Year-over-year MPS sales for the three and nine months ended September 30, 2019 decreased \$1.8 million, or 5.5%, and \$4.1 million, or 4.2%, respectively. The decline in MPS sales was primarily due to an overall decrease in print volumes from our existing customers. Our MPS offering delivers value to our customers by optimizing their print infrastructure primarily during the first year after joining us as a customer. MPS sales represented approximately 33% and 32% of total net sales for the three and nine months ended September 30, 2019, respectively, compared to 32% for the three and nine months ended September 30, 2018.

The number of MPS locations has grown to approximately 10,800 as of September 30, 2019, representing a net increase of approximately 300 locations compared to September 30, 2018. While MPS is subject to temporary performance fluctuations based on the loss or acquisition of large clients, we believe there is an opportunity for MPS sales growth in the future due to the value that we bring to our customers and the desire to reduce printing costs in the AEC/O industry.

**AIM.** Year-over-year sales of AIM services decreased \$0.1 million, or 2.8%, and increased \$0.7 million, or 6.9%, for the three and nine months ended September 30, 2019, respectively. The increase in sales of our AIM services for the nine months ended September 30, 2019 was primarily driven by sales of solutions for building owners and facilities managers. We are driving an expansion of our addressable market for AIM services by targeting building owners and facilities managers that require on-demand

access to their legacy documents to operate their assets efficiently. As noted by a slight decline in sales of AIM services in the third quarter of 2019, sales in AIM services can fluctuate based on the level of scanning opportunities during the quarter. However, with our expanded addressable market we believe our AIM services may grow over time.

**Equipment and Supplies Sales.** Year-over-year sales of Equipment and Supplies decreased \$2.6 million, or 21.4%, and \$4.3 million, or 12.2%, for the three and nine months ended September 30, 2019, respectively. The decline in Equipment and Supplies sales was primarily driven by the market slowdown in China which decreased sales from UNIS Document Solutions Co. Ltd (“UDS”), our Chinese joint venture. Equipment and Supplies sales at UDS were \$4.6 million and \$15.7 million for the three and nine months ended September 30, 2019, respectively, compared to \$6.9 million and \$18.7 million for the three and nine months ended September 30, 2018. 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, although recent changes in the market may be indicative of a shift in procurement practices. Equipment and Supplies sales continued to decline in the U.S. for the three and nine months ended September 30, 2019. 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, 2019, gross profit and gross margin decreased to \$30.4 million, and 32.3% compared to \$32.7 million and 32.5%, during the same period in 2018, on a sales decline of \$6.4 million.

During the nine months ended September 30, 2019, gross profit decreased to \$94.9 million compared to \$98.7 million during the same period in 2018, while gross margin increased slightly to 32.7% compared to 32.6% during the same period in 2018, on a sales decline of \$12.3 million.

The increase in our gross margins for the nine months ended September 30, 2019, and slight decrease for the three months ended September 30, 2019 despite the drop in revenue, was primarily driven by certain gross margin improvement initiatives we commenced in 2018 and the cost savings activities we initiated in connection with the restructuring we commenced in the third quarter of 2019.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased \$0.9 million, or 3.5%, for the three months ended September 30, 2019, compared to the same period in 2018, and decreased \$0.9 million, or 1.1% for the nine months ended September 30, 2019, compared to the same period in 2018.

General and administrative expenses decreased \$0.9 million, or 5.8%, and \$0.8 million, or 1.7%, for the three and nine months ended September 30, 2019 respectively, compared to the same periods of 2018. The decrease in expenses was primarily driven by a moderation of healthcare costs, as compared to the comparable period in the prior year, and a reduction in bonuses. The declines were partly offset by increased cloud hosting expenses and consulting expenses.

Year-over-year sales and marketing expenses were flat during the three and nine months ended September 30, 2019 compared to the prior year periods. We optimize our sales organization, by maintaining certain investments in business initiatives that yield positive results, and we discontinue such investments when they do not.

### *Amortization of Intangibles*

Amortization of intangibles of \$0.7 million and \$2.5 million for the three and nine months ended September 30, 2019, respectively, decreased slightly compared to the same periods in 2018 due to the completed amortization of certain customer relationship intangibles related to historical acquisitions.

### *Restructuring Expense*

To better align our costs and resources with demand for our current portfolio of services and products, we initiated a restructuring plan in the third quarter of 2019. This restructuring activity included a reduction in sales and marketing infrastructure for ancillary technology services, optimization of regional and corporate organizational structure and labor force, and the implementation of system and equipment upgrades to increase operational efficiency. The expenses associated with the restructuring totaled \$0.3 million for the three months ended September 30, 2019 and related to employee termination costs. We had no such restructuring expense or activities in 2018.

### *Interest Expense, Net*



Net interest expense of \$1.3 million and \$4.1 million for the three and nine months ended September 30, 2019, respectively, decreased compared to the same periods in 2018 due to the continued pay down of our long-term debt.

#### *Income Taxes*

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.

By comparison, we recorded an income tax provision of \$0.6 million and \$2.5 million and in relation to pretax income of \$3.2 million and \$9.6 million for the three and nine months ended September 30, 2018, respectively, which resulted in an effective income tax rate of 20.0% and 26.3%. Excluding the impact of valuation allowances, certain nondeductible stock-based compensation, and other discrete tax items, our effective income tax rate would have been 26.4% and 29.3% for the three and nine months ended September 30, 2018, respectively.

We have a \$2.3 million valuation allowance against certain deferred tax assets as of September 30, 2019.

#### *Noncontrolling Interest*

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

#### *Net Income Attributable to ARC*

Net income attributable to ARC decreased to \$1.1 million and \$2.2 million during the three and nine months ended September 30, 2019, respectively. The decrease in net income attributable to ARC compared to the prior year period was driven by a decline in gross profit and an increase in the income tax provision related to discrete items noted above for the three and nine months ended September 30, 2019.

#### *EBITDA*

EBITDA margin decreased to 11.8% and 12.3% for the three and nine months ended September 30, 2019, respectively, from 13.0% and 12.9% for the same periods in 2018. Excluding the effect of stock-based compensation and the restructuring expenses, Adjusted EBITDA margin decreased to 12.8% and 13.0% during the three and nine months ended September 30, 2019, respectively, as compared to 13.6% and 13.5% for the same periods in 2018. The decrease in adjusted EBITDA margin for the three and nine months ended September 30, 2019 was primarily due to the decrease in gross profit 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, 2019 and 2018 to reflect the exclusion of the restructuring expenses as well as changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and nine months ended September 30, 2019 and 2018. 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, 2019 and 2018 to exclude stock-based compensation expense and the restructuring expenses. 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:

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Cash flows provided by operating activities	\$ 10,807	\$ 7,097	\$ 29,794	\$ 30,062
Changes in operating assets and liabilities	(453)	4,956	3,386	6,340
Non-cash expenses, including depreciation and amortization	(9,295)	(9,466)	(31,162)	(29,331)
Income tax provision	1,042	647	5,222	2,526
Interest expense, net	1,264	1,478	4,066	4,436
Loss (income) attributable to the noncontrolling interest	16	(28)	173	190
Depreciation and amortization	7,748	8,338	24,080	24,650
<b>EBITDA</b>	<b>\$ 11,129</b>	<b>\$ 13,022</b>	<b>\$ 35,559</b>	<b>\$ 38,873</b>

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income attributable to ARC Document Solutions, Inc.	\$ 1,075	\$ 2,559	\$ 2,191	\$ 7,261
Interest expense, net	1,264	1,478	4,066	4,436
Income tax provision	1,042	647	5,222	2,526
Depreciation and amortization	7,748	8,338	24,080	24,650
<b>EBITDA</b>	<b>11,129</b>	<b>13,022</b>	<b>35,559</b>	<b>38,873</b>
Restructuring expense	311	—	311	—
Stock-based compensation	622	597	1,854	1,824
<b>Adjusted EBITDA</b>	<b>\$ 12,062</b>	<b>\$ 13,619</b>	<b>\$ 37,724</b>	<b>\$ 40,697</b>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019 <sup>(1)</sup></b>	<b>2018</b>	<b>2019 <sup>(1)</sup></b>	<b>2018</b>
Net income margin attributable to ARC Document Solutions, Inc.	1.1%	2.5%	0.8%	2.4%
Interest expense, net	1.3	1.5	1.4	1.5
Income tax provision	1.1	0.6	1.8	0.8
Depreciation and amortization	8.2	8.3	8.3	8.2
<b>EBITDA margin</b>	<b>11.8</b>	<b>13.0</b>	<b>12.3</b>	<b>12.9</b>
Restructuring expense	0.3	—	0.1	—
Stock-based compensation	0.7	0.6	0.6	0.6
<b>Adjusted EBITDA margin</b>	<b>12.8%</b>	<b>13.6%</b>	<b>13.0%</b>	<b>13.5%</b>

(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.:

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income attributable to ARC Document Solutions, Inc.	\$ 1,075	\$ 2,559	\$ 2,191	\$ 7,261
Restructuring expense	311	—	311	—
Income tax benefit related to above items	(81)	—	(81)	—
Deferred tax valuation allowance and other discrete tax items	321	(213)	2,939	(290)
Adjusted net income attributable to ARC Document Solutions, Inc.	\$ 1,626	\$ 2,346	\$ 5,360	\$ 6,971

**Actual:**

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

Basic	\$ 0.02	\$ 0.06	\$ 0.05	\$ 0.16
Diluted	\$ 0.02	\$ 0.06	\$ 0.05	\$ 0.16

Weighted average common shares outstanding:

Basic	44,978	44,983	45,107	44,888
Diluted	44,992	45,188	45,213	44,993

**Adjusted:**

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

Basic	\$ 0.04	\$ 0.05	\$ 0.12	\$ 0.16
Diluted	\$ 0.04	\$ 0.05	\$ 0.12	\$ 0.15

Weighted average common shares outstanding:

Basic	44,978	44,983	45,107	44,888
Diluted	44,992	45,188	45,213	44,993

*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, 2019, was \$20.8 million. Of this amount, \$13.3 million was held in foreign countries, with \$11.1 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.

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash provided by operating activities	\$ 29,794	\$ 30,062
Net cash used in investing activities	\$ (8,064)	\$ (9,907)
Net cash used in financing activities	\$ (29,881)	\$ (28,961)

### Operating Activities

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

The decrease in cash flows from operations during the nine months ended September 30, 2019 compared to the same period in 2018 was primarily a result of the decline in net income, partially offset by improved management of operating assets and liabilities. Days sales outstanding (“DSO”) was 55 days as of September 30, 2019 and 56 days as of September 30, 2018

### Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling \$8.4 million and \$10.5 million for the nine months ended September 30, 2019 and 2018, respectively. The change in capital expenditures is driven primarily by the timing of equipment purchases, and whether such equipment is leased or purchased with available cash.

### Financing Activities

Net cash of \$29.9 million used in financing activities during the nine months ended September 30, 2019 primarily relates to payments on our debt agreements and finance leases. During the third quarter of 2019, we continued to pay down the outstanding revolving loans under our Credit Agreement.

Our cash position, working capital, and debt obligations as of September 30, 2019 and December 31, 2018 are shown below and should be read in conjunction with our interim Condensed Consolidated Balance Sheets and notes thereto contained elsewhere in this report.

<u>(In thousands)</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 20,803	\$ 29,433
Working capital	\$ 17,978	\$ 34,425
Borrowings from credit agreement <sup>(1) (2)</sup>	\$ 64,583	\$ 79,444
Other debt obligations	46,830	47,748
Total debt obligations	<u>\$ 111,413</u>	<u>\$ 127,192</u>

(1) Net of deferred financing fees of \$0.4 million and \$0.6 million at September 30, 2019 and December 31, 2018, respectively.

(2) Includes \$15.5 million and \$26.8 million of revolving loans outstanding under our Credit Agreement at September 30, 2019 and December 31, 2018, respectively.

The decrease of \$16.4 million in working capital in 2019 was primarily due to the addition of the current portion of operating lease liabilities on the balance sheet due to the new lease accounting rules that came into effect in 2019, as well as the decline in cash resulting from the timing of cash outlays related to accounts payable and accrued expenses. 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 \$20.8 million, availability under our revolving credit facility, availability under our equipment lease lines, and cash flows provided by operations should be adequate to cover the next twelve months of working capital needs, debt service requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. 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, such as non-residential and residential construction spending. Additionally, a general economic downturn may adversely affect the ability of our customers and suppliers to obtain financing for significant operations and purchases, and to perform their obligations under their agreements with us. We believe that credit constraints in the financial markets could result in a decrease in, or cancellation of, existing business, could limit new business, and could negatively affect our ability to collect our accounts receivable on a timely basis.

While we have not been actively seeking growth through acquisition, we continue to selectively evaluate potential acquisitions.

## *Debt Obligations*

### ***Credit Agreement***

On July 14, 2017, we amended our credit agreement ("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.

Prior to the amendment, the Credit Agreement provided for the extension of term loans ("Term Loans") in an aggregate principal amount of \$175.0 million. In addition, prior to the amendment, the Credit Agreement provided for the extension of revolving loans ("Revolving Loans") in an aggregate principal amount not to exceed \$30.0 million. The amendment in 2017 increased the maximum aggregate principal amount of Revolving Loans under the agreement from \$30.0 million to \$80.0 million and reduced the outstanding principal amount of the Term Loan under the agreement to \$60.0 million. Upon the execution of the amendment to the Credit Agreement, the total principal amount outstanding under the agreement remained unchanged at \$110.0 million. As a result of the amendment, the principal of the Term Loan amortizes at an annual rate of 7.5% during the first and second years following the date of the amendment and at an annual rate of 10% during the third, fourth and fifth years following the date of the amendment, with any remaining balance payable upon the maturity date. The amendment also extended the maturity date for both the Revolving Loans and the Term Loans until July 14, 2022. In November 2018, we reduced the \$80.0 million Revolving Loan commitment by \$15.0 million.

As of September 30, 2019, our borrowing availability under the Revolving Loan commitment was \$47.3 million, after deducting outstanding letters of credit of \$2.2 million and outstanding Revolving Loans of \$15.5 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 2.25%, 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 1.25%, based on our Total Leverage Ratio. The amendment reduced the rate of interest payable on the loans borrowed under the Credit Agreement by 0.25%.

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 3.25 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, 2019 and are currently forecasted to remain in compliance with our covenants for the remainder of the term of the Credit Agreement.

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, 2019, we had \$46.8 million of finance lease obligations outstanding, with a weighted average interest rate of 4.9% and maturities between 2019 and 2024.

### **Off-Balance Sheet Arrangements**

As of September 30, 2019, 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.

**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 2018 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 2018 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, 2019, 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.

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.

For our annual goodwill impairment test as of September 30, 2017, we elected to early-adopt ASU 2017-04 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.

The results of the latest annual goodwill impairment test, as of September 30, 2019, were as follows:

<b>(Dollars in thousands)</b>	<b>Number of Reporting Units</b>	<b>Representing Goodwill of</b>
No goodwill balance	6	\$ —
Fair value of reporting units exceeds their carrying values by more than 100%	2	121,051
	8	\$ 121,051

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2019 and beyond, assuming

all other assumptions remain constant, would result in no further 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 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 2019 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, we may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 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, 2019.

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.

Our effective income tax rate differs from the statutory tax rate primarily due to the effect of the Tax Cuts and Jobs Act (the "TCJA") enacted on December 22, 2017, the valuation allowance on certain of the Company's deferred tax assets, state income taxes, stock-based compensation, goodwill and other identifiable intangibles, and other discrete items. See Note 5 "Income Taxes" for further information.

### ***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 and the adoption of ASC 842, *Leases*, on January 1, 2019, in addition to 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 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, 2019. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 2019, 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, 2019, 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

Information concerning certain risks and uncertainties appears in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. You should carefully consider those risks and uncertainties, which could materially affect our business, financial condition and results of operations. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

### 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)
<b>Period</b>				
April 1, 2019—April 30, 2019	—	\$ —	—	\$ —
May 1, 2019—May 31, 2019	236	\$ 2.10	236	\$ 14,503
June 1, 2019—June 30, 2019	118	\$ 2.12	118	\$ 14,252
July 1, 2019—July 31, 2019	—	\$ —	—	14,252
August 1, 2019—August 31, 2019	205	\$ 1.54	205	13,938
September 1, 2019—September 30, 2019	—	\$ —	—	13,938
<b>Total</b>	<u>559</u>		<u>559</u>	

(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.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">31.1</a>	<a href="#">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.*</a>
<a href="#">31.2</a>	<a href="#">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.*</a>
<a href="#">32.1</a>	<a href="#">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.*</a>
<a href="#">32.2</a>	<a href="#">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.*</a>
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 8, 2019

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

<b>Exhibit Number</b>	<b>Description</b>
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\* Filed herewith

**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, Kumarakulasingham 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 8, 2019

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingham Suriyakumar

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

**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 8, 2019

/s/ JORGE AVALOS

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Jorge Avalos  
Chief Financial Officer  
(Principal Financial Officer)

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

I, Kumarakulasingham 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, 2019 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 8, 2019

/s/ KUMARAKULASINGAM SURIYAKUMAR

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Kumarakulasingham Suriyakumar

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



**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, 2019 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 8, 2019

/s/ JORGE AVALOS

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Jorge Avalos  
Chief Financial Officer  
(Principal Financial Officer)