

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 001-32407

ARC DOCUMENT SOLUTIONS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**12657 Alcosta Blvd, Suite 200
San Ramon, California 94583
(925) 949-5100**

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	ARC	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Based on the closing price of \$1.00 of the registrant’s Common Stock on the New York Stock Exchange on June 30, 2020 (the last business day of the registrant’s most recently completed second fiscal quarter), the aggregate market value of the voting common equity held by non-affiliates of the registrant on that date was approximately \$37,190,279.

As of February 23, 2021, there were 42,792,219 shares of the Registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement on Form 14A for its April 29, 2021 Annual Meeting of Stockholders are incorporated by reference in this Annual Report on Form 10-K in Part III.

ARC DOCUMENT SOLUTIONS, INC.
ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2020

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ARC DOCUMENT SOLUTIONS, INC.
2020 ANNUAL REPORT ON FORM 10-K

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact contained in this report are statements that could be deemed forward-looking statements, including without limitation statements with respect to expectations regarding the impact of the COVID-19 pandemic on our financial results and the effectiveness of the Company's responses to the pandemic, future cash flows, and capital requirements, the impact of foreign exchange rate movements on sales and net income, and the Company's anticipated effective tax rate, and statements of assumptions underlying any of the foregoing. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “project,” “target,” “likely,” “will,” “would,” “could,” and other similar language, whether in the negative or affirmative. The forward-looking statements in this Annual Report on Form 10-K are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” under Part I, Item 1A below and elsewhere in this Annual Report on Form 10-K. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as indicative of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- our financial condition and results of operations for fiscal 2020 and beyond have been and are expected to continue to be adversely affected by the recent novel coronavirus (or COVID-19) pandemic;
- we are highly dependent on the architectural, engineering, construction and building owner/operator (AEC/O) industry and any decline in that industry could adversely affect our future revenue and profitability;
- because a significant portion of our overall costs are fixed, our earnings are highly sensitive to changes in revenue;
- if we are unable to charge for our value-added services to offset declines in print volumes, our long-term revenue could decline;
- we derive a significant percentage of net sales from within the State of California and our business could be disproportionately harmed by an economic downturn or natural disaster affecting California;
- our growth strategy depends, in part, on our ability to successfully market and execute several different, but related, service offerings;
- we are dependent upon our vendors to continue to supply us equipment, parts, supplies, and services at comparable terms and price levels as the business grows;
- our failure to adequately protect the proprietary aspects of our technology, including SKYSITE, PlanWell, and Abacus may cause us to lose market share;
- in performing our document management services, we handle customers’ confidential information. Our failure to protect our customers’ confidential information against security breaches could damage our reputation, harm our business and adversely affect our results of operations;
- our failure to comply with laws related to privacy and data security could adversely affect our financial condition;
- added risks are associated with our international operations;

- a large percentage of our cash and cash equivalents are held outside of the United States, and we could be subject to repatriation delays and costs which could reduce our financial flexibility;
- the market prices of our common stock is volatile, and is impacted by factors other than our financial performance, which could cause the value of an investment in our stock to decline;
- changes in tax laws and interpretations could adversely affect our business;
- our debt instruments impose certain restrictions on our ability to operate which in turn could negatively affect our ability to respond to business and market conditions and therefore could have an adverse effect on our business and results of operations;
- if the interest rates on our borrowings increase, our access to capital and net income could be adversely affected; and
- we may be exposed to employment-related claims and costs and periodic litigation that could adversely affect our business and results of operations.

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

TRADEMARKS AND TRADE NAMES

We own or have rights to a number of trademarks, service marks, and trade names that we use in conjunction with the operation of our business, including the name and design mark “ARC Document Solutions,” “ABACUS,” “METAPRINT,” “PlanWell,” “PlanWell PDS,” “Riot Creative Imaging,” “SKYSITE,” and various design marks associated therewith. In addition, we own or have rights to various trademarks, service marks, and trade names that we use regionally in conjunction with our operations. This report also includes trademarks, service marks and trade names of other companies.

PART I

Item 1. *Business*

Our Company

ARC Document Solutions, Inc. (“ARC Document Solutions,” “ARC,” “we,” “us,” or “our”) provides a wide variety of document distribution and graphic production services to facilitate communication for professionals in the design, marketing, commercial real estate, education, construction and related fields.

Our customers need us to manage the special production needs, volume, 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.

Our offerings include:

Offsite Services - We operate 148 offsite service centers in major metropolitan markets in the U.S. and internationally which provide local customers with high-volume, project-related printing, offer our MPS customers overflow capacity during peak workloads, and support our customers’ scanning needs in archiving and information management services.

Specialized Color Printing - Our service centers offer color printing, finishing, and assembly of graphic materials for regional and national retailers, schools, franchises, marketing departments, theme parks, and cultural institutions, as well as a growing need for public health and safety graphics related to the COVID-19 pandemic.

Managed Print Services (“MPS”) - An onsite service where we place, manage, and optimize 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 typically billed in a single consolidated invoice.

Archive and Information Management (“AIM”) -We store our customers' information and intellectual property in a highly secure cloud-based and searchable digital archive. We scan our customers’ paper documents or import their digital documents, organize them, and store them in our proprietary content management software. Our regional scanning centers are HIPPA-compliant and we are fully capable of handling protected health information in addition to conventional business documents.

Web-Based Document Management Applications - We develop and offer proprietary tools to our customers, such as SKYSITE[®], Abacus[®], and the ARC Print app that facilitate project collaboration, manage print networks, track equipment fleets, create and maintain project document archives, and perform other document and content management tasks.

Equipment and Supplies Sales - We sell equipment and supplies primarily to customers in the architectural, engineering, construction, and building owner/operator (AEC/O) industry and provide ancillary services such as equipment service and maintenance.

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

Our cloud-based services are hosted by Amazon Web Services.

We believe we are the largest document solutions provider to the AEC/O market in North America, and the only national provider offering onsite, offsite and cloud-based document management solutions for regional, national and global customers. We offer comprehensive services across geographical boundaries and frequently bill under a single monthly invoice, consolidating purchasing, vendor relations, and administration for companies seeking a unified document management platform.

We serve our clients' onsite in their offices in approximately 10,750 locations, and offsite or virtually through a combination of 148 global service centers, a variety of web-based applications and software, and a global network of service partners. We operate in major metropolitan markets across the U.S., with meaningful operations in China, Canada, and the United Kingdom.

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

Our base of more than 45,000 customers includes most of the largest design and construction-oriented firms in North America, and the world, and our expansion into new markets includes some of the biggest names in retail, technology, educational, hospitality, public utilities customers, and others.

Our largest customers are served by our corporate sales force called Global Solutions. This sales force is focused on large regional and national customers. Our diverse customer base results in no individual customer accounting for more than 2% of our overall revenue.

We are a Delaware corporation operating under a single brand, “ARC”. Our corporate name is “ARC Document Solutions, Inc.,” and our New York Stock Exchange ticker symbol is “ARC.” We conduct our operations through our wholly-owned subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

Principal Products and Services

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

Construction Document and Information Management (CDIM), which consists of professional services to manage and distribute documents and information related to construction projects and related project-based businesses outside of the architectural, engineering and construction (AEC) industry. Our reconfiguration of the Company's sales and marketing functions in late-2019, as well as customer needs driven by the COVID-19 pandemic, have led to a significant expansion of the non-AEC segment of our CDIM business, primarily through the provision of color graphics and signage. CDIM sales also include software services such as SKYSITE®, our cloud-based project communication application, as well as providing document and information management services that are often technology-enabled. The bulk of our current revenue from CDIM comes from large-format and small-format printing services we provide in both black and white and in color.

Managed Print Services (MPS), which consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a “per-use” basis. MPS is supported by our proprietary technology, Abacus, which allows our customers to capture, control, manage, print, and account for their documents. MPS sales represent 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. Because the recent pandemic has forced a large number of our clients to direct their employees to work from home, MPS volume and sales have declined over the past year.

Archiving and Information Management (AIM), which consists of 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 application 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. A growing portion of our sales are being driven by our ability to handle protected health information (PHI) as our regional scanning centers are HIPAA-compliant. AIM sales are driven by the need to leverage past intellectual property 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. Remote access to digital documents driven by work-from-home conditions created by the recent pandemic have also contributed to new activity in this area of our business.

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

Each of our service offerings is enabled through a suite of supporting proprietary technology.

Operations

Our products and services are available from any of our 148 service centers around the world, and nearly all of our services can be made available in our customers' offices. Our geographic presence is concentrated in the U.S., with additional service centers in Canada, China, India, and the United Kingdom. Our corporate headquarters are located in San Ramon, California.

Historically, our business grew through acquisitions to expand our share of the reprographics market and enhance our geographic footprint to serve our larger customers. Since our inception we have acquired more than 140 companies. As we have consolidated, diversified our service offerings, and optimized our operations during the past several years, we are no longer actively pursuing the acquisition of reprographic businesses. Our origin as a company was in California, and our early acquisition activity was concentrated there. We derive approximately 32% of our total revenue from California.

We currently employ approximately 15 engineers working from our corporate headquarters in San Ramon, California, who develop, maintain, and support our software. In addition, we operate a technology center in Kolkata, India, with approximately 160 employees who, in addition to supporting our San Ramon team, also support our research and development efforts. All of our production facilities are connected via a high-performance, dedicated, wide-area network, to facilitate data transmissions to and from our customers, our operating facilities and the cloud hosted by Amazon Web Services. We employ a combination of proprietary and industry-leading technologies to provide redundancy, backup and security of all data in our systems. In response to the recent pandemic, most of our corporate, financial and administrative staff have been working from home, while our service center staff continue to work in our facilities and adhere to strict safety and health protocols.

The majority of our historical revenue has been derived from customers engaged in the seasonal, non-residential construction market. While our traditional reprographics business, which is included in the CDIM revenue category, is still influenced by the non-residential seasonality and building cycles, our other CDIM offerings are less so. Historically, color printing services are affected by retail marketing calendars, advertising campaigns, as well as the marketing needs of our architectural and real estate development clients. Our software services are influenced primarily by the desire for document workflow improvements and our ability to market our technology-based solutions. MPS is driven by the generation of office documents and our customers' desire to improve business processes and reduce print-related costs. Equipment and Supplies Sales are driven by purchasing cycles of individual customers, as well as by new features and advancements by manufacturers.

As of December 31, 2020, the Company employed approximately 1,750 employees.

Our Customers and Markets

We serve both the enterprise and project management needs of professionals in the design, marketing, commercial real estate, construction and related fields. Our customers include senior management teams, IT and procurement departments, project architects, engineers, general contractors, facilities managers, marketing managers, as well as growing number of retail, technology, educational, hospitality, and public utilities customers.

We believe the market forces of the COVID-19 pandemic continue to cause our customers to emphasize efficiency in the production and distribution of printed documents, responsibly reduce their dependence on print where it is not necessary, and to improve remote access and control over all the documents related to their business. We believe the pandemic also encourages our customers to actively reduce costs, eliminate redundant business practices, and procure products and services from vendors who can centrally serve their business – including a remote workforce working from home – with a comprehensive offering.

We believe that these trends are advantageous to us because we can provide our customers with web-based applications and cloud-based offerings to meet their demand for technology-enabled content management services; we offer a wide variety of digital and conventional alternatives to standard printing; and our comprehensive services and national footprint create economies of scale and efficiencies for customers who prefer to work with a single supplier for print and document management.

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

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

Competition

The level of competition varies in each of the areas in which we provide services. We believe service levels, breadth of offering, price, quality, responsiveness, and convenience to the customer are competitive elements in each of the industry segments in which we compete.

Further, we believe we are unique because no other company provides the complete portfolio of services and products we provide. We compete with different firms in our different business lines that can provide a portion of our services. However, we do not know of any other firm that can provide a full suite of physical and digital content management services similar to our combined offerings.

In addressing larger local and regional customers, there are several companies that provide MPS and reprographic print services, but in general, we believe that these companies cannot provide or integrate software or technology that enables the digital management of documents and centralized cost control management that we provide. In our CDIM offerings, local copy shops and self-serve franchises are often aggressive competitors for printing business, but rarely offer the breadth of document management and logistics services that we do.

With regard to large national and international customers, there are no other document solutions companies in the U.S. with the national presence and global reach that we have established, but we often compete against equipment manufacturers and businesses who offer some of the same products and services we do. Related services are offered by large printing/multifunctional device manufacturers such as Xerox, Canon, Hewlett Packard, Konica Minolta, Ricoh, and Sharp, but most offerings from these companies are focused on selling equipment as opposed to ARC's offering of comprehensive document management services for both project and enterprise documents. Further, our deep knowledge of the AEC/O industry document workflows, which are incorporated into our software, provides us an advantage when competing against local printers and national equipment manufacturers.

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

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

Customer relationships in AEC/O industry: Our relationships with our local customers are often long-standing and comprehensive, and we do business with nearly all of the top 100 companies in the U.S. construction industry. In addition, our Global Solutions sales force has established long-term contract relationships with 25 of the largest 100 AEC/O firms. We believe this provides a competitive advantage by leveraging our success through referrals.

Wide-variety of specialized printing capabilities: We believe the equipment, capacity and expertise we offer throughout our service centers is unmatched by any other regional or national vendor. Customers with specialized printing needs can turn to us for design assistance, finishing and merchandising services, and interior and exterior installation, as well as printing services on virtually any material or object.

Service center footprint: We possess an extensive national network of service centers creating a distribution and customer service solution that can cater to both large and small customers. We operate service centers in more than 120 cities and in 34 states in the U.S. We also have a market presence in Canada and China, and operations in India and the U.K. We are not aware of any other MPS provider that has as extensive a network to supplement its MPS services and provide overflow and remote document management and printing capabilities.

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

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

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

Suppliers and Vendors

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

Our primary vendors of equipment, maintenance services, and reprographics supplies include Hewlett Packard, Canon Solutions America (Océ), and Xerox. Purchases from these vendors during 2020 comprised approximately 53% of our total purchases of inventory and supplies. Although there are a limited number of suppliers that could supply our inventory, we believe any shortfalls from existing suppliers could be filled by other suppliers on comparable terms.

Proprietary Rights

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

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

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

Information about our Executive Officers

The following sets forth certain information regarding all of our executive officers as of February 23, 2021:

Name	Age	Position
Kumarakulasingam Suriyakumar	67	Chairman, President and Chief Executive Officer Director
Jorge Avalos	45	Chief Financial Officer
Rahul K. Roy	61	Chief Technology Officer
Dilantha Wijesuriya	59	Chief Operating Officer

Kumarakulasingam (“Suri”) Suriyakumar has served as our President and Chief Executive Officer since June 1, 2007, and he served as the Company’s President and Chief Operating Officer from 1991 until his appointment as Chief Executive Officer. On July 24, 2008, Mr. Suriyakumar was appointed Chairman of our Board of Directors. Mr. Suriyakumar served as an advisor of American Reprographics Holdings, LLC (“Holdings”), from March 1998 until his appointment as a director of the Company in October 2004. Mr. Suriyakumar joined Micro Device, Inc. (our predecessor company) in 1989. He became the Vice President of Micro Device, Inc. in 1990. Prior to joining the Company, Mr. Suriyakumar was employed with Aitken Spence & Co. LTD, a highly diversified conglomerate and one of the five largest corporations in Sri Lanka.

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

Rahul K. Roy joined Holdings as its Chief Technology Officer in September 2000. Prior to joining the Company, Mr. Roy was the founder, President and Chief Executive Officer of MirrorPlus Technologies, Inc., which developed software for the reprographics industry, from August 1993 until it was acquired by the Company in 1999. Mr. Roy also served as the Chief Operating Officer of InPrint Corporation, a provider of printing, software, duplication, packaging, assembly and distribution services to technology companies, from 1993 until it was acquired by the Company in 1999.

Dilantha (“Dilo”) Wijesuriya joined Ford Graphics, a former division of the Company, in January 1991. He subsequently became president of that division in 2001, and became a Company regional operations head in 2004, which position he retained until his appointment as the Company’s Senior Vice President, National Operations in August 2008. Mr. Wijesuriya was appointed Chief Operating Officer of the Company on February 25, 2011. Prior to his employment with the Company,

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

Available Information

We use our corporate website, www.e-arc.com, as a channel for routine distribution of important information, including news releases, analyst presentations and financial information. The information on our website is not incorporated by reference into this Annual Report on Form 10-K or into any other report or document we file with the U.S. Securities and Exchange Commission ("SEC"). We file with, or furnish, to the SEC Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, as well as proxy statements and annual reports to shareholders, and, from time to time, other documents. The reports and other documents filed with or furnished to the SEC are available to investors on or through our corporate website free of charge as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. The SEC maintains an internet site located at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers, such as ARC, that file electronically with the SEC. ARC's SEC filings and other documents pertaining to the conduct of its business can be found on the "Investors" section of its website available at www.e-arc.com. These documents are available in print to any shareholder who requests a copy by writing or by calling ARC Document Solutions.

Item 1A. Risk Factors

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

Risk Related to the Impact of the Novel Coronavirus (or COVID-19) Pandemic on Our Business

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

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

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

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

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

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

A prolonged or severe economic downturn resulting from adverse domestic and/or global conditions, including epidemics such as the COVID-19 outbreak, may adversely affect the ability of our customers and suppliers to obtain financing and to perform their obligations under agreements with us. These restrictions could result in a decrease in, or cancellation of, existing business, could limit new business, and could negatively affect our ability to collect on our accounts receivable on a timely basis, if at all. These events may, in the aggregate, have a material adverse effect on our results of operations and financial condition.

Impairment of goodwill due to the impact of the COVID-19 pandemic may adversely affect future results of operations.

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

Risks Related to Our Business

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

We estimate that customers in the AEC/O industry accounted for approximately 69% of our net sales in 2020; therefore, our results largely depend on the strength of that industry. Our historical operating results reflect the cyclical and variable nature of the AEC/O industry. We believe that the AEC/O industry generally experiences downturns several months after a downturn in the general economy, and that there may be a similar delay in the recovery of the AEC/O industry following a recovery of the general economy. A downturn in the AEC/O industry would diminish demand for some of our products and services, and would therefore negatively affect our revenues and have a material adverse effect on our business, operating results and financial condition.

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

We derived approximately 32% of our net sales in 2020 from our operations in California. As a result, we are dependent to a large extent upon the AEC/O industry in California and, accordingly, we are sensitive to economic factors affecting AEC/O activity in California, including general and local economic conditions, macroeconomic trends, political factors affecting commercial and residential real estate development and natural disasters (including drought, earthquakes and wildfires). Any adverse developments affecting California could have a disproportionately negative effect on our results of operations and financial condition.

If we are unable to charge for our value-added services to offset declines in print volumes, our long-term revenue could decline.

Our customers value the ability to view and order prints over the internet and print to output devices in their own offices and other locations throughout the country and the world. In 2020, our CDIM sales, which consists of the management, distribution, and production of documents and information related to construction projects, including large-format construction drawings, black and white and color signage, specification documents, and marketing material, represented approximately 61% of our total net sales, and our MPS represented approximately 27% of our total net sales. Both categories of revenue are generally derived from a charge per square foot of printed material. Future technology advances may further facilitate and improve our customers' ability to reduce print and the associated costs thereof. As technology continues to improve, this trend toward printing on an "as needed" basis could result in further decreased printing volumes and sales decline in the longer term. This was certainly evidenced during 2020 when offices shut down and people were forced to work from home leading to significant reduction in printing. Failure to offset these declines in printing volumes by changing how we charge for our services and develop additional revenue sources could significantly affect our business and reduce our long-term revenue, resulting in an adverse effect on our results of operations and financial condition.

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

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

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

Our network of service centers, equipment and related support activities involves substantial fixed costs which cannot be adjusted quickly to respond to declines in demand for our services. We estimate approximately 36% of our overall costs were fixed in 2020. As a consequence, our results of operations are subject to relatively high levels of volatility and our earnings could deteriorate rapidly in the face of declining revenues because our ability to reduce fixed costs in the short-term is limited. If we fail to manage our fixed costs appropriately, or to maintain adequate cash reserves to cover such costs, we may suffer material adverse effects on our results of operations and financial condition.

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

Our access to equipment, parts, supplies, and services depends upon our relationships with, and our ability to purchase these items on competitive terms from our principal vendors. These vendors are not required to use us to distribute their equipment and are generally free to change the prices and other terms at which they sell to us. In addition, we compete with the selling efforts of some of these vendors. Our reliance on a limited number of principal vendors presents various risks. These include the risk that in the event of an interruption of relationships with our principal vendors for any reason, such as a natural catastrophe, epidemics such as the COVID-19 pandemic, or actions taken in regard to increased tariffs on goods produced in certain countries such as China, we may not be able to develop an alternate source without incurring material additional costs and substantial delays. Significant deterioration in relationships with, or in the financial condition of, these significant vendors could have an adverse effect on our ability to sell equipment as well as our ability to provide effective service and technical support. If one of these vendors terminates or significantly curtails its relationship with us, or if one of these vendors ceases operations, we would be forced to expand our relationships with our other existing vendors or seek out new relationships with previously unused vendors.

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

Our success depends on our ability to protect and preserve the proprietary aspects of our technology products. We rely on a combination of copyright, trademark and trade secret protection, confidentiality agreements, license agreements, non-competition agreements, reseller agreements, customer contracts, and technical measures to establish and protect our rights in our proprietary technologies. These protections, however, may not be adequate to remedy harm we suffer due to misappropriation of our proprietary rights by third parties. In addition, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect our competitive position. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and

newly enacted regulatory requirements in the countries in which they are sold. Furthermore, we may, from time to time, be subject to intellectual property litigation which can be expensive, a burden on management's time and our Company's resources, and the outcome of any such litigation may be uncertain.

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

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

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

Our failure to comply with laws related to privacy and data security could adversely affect our financial condition.

We are or may become subject to a variety of laws and regulations in the United States and abroad regarding privacy, data protection and data security. These laws and regulations are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly with respect to foreign laws. In particular, health-related laws and regulations such as the Health Insurance Portability and Accountability Act of 1996, or HIPAA, may also have an impact on our business. For example, we offer HIPAA-compliant capabilities to certain customers who are "covered entities" under HIPAA, which may include our execution of HIPAA Business Associate Agreements, or BAAs, with such covered entities. In addition, changes in applicable laws and regulations may result in the user data we collect being deemed protected health information under HIPAA. If we are unable to comply with the applicable privacy and security requirements, we could be subject to claims, legal liabilities, penalties, fines, and negative publicity, which could harm our operating results.

Our computer hardware and software and telecommunications systems are susceptible to damage, breach or interruption.

The management of our business is aided by the uninterrupted operation of our computer and telecommunication systems. These systems are vulnerable to security breaches, natural disasters or other catastrophic events, computer viruses, or other interruptions or damage stemming from power outages, equipment failure or unintended usage by employees. In particular, our employees may have access or exposure to personally identifiable or otherwise confidential information and customer data and systems, the misuse of which could result in legal liability. In addition, we rely on information technology systems to process, transmit and store electronic information and to communicate among our locations around the world and with our clients, partners and consultants, including through cloud-based platforms often provided by third parties. The breadth and complexity of this infrastructure increases the potential risk of security breaches. Security breaches, including cyber-attacks or cyber-intrusions by computer hackers, foreign governments, cyber terrorists or others with grievances against the industry in which we operate or us in particular, may disable or damage the proper functioning of our networks and systems. It is possible that our security controls, or those of the third parties with whom we partner, over personal and other data may not prevent unauthorized access to, or destruction, loss, theft, misappropriation or release of personally identifiable or other proprietary, confidential, sensitive or valuable information of ours or others; this access could lead to potential unauthorized disclosure of confidential Company or client information that others could use to compete against us or for other disruptive, destructive or harmful purposes and outcomes. Any such disclosure or damage to our networks, or those of the third parties with whom we partner, and systems could subject us to third party claims against us and reputational harm. If these events occur, our ability to attract new clients may be impaired or we may be subjected to damages or penalties. In addition, system-wide or local failures of these information technology systems could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

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

Added risks are associated with our international operations.

We have international operations in China, India, the United Kingdom, Canada, Hong Kong, United Arab Emirates, and Australia. Approximately 13% of our revenues for 2020 were derived from our international operations, with approximately 4% derived from China. Our future revenues, costs of operations and net income could be adversely affected by a number of factors related to our international operations, including changes in economic conditions from country to country (resulting from epidemics such as the COVID-19 outbreak or otherwise), currency fluctuations, changes in a country's political condition, trade protection measures, licensing and other legal requirements and local tax issues.

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

Approximately 31% of our cash and cash equivalents are currently held outside the United States. Repatriation of some of the funds could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result of holding cash and cash equivalents outside of the U.S., our financial flexibility may be reduced.

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

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

We may be exposed to employment-related claims and costs and periodic litigation that could adversely affect our business and results of operations.

We are subject to a number of risks inherent to our status as an employer including without limitation:

- claims of misconduct or negligence on the part of our employees, discrimination or harassment claims against our employees, or claims by our employees of discrimination or harassment;
- claims relating to violations of wage, hour and other workplace regulations;
- claims relating to employee benefits, entitlements to employee benefits, or errors in the calculation or administration of such benefits; and
- possible claims relating to misuse of customer confidential information, misappropriation of assets or other similar claims.

If we experience significant incidents involving any of the above-described risk areas we could face substantial out-of-pocket losses, or fines. In addition, such claims may give rise to litigation, which may be time consuming, distracting and costly, and could have a material adverse effect on our business.

Environmental, health, and safety laws and regulations and the costs of complying with them, or any change to them impacting our markets, could materially adversely affect our financial position, results of operations and cash flows.

Our operations are subject to numerous laws and regulations governing environmental protection and occupational health and safety matters. These laws govern such issues as wastewater, storm water, solid and hazardous wastes and materials, air quality and matters of workplace safety. Under these laws and regulations, regardless of fault we may be liable for, among other things, the cost of investigating and remediating contamination. The amount of any such expense or related natural resource damages for which we may be held responsible could be substantial. We cannot predict the potential financial impact on our business if adverse environmental, health, or safety conditions are discovered, or environmental, health, and safety requirements become more stringent. If we are required to incur environmental, health, or safety compliance or remediation costs that are not currently anticipated and accrued by us, our financial position, results of operations and cash flows could be materially adversely affected, depending on the magnitude of the cost.

Changes in tax laws and interpretations could adversely affect our business.

We are subject to income and other taxes in the U.S. and in numerous foreign jurisdictions. Our domestic and foreign tax provisions are dependent on the jurisdictions in which profits are determined to be earned and taxed. Additionally, the amount of tax provision is subject to our interpretation of applicable tax laws in the jurisdictions in which we operate. A number of factors influence our effective tax rate, including changes in tax laws and treaties as well as the interpretation of existing laws and rules. Federal, state, and local governments and administrative bodies within the U.S., which represents a majority of our operations, and other foreign jurisdictions have implemented, or are considering, a variety of broad tax, trade, and other regulatory reforms that may impact us. For example, the Tax Cuts and Jobs Act enacted on December 22, 2017 resulted in changes in our federal corporate tax rate, our deferred income taxes, and the taxation of foreign earnings. It is not currently possible to accurately determine the potential impact of proposed or future changes, but such changes could have a material impact on our business.

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

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

Risks Related to Our Indebtedness

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

As of December 31, 2020, we had \$97.2 million in outstanding short and long-term borrowings under our credit facilities, and finance leases, excluding trade payables and operating leases. The terms of the agreements under which this indebtedness was incurred may limit or restrict, among other things, our ability to incur certain additional debt, make certain restricted payments, consummate certain asset sales, and enter into certain transactions with affiliates.

We are also required to maintain a total leverage ratio and fixed charge coverage ratio under our credit agreement. Our inability to meet these ratios could result in the acceleration of the repayment of the outstanding obligations under the Credit Agreement, the termination of the lenders' commitment to provide our revolving line of credit thereunder, the increase in our effective cost of funds or the cross-default of other credit arrangements. As a result, our ability to operate may be restricted and our ability to respond to business and market conditions may be limited, which could have an adverse effect on our business and operating results.

If the interest rates on our borrowings increase, our access to capital and net income could be adversely affected.

Our Credit Agreement and finance leases are variable-rate instruments which expose us to interest rate risks. If interest rates increase, debt service obligations and our interest expense will increase even though the amount borrowed remains the same. Our net income and cash flows, including cash available for servicing indebtedness, will correspondingly decrease.

An increase in interest rates may increase our future borrowing costs and restrict our access to capital. Additionally, current market conditions, the recovering global economy, and overall credit conditions could limit our availability of capital, which could cause increases in interest margin spreads over underlying indices, effectively increasing the cost of our borrowing. While some of our debt instruments have contractually negotiated spreads, any changes to these spreads in connection with renegotiation of our Credit Agreement or finance leases could adversely affect our results of operations.

The interest rates under our Credit Agreement may be adjusted for the phase-out of LIBOR.

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates under our Credit Agreement. In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate ("SOFR"), calculated using short-term repurchase agreements backed by Treasury securities. SOFR may be more volatile than LIBOR. If LIBOR ceases to exist, we may need to renegotiate our Credit Agreement to replace LIBOR, and the interest rate under our Credit Agreement may change. The new rates may not be as favorable to us as those currently in effect. We may also find it desirable to engage in more frequent interest rate hedging transactions.

Risks Related to Our Common Stock

The market prices of our common stock is volatile, and is impacted by factors other than our financial performance, which could cause the value of an investment in our stock to decline.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control. Between January 1, 2020 and December 31, 2020, the closing price of our common stock had fluctuated from a low of \$0.51 to a high of \$1.48 per share. Factors that may contribute to fluctuations in the market prices of our common stock include:

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

The stock market in recent years has experienced significant price and volume fluctuations that have affected our stock price. These types of broad market fluctuations may adversely affect the trading price of our common stock. Recent stock

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

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

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

Our Board of Directors has declared quarterly dividends in the past. Management resumed declaring quarterly dividends in the fourth quarter of 2020, with approval by our Board of Directors, and share repurchases. Our ability to continue to pay quarterly dividends and to repurchase our shares is subject to capital availability and periodic determinations by our Board of Directors that cash dividends and share repurchases are in the best interest of our shareholders and are in compliance with applicable laws. Our dividend payments and share repurchases may change from time to time. Management currently intends to continue quarterly dividends, subject to approval by our Board of Directors, and share repurchases, but cannot provide any assurance as to the timing, sustainability, or of any particular amounts of any such dividends and share repurchases in the future. A suspension in our dividend payments or share repurchases could have a negative effect on the price of our common stock and returns on investment to our shareholders.

If we cannot meet the New York Stock Exchange continued listing requirements, the NYSE may delist our common stock.

Our common stock is currently listed on the NYSE. In the future, if we are not able to meet the continued listing requirements of the NYSE, which require, among other things, that the average closing price of our common stock be above \$1.00 over 30 consecutive trading days, our common stock may be delisted. The closing price of our common stock on February 22, 2021 was \$2.45, and on December 31, 2020, closed at \$1.48. If we are unable to satisfy the NYSE criteria for continued listing, our common stock would be subject to delisting. A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; decreasing our analyst coverage; and limiting our ability to issue additional securities or obtain additional financing in the future. In addition, delisting from the NYSE might negatively impact our reputation and, as a consequence, its business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At the end of 2020, we operated 148 service centers, of which 126 were in the United States, 9 were in Canada, 7 were in China, 2 were in London, England, 2 were in India, 1 was in Australia and 1 was in United Arab Emirates. We also occupied a technology center in Kolkata, India, as well as other facilities, including our executive offices located in San Ramon, California.

In total, the Company occupied approximately 1.0 million square feet as of December 31, 2020.

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

Item 3. Legal Proceedings

We are involved, and will continue to be involved, in legal proceedings arising out of the conduct of our business, including commercial and employment-related lawsuits. Some of these lawsuits purport or may be determined to be class actions and seek substantial damages, and some may remain unresolved for several years. We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our evaluation of whether a loss is reasonably probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of December 31, 2020, we have accrued for the potential impact of loss contingencies that are probable and reasonably estimable. We do not currently believe that the ultimate resolution of any of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock, par value \$0.001, is listed on the New York Stock Exchange ("NYSE") under the stock symbol "ARC".

Holders

As of February 23, 2021, the approximate number of stockholders of record of our common stock was 115. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these stockholders of record.

Dividends

In December 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.01 per share that is payable on February 26, 2021 to shareholders of record as of January 29, 2021. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's Board of Directors and will depend upon many factors, including the Company's financial condition and earnings, the capital requirements of our business, restrictions imposed by applicable law and any other factors the Board of Directors deems relevant from time to time.

Issuer Purchases of Equity Securities

The following table presents information regarding the Company's repurchases of its common stock for the periods presented:

(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)
Period				
November 1, 2020—November 30, 2020	114	\$ 1.34	114	\$ 10,551
December 1, 2020—December 31, 2020	467	\$ 1.39	467	\$ 9,901
Total repurchases during the fourth quarter of 2020	581		581	

(1) 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, 2023. 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.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Item 6. Selected Financial Data

Not applicable.

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

Business Summary

ARC Document Solutions, Inc. ("ARC Document Solutions," "ARC," "we," "us," or "our") provides a wide variety of document distribution and graphic production services to facilitate communication for professionals in the design, marketing, commercial real estate, education, construction and related fields.

Our customers need us to manage the special production needs, volume, 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 to manage and distribute documents and information related to construction projects and related project-based businesses outside of the architectural, engineering and construction (AEC) industry. Our reconfiguration of the Company's sales and marketing functions in late-2019, as well as customer needs driven by the COVID-19 pandemic, have led to the significant expansion of the non-AEC segment of our CDIM business, primarily through the provision of color graphics and signage. CDIM sales also include software services such as SKYSITE®, our cloud-based project communication application, as well as providing document and information management services that are often technology-enabled. The bulk of our current revenue from CDIM comes from large-format and small-format printing services we provide in both black and white and in color.

Managed Print Services (MPS), which consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a "per-use" basis. MPS is supported by our proprietary technology, Abacus, which allows our customers to capture, control, manage, print, and account for their documents. MPS sales represent 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. Because the recent pandemic has forced a large number of our clients to direct their employees to work from home, MPS volume and sales have declined over the past year.

Archiving and Information Management (AIM), which consists of 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 application 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. A growing portion of our sales are being driven by our ability to handle protected health information (PHI) as our regional scanning centers are HIPAA-compliant. AIM sales are driven by the need to leverage past intellectual property 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. Remote access to digital documents driven by work-from-home conditions created by the recent pandemic have also contributed to recent sales in this area of our business.

Equipment and Supplies, which consists of reselling printing, imaging, and related equipment to customers primarily to 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 69% of our net sales for 2020, with the remaining 31% 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 have provided attractive lease rates over the past two years, and as a result, we chose to lease rather than purchase equipment in a significant portion of our engagements.

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

COVID-19 Pandemic

The global spread of the novel coronavirus (COVID-19) has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The impact of this pandemic has created significant prolonged uncertainty in the global economy and has negatively affected our business, employees, suppliers, and customers. Despite a strong start to the year thanks to a reconfiguration of our sales and marketing functions in late -2019, the decline in demand for our products and services that began in late March 2020 as a result of the COVID-19 pandemic, negatively impacted our sales and profitability during 2020. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors, many of which are outside management's control, including those presented in Item 1A. Risk Factors of this Annual Report. To adapt to the uncertainty and shifting demands brought on by the COVID-19 pandemic, we began to transform our business during the second quarter of 2020 into a smaller but stronger company, offering a range of products beyond the construction vertical and our historical print segments, and reconfiguring our operations and cost structure to fit the needs of our customers in the current market. We have repositioned the Company based on the belief that there is potential for new growth and similar, if not better margins, barring any unforeseen changes that may arise due to the COVID-19 pandemic or otherwise.

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

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

Given the ongoing economic uncertainty resulting from the COVID-19 pandemic, we have taken actions to improve our current liquidity position, including reducing working capital, suspending share repurchases and dividend payouts for a portion of 2020, postponing capital expenditures, reducing operating costs, initiating workforce reductions and salary reductions, and substantially reducing discretionary spending.

We are the largest document services provider to industries that build and maintain our country's infrastructure and thus were considered an essential business and permitted to remain open in most markets during 2020. We also serve the housing, healthcare, and technology industries, and we were able to keep almost all of our 148 service centers open, though at reduced volumes, in order to fulfill our customers' needs. However, there is uncertainty around the extent and duration of interruptions to our business related to the COVID-19 pandemic, as well as the pandemic's overall impact on the U.S. economy, on our clients' ongoing business operations, and on our results of operations and financial condition. While our management team is actively monitoring the impacts of the COVID-19 pandemic, and may take further actions altering our business operations that we determine are in the best interests of our employees and clients or as required by federal, state, or local authorities, the full impact of the COVID-19 pandemic on the results of our operations, financial condition, or liquidity for the future cannot be estimated at this point. The following discussions are subject to the future effects of the COVID-19 pandemic on our ongoing business operations.

Results of Operations

(In millions, except percentages)	Year Ended December 31,		2020 Versus 2019	
	2020 ⁽¹⁾	2019	Increase (decrease)	
			\$ ⁽¹⁾	%
CDIM	\$ 175.5	\$ 205.5	\$ (30.0)	(14.6)%
MPS	79.3	123.3	(44.0)	(35.7)%
AIM	12.3	14.1	(1.8)	(12.7)%
Total services sales	\$ 267.2	\$ 342.9	\$ (75.8)	(22.1)%
Equipment and Supplies Sales	22.3	39.5	(17.2)	(43.5)%
Total net sales	\$ 289.5	\$ 382.4	\$ (92.9)	(24.3)%
Gross profit	\$ 92.9	\$ 125.2	\$ (32.3)	(25.8)%
Selling, general and administrative expenses	\$ 79.0	\$ 107.3	\$ (28.2)	(26.3)%
Amortization of intangibles	\$ 1.5	\$ 3.1	\$ (1.6)	(52.2)%
Restructuring expense	\$ —	\$ 0.7	\$ (0.7)	(100.0)%
Loss on extinguishment and modification of debt	\$ —	\$ 0.4	\$ (0.4)	(100.0)%
Interest expense, net	\$ 3.9	\$ 5.2	\$ (1.3)	(25.2)%
Income tax provision	\$ 2.7	\$ 5.7	\$ (3.0)	(52.0)%
Net income attributable to ARC	\$ 6.2	\$ 3.0	\$ 3.2	105.2 %
Adjusted net income attributable to ARC ⁽²⁾	\$ 6.3	\$ 6.8	\$ (0.5)	(7.2)%
Cash flows provided by operating activities	\$ 54.5	\$ 52.8	\$ 1.7	3.2 %
EBITDA ⁽²⁾	\$ 43.2	\$ 45.9	\$ (2.7)	(5.8)%
Adjusted EBITDA ⁽²⁾	\$ 44.8	\$ 49.4	\$ (4.6)	(9.3)%

(1) Column does not foot due to rounding.

(2) See "Non-GAAP Financial Measures" following "Results of Operations" for more information related to our Non-GAAP disclosures.

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

	As Percentage of Net Sales	
	Year Ended December 31,	
	2020 ⁽¹⁾	2019
Net Sales	100.0 %	100.0 %
Cost of sales	67.9	67.3
Gross profit	32.1	32.7
Selling, general and administrative expenses	27.3	28.0
Amortization of intangibles	0.5	0.8
Restructuring expense	—	0.2
Income from operations	4.3	3.7
Loss on extinguishment and modification of debt	—	0.1
Interest expense, net	1.4	1.4
Income before income tax provision	3.0	2.2
Income tax provision	0.9	1.5
Net income	2.0	0.7
Loss attributable to the noncontrolling interest	0.1	—
Net income attributable to ARC	2.1 %	0.8 %
EBITDA ⁽²⁾	14.9 %	12.0 %
Adjusted EBITDA ⁽²⁾	15.5 %	12.9 %

(1) Column does not foot due to rounding.

(2) See "Non-GAAP Financial Measures" following "Results of Operations" for more information related to our Non-GAAP disclosures.

Fiscal Year Ended December 31, 2020 Compared to Fiscal Year Ended December 31, 2019

Net Sales

Net sales in 2020 decreased 24.3%, compared to 2019. The decrease in net sales was due to the negative impact of the COVID-19 pandemic on sales from all our service offerings.

CDIM. Sales of CDIM services in 2020 decreased \$30.0 million, or 14.6%, compared to 2019. The decrease in sales of CDIM services was due to the COVID-19 pandemic. CDIM services represented 61% and 54% of total net sales for 2020 and 2019, respectively. The impact of the pandemic on CDIM was not as pronounced as other parts of our business due to the expansion of products and services beyond the construction vertical and our historical print segments that resulted from the reconfiguration of our sales and marketing functions in late-2019, as well as demand for COVID-19-related and other color signage.

MPS. Sales of MPS services in 2020 decreased \$44.0 million or 35.7%. The decline in MPS sales was driven primarily by office employees in the U.S. and Canada who followed directives to work from home, significantly reducing the volume of printing done in our customers' offices. MPS engagements on construction job sites continued to operate, and many customers have required minimums that helped mitigate the drop in print volumes. We have experienced modest improvement in net sales sequentially after April 2020 when work-from-home orders started to lift in most states. Revenues from MPS services sales represented approximately 27% and 32% of total net sales for 2020 and 2019, respectively.

The number of MPS locations have remained relatively flat year-over-year at approximately 10,750 as of December 31, 2020.

AIM. Year-over-year sales of AIM services decreased by \$1.8 million, or 12.7%, in 2020, compared to 2019. The decrease in AIM was primarily driven by the lack of office activity resulting from the COVID-19 pandemic, which caused a reduction in scanning opportunities. We continue to drive an expansion of our addressable market for AIM services by targeting building

owners and facilities managers that require on-demand access to legacy documents to operate their assets efficiently. We believe over time, with the expansion of our addressable market and the desire of our customers to have digital access to documents wherever they work, that our AIM services will grow in the future.

Equipment and Supplies. Equipment and Supplies sales decreased by \$17.2 million, or 43.5%, in 2020, compared to 2019, primarily driven by the slowdown in China related to the COVID-19 pandemic, which decreased sales from UNIS Document Solutions Co. LTD ("UDS"), our Chinese joint venture. Equipment and Supplies sales represented approximately 8% of total net sales for 2020 and approximately 10% for 2019. Equipment and Supplies sales derived from UDS, were \$7.7 million in 2020, as compared to \$19.6 million in 2019. Traditionally, our customers in China have exhibited a preference for owning print and imaging related equipment opposed to using equipment through onsite services arrangements. We do not anticipate growth in Equipment and Supplies sales due to the softening of the Chinese market as well as our focus on growing MPS sales and converting sales contracts to MPS agreements.

Gross Profit

Gross profit decreased to \$92.9 million in 2020, compared to \$125.2 million in 2019. Gross margin decreased to 32.1% in 2020, compared to 32.7% in 2019, on a net sales decrease of \$92.9 million.

Despite the 24.3% drop in net sales due to the COVID-19 pandemic, gross margin during 2020 decreased by just 60 basis points. Gross margins were aided by the drop in low margin Equipment and Supplies sales and cost saving activities in connection with the restructuring plan we initiated in the third quarter of 2019, as well as cost savings initiated in response to the current COVID-19 pandemic. During the second quarter of 2020 we reconfigured our operating structure and costs to serve new customer needs and to reflect the reduction in our revenues as a result of the COVID-19 pandemic.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$28.2 million or 26.3% in 2020 compared to 2019. The reduction was due to cost saving activities in connection with the restructuring plan we initiated in the third quarter of 2019, as well as cost savings initiated in response to the current COVID-19 pandemic including headcount reductions, suspension of most business travel, reduced consulting expenses, and reduced bonuses and commissions.

Amortization of Intangibles

Amortization of intangibles of \$1.5 million in 2020 decreased compared to 2019, primarily due to the completed amortization of certain customer relationships related to historical acquisitions.

Interest Expense, Net

Net interest expense totaled \$3.9 million in 2020, compared to \$5.2 million in 2019. The decrease in 2020 compared to 2019 was due to our continued pay down of our long-term debt, decrease in LIBOR, and decrease in bank debt interest spread due to the improvement in our leverage ratio.

Income Taxes

We recorded an income tax provision of \$2.7 million in relation to a pretax income of \$8.5 million for 2020, which resulted in an effective income tax rate of 32.2%. Our effective income tax rate for 2020 was primarily impacted by certain stock-based compensation, a change in valuation allowances against certain deferred tax assets and non-deductible expenses. Excluding the impact of valuation allowances, Internal Revenue Code Section 162(m), and other discrete tax items, our effective income tax rate for the consolidated company would have been 30.0% and our effective income tax rate attributable to ARC Document Solutions, Inc. would have been 28.8%.

We recorded an income tax provision of \$5.7 million in relation to a pretax income of \$8.6 million for 2019, which resulted in an effective income tax rate of 66.8%. Excluding the impact of valuation allowances, Internal Revenue Code Section 162(m), and other discrete tax items, our effective income tax rate would have been 31.9%.

Noncontrolling Interest

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

Net Income Attributable to ARC

Net income attributable to ARC was \$6.2 million in 2020, as compared to \$3.0 million in 2019. The increase in net income attributable to ARC in 2020 compared to the prior year is driven by the decrease in income taxes as 2019 had a significant tax expense related to nonqualified stock options that expired in 2019.

EBITDA

EBITDA margin increased to 14.9% in 2020 from 12.0% in 2019. Excluding the effect of stock-based compensation, restructuring expense, and the loss on extinguishment and modification of debt, adjusted EBITDA margin increased to 15.5% in 2020 from 12.9% in 2019. The increase in adjusted EBITDA in 2020 was primarily due to the significant decline in selling, general and administrative expenses, as noted above.

Impact of Inflation

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

Non-GAAP Financial Measures.

EBITDA and related ratios presented in this report are supplemental measures of our performance that are not required by or presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These measures are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, income from operations, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating, investing or financing activities as a measure of our liquidity.

EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

We have presented EBITDA and related ratios because we consider them important supplemental measures of our performance and liquidity. We believe investors may also find these measures meaningful, given how our management makes use of them. The following is a discussion of our use of these measures.

We use EBITDA to measure and compare the performance of our operating segments. Our operating segments’ financial performance includes all of the operating activities except debt and taxation which are managed at the corporate level for U.S. operating segments. We use EBITDA to compare the performance of our divisions and to measure performance for determining consolidated-level compensation. In addition, we use EBITDA to evaluate potential acquisitions and potential capital expenditures.

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

- They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;
- They do not reflect changes in, or cash requirements for, our working capital needs;
- They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

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

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

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for 2020 and 2019 to reflect the exclusion of loss on extinguishment and modification of debt, restructuring expense, 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 2020 and 2019. We believe these changes were the result of items which are not indicative of our actual operating performance.

We have presented adjusted EBITDA for 2020 and 2019 to exclude loss on extinguishment and modification of debt, restructuring expense, and stock-based compensation expense. The adjustment of EBITDA for these items is consistent with the definition of adjusted EBITDA in our Credit Agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

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

(In thousands)	Year Ended December 31,	
	2020	2019
Cash flows provided by operating activities	\$ 54,478	\$ 52,781
Changes in operating assets and liabilities	(13,229)	(9,479)
Non-cash expenses	(5,096)	(8,558)
Income tax provision	2,749	5,724
Interest expense, net	3,908	5,226
Loss attributable to the noncontrolling interest	395	175
EBITDA	\$ 43,205	\$ 45,869

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

(In thousands)	Year Ended December 31,	
	2020	2019
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 6,188	\$ 3,015
Interest expense, net	3,908	5,226
Income tax provision	2,749	5,724
Depreciation and amortization	30,360	31,904
EBITDA	43,205	45,869
Loss on extinguishment and modification of debt	—	389
Restructuring expense	—	660
Stock-based compensation	1,571	2,459
Adjusted EBITDA	\$ 44,776	\$ 49,377

The following is a reconciliation of net income margin attributable to ARC to EBITDA margin and Adjusted EBITDA margin:

	Year Ended December 31,	
	2020 ⁽¹⁾	2019
Net income margin attributable to ARC	2.1 %	0.8 %
Interest expense, net	1.4	1.4
Income tax provision	0.9	1.5
Depreciation and amortization	10.5	8.3
EBITDA margin	14.9	12.0
Loss on extinguishment and modification of debt	—	0.1
Restructuring expense	—	0.2
Stock-based compensation	0.5	0.6
Adjusted EBITDA margin	15.5 %	12.9 %

(1) Column does not foot due to rounding.

The following is a reconciliation of net income attributable to ARC Document Solutions, Inc. shareholders to Adjusted net income and Adjusted earnings per share attributable to ARC Document Solutions, Inc. shareholders:

	Year Ended December 31,	
	2020	2019
(In thousands, except per share data)		
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 6,188	\$ 3,015
Loss on extinguishment and modification of debt	—	389
Restructuring expense	—	660
Income tax benefit related to above items	—	(273)
Deferred tax valuation allowance and other discrete tax items	118	3,006
Adjusted net income attributable to ARC Document Solutions, Inc. shareholders	<u>\$ 6,306</u>	<u>\$ 6,797</u>
Actual:		
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	<u>\$ 0.14</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.07</u>
Weighted average common shares outstanding:		
Basic	42,925	44,997
Diluted	43,021	45,083
Adjusted:		
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	<u>\$ 0.15</u>	<u>\$ 0.15</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.15</u>
Weighted average common shares outstanding:		
Basic	42,925	44,997
Diluted	43,021	45,083

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.

We continually assess our capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, and debt pay-downs. In December 2019 and February of 2020, our board of directors declared a quarterly cash dividend of \$0.01 per share that was paid in February and May of 2020, respectively. We then suspended dividends and stock repurchases due to uncertainties caused by the COVID-19 pandemic. In December 2020, we recommenced our dividend program. We expect to continue to pay quarterly cash dividends at or above the level approved in December 2020. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's Board of Directors and will depend upon many factors, including our financial condition and earnings, the capital requirements of our business, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

Our Board of Directors approved a stock repurchase program that authorized us to purchase up to \$15.0 million of the Company's outstanding common stock through March 31, 2023. Purchases may be made from time to time in the open market at prevailing market prices or in privately negotiated transactions. During the year ended December 31, 2020 we repurchased 2.6 million in common stock for a total purchase price of \$3.2 million. During the year ended December 31, 2019, we repurchased 1.3 million in common stock for a total purchase price of \$1.9 million.

Total cash and cash equivalents as of December 31, 2020 was \$55.0 million. Of this amount, \$17.0 million was held in foreign countries, with \$14.9 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 Consolidated Statements of Cash Flows and notes thereto included elsewhere in this report.

(In thousands)	Year Ended December 31,	
	2020	2019
Net cash provided by operating activities	\$ 54,478	\$ 52,781
Net cash used in investing activities	\$ (5,928)	\$ (12,244)
Net cash used in financing activities	\$ (23,985)	\$ (40,433)

Operating Activities

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

The increase in cash flows from operations in 2020 was primarily a result of the sustained profitability in 2020, despite the COVID-19 pandemic, and active management of operating assets and liabilities. Days sales outstanding (“DSO”) was 51 days as of December 31, 2020 and 50 days as of December 31, 2019. We reduced inventory by more than \$4.0 million during 2020. We are closely managing cash collections which have remained consistent since the outbreak of the COVID-19 pandemic.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling \$6.4 million and \$12.9 million, in 2020 and 2019, respectively. The decrease in capital expenditures from 2019 to 2020 is driven primarily by a concerted effort to reduce and closely manage our use of cash during the COVID-19 pandemic.

As we continue to foster our relationships with credit providers and obtain attractive lease rates, we have increasingly chosen to lease rather than purchase equipment.

Financing Activities

Net cash of \$24.0 million used in financing activities in 2020 primarily relates to payments on our revolver debt agreement, finance leases and share repurchases. As part of our cash management initiatives during the COVID-19 pandemic, we successfully negotiated a deferment of approximately \$4.4 million of equipment capital lease payments during 2020 that will primarily be added to the back end of each individual equipment lease end date.

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

(In Thousands)	December 31,	
	2020	2019
Cash and cash equivalents	\$ 54,950	\$ 29,425
Working capital	\$ 32,500	\$ 20,008
Borrowings from revolving credit facility	\$ 55,000	\$ 60,000
Other debt obligations	42,236	46,157
Total debt obligations	\$ 97,236	\$ 106,157

The increase of \$12.5 million in working capital in 2020 was primarily driven by the increase in cash of approximately \$26.0 million over 2019, partially offset by the \$15.0 million decrease in accounts receivable. 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 \$55.0 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 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.

As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. An extended period of global supply chain and economic

disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition. Given the economic uncertainty as a result of the COVID-19 pandemic, we have taken actions to improve our current liquidity position by reducing working capital, suspending share repurchases and dividend payouts for a portion of 2020, postponing capital expenditures, reducing operating costs, initiating workforce reductions and salary reductions, and substantially reducing discretionary spending. Additionally, we have actively deferred equipment lease payments with certain lessors and deferred facility rent payments with some landlords. We have seen the benefits of these actions as evidenced by the increase of our U.S. cash balance as of December 31, 2020, of approximately \$24 million.

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

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

Debt Obligations

Credit Agreement

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

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

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

As of December 31, 2020, our borrowing availability under the Revolving Loan commitment was \$22.8 million, after deducting outstanding letters of credit of \$2.2 million and an outstanding Revolving Loan balance of \$55.0 million.

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

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of us and our subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of us or our subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend our organizational documents; or enter into certain restrictive agreements. In addition, the Credit Agreement contains financial covenants which requires us to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 2.75 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. We were in compliance with our covenants during the year ended December 31, 2020, and after considering a variety of potential effects the COVID-19 pandemic could have on our consolidated sales, as well as the actions we have already taken and other options available to us, we currently believe we will

be in compliance with our covenants for the remainder of the term of the Credit Agreement. The impact of the COVID-19 pandemic, however, and the speed of economic recovery in the markets we serve is highly uncertain. If conditions change in the future due to the ongoing COVID-19 pandemic or for other reasons and we expect to be out of compliance as a result, we will likely seek waivers from the lenders prior to any covenant violation. Any covenant waiver may lead to increased costs, increased interest rates, additional restrictive covenants and other available lender protections that would be applicable. There can be no assurance that we would be able to obtain any such waivers in a timely manner, or on acceptable terms, or at all. If we were not able to obtain covenant violation waivers or repay our debt facilities, this would lead to an event of default and potential acceleration of amounts due under all of our outstanding debt. As a result, the failure to obtain covenant violation waivers or repay our debt obligations when they become due would have a material adverse effect on us. Refer to Part I, Item IA. Risk Factors, for more information.

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

The obligations of our subsidiary that is the borrower under the Credit Agreement are guaranteed by us and each of our other United States subsidiaries. The Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the Credit Agreement 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, ours and each guarantor's assets (subject to certain exceptions).

Credit Agreement

The following table sets forth the outstanding balance, borrowing capacity and applicable interest rate under Credit Agreement.

	December 31, 2020		
	Balance	Available Borrowing Capacity	Interest Rate
	(Dollars in thousands)		
Revolving Loans ⁽¹⁾	\$ 55,000	\$ 22,844	2.23 %

⁽¹⁾Revolving Loan available borrowing capacity, net of \$2.2 million of outstanding standby letters of credit as of December 31, 2020.

Finance Leases

As of December 31, 2020, we had \$42.2 million of finance lease obligations outstanding, with a weighted average interest rate of 4.9% and maturities between 2020 and 2026.

Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

Our management prepares financial statements in conformity with GAAP. When we prepare these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to accounts receivable, inventories, deferred tax assets, goodwill and intangible assets, long-lived assets and leases. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Goodwill Impairment

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

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

In 2017, we elected to early-adopt ASU 2017-04 which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test.

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

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

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

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2020 and beyond, assuming all other assumptions remain constant, would result in no 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 uncertainty regarding the ultimate financial impact of the COVID-19 pandemic and the proceeding economic recovery, and the changing document and printing needs of our customers and the uncertainties regarding the effect on our business, there can be no assurance that the estimates and assumptions made for purposes of our goodwill impairment testing in 2020 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, or our assumptions change regarding disruptions caused by the pandemic, and the impact on the recovery from COVID-19 change, then we may be required to record goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 2020, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles - Goodwill and Other*) outside of the quarter when we regularly perform our annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

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 that we are expected to be entitled to in exchange for those goods or services. We applied practical expedients related to unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

CDIM consists of professional services and software services to (i) reproduce and distribute large-format and small-format documents in either black & white or color (“Ordered Prints”) and (ii) specialized graphic color printing. Substantially, all 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 re-produced 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[®], 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 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. The pattern of revenue recognition for the Company's MPS revenue has remained substantially unchanged following the adoption of 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 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 represent substantially all revenue for AIM, 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 through 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. We have experienced minimal customer returns or refunds and does not offer a warranty on equipment that it is reselling.

Leases

We recognize lease assets and corresponding lease liabilities for all operating and finance leases on our Consolidated Balance Sheets, excluding short-term leases (leases with terms of 12 months or less) as described under ASU No. 2016-02, *Leases (Topic 842)*. Some of our long-term operating lease agreements include options to extend, which are also factored into the recognition of their respective assets and liabilities when appropriate based on management’s assessment of the probability that the options will be exercised. Lease payments are discounted using the rate implicit in the lease, or, if not readily determinable, a third-party secured incremental borrowing rate based on information available at lease commencement. Additionally, certain of our lease agreements include escalating rents over the lease terms which, under Topic 842, results in rent being expensed on a straight-line basis over the life of the lease that commences on the date we have the right to control the property. 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. For additional information about the impact of the adoption of ASC 842, see Note 7, *Leasing*.

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 its 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 \$2.1 million valuation allowance against certain deferred tax assets as of December 31, 2020.

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

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

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

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

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies* to our Consolidated Financial Statements for disclosure on recently adopted accounting pronouncements and those not yet adopted.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Our financial statements and the accompanying notes that are filed as part of this report are listed under "Part IV, Item 15. Financial Statements Schedules and Reports" and are set forth beginning on page F-1 immediately following the signature pages of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 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 December 31, 2020. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of December 31, 2020, our disclosure controls and procedures were effective.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15(d)-15(f) of the Exchange Act). Under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and President and our Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company’s management concluded that its internal control over financial reporting was effective as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

There were no changes to internal control over financial reporting during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Certain information regarding our executive officers is included in Part I, Item 1, of this Annual Report on Form 10-K under “Executive Officers of the Registrant.” All other information regarding directors, executive officers and corporate governance required by this item is incorporated herein by reference to the applicable information in the proxy statement for our 2021 Annual Meeting of Stockholders (“2020 Annual Meeting”), which will be filed with the SEC within 120 days after our fiscal year end of December 31, 2020, and is set forth under “Nominees for Director,” “Corporate Governance Profile,” “Delinquent Section 16(a) Reports” and in other applicable sections in the proxy statement.

Item 11. *Executive Compensation*

The information required by this item is incorporated herein by reference to the applicable information in the proxy statement for our 2021 Annual Meeting and is set forth under “Executive Compensation.”

The information in the section of the proxy statement for our 2021 Annual Meeting captioned “Compensation Committee Report” is incorporated by reference herein but shall be deemed furnished, not filed and shall not be deemed to be incorporated by reference into any filing we make under the Securities Act of 1933 or the Exchange Act.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated herein by reference to the applicable information in the proxy statement for our 2021 Annual Meeting and is set forth under “Beneficial Ownership of Voting Securities” and “Equity Compensation Plan Information.”

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated herein by reference to the applicable information in the proxy statement for our 2021 Annual Meeting and is set forth under “Certain Relationships and Related Transactions” and “Corporate Governance Profile.”

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated herein by reference to the proxy statement for our 2021 Annual Meeting and is set forth under “Auditor Fees.”

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) *Financial Statements*

Report of Independent Registered Public Accounting Firm - Deloitte & Touche LLP
Report of Independent Registered Public Accounting Firm - Armanino LLP
Consolidated Balance Sheets as of December 31, 2020 and 2019
Consolidated Statements of Operations for the years ended December 31, 2020 and 2019
Consolidated Statements of Comprehensive Income for the years ended December 31, 2020 and 2019
Consolidated Statements of Equity for the years ended December 31, 2020 and 2019
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019
Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

All other schedules have been omitted as the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and notes thereto.

(3) *Exhibits*

See Item 15(b) below.

(b) Exhibits

The following exhibits are filed herewith as part of this Annual Report on Form 10-K or are incorporated by reference to exhibits previously filed with the SEC:

Index to Exhibits

Number	Description
3.1	<u>Certificate of Ownership and Merger as filed with Secretary of State of the State of Delaware (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed December 27, 2012).</u>
3.2	<u>Restated Certificate of Incorporation, filed March 13, 2013.</u>
3.3	<u>Second Amended and Restated Bylaws, (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on October 6, 2009).</u>
4.1	<u>Registration Rights Agreement, dated December 1, 2010, among ARC Document Solutions, certain subsidiaries of ARC Document Solutions as guarantors thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.3 to the Registrant's Form 8-K filed on December 2, 2010).</u>
4.2	<u>Description of Registered Securities.*</u>
10.1	<u>ARC Document Solutions 2005 Stock Plan (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 A (Reg. No. 333-119788), as amended on January 13, 2005).^</u>
10.2	<u>Amendment No. 1 to ARC Document Solutions 2005 Stock Plan dated May 22, 2007 (incorporated by reference to Exhibit 10.63 to the Registrant's Form 10-Q filed on August 9, 2007).^</u>
10.3	<u>Amendment No. 2 to ARC Document Solutions 2005 Stock Plan dated May 2, 2008 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q filed August 8, 2008).^</u>
10.4	<u>Amendment No. 3 to ARC Document Solutions 2005 Stock Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed August 7, 2009).^</u>
10.5	<u>Forms of Stock Option Agreements under the 2005 Stock Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-119788), as filed on October 15, 2004).^</u>
10.6	<u>Forms of Restricted Stock Award Agreements under 2005 Stock Plan (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement on Form S-1 A (Reg. No. 333-119788), as amended on December 6, 2004).^</u>
10.7	<u>Form of Restricted Stock Unit Award Agreement under 2005 Stock Plan (incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 A (Reg. No. 333-119788), as amended on December 6, 2004).^</u>
10.8	<u>Form of Stock Appreciation Right Agreement under 2005 Stock Plan (incorporated by reference to Exhibit 10.29 to the Registrant's Registration Statement on Form S-1 A (Reg. No. 333-119788), as amended on January 13, 2005).^</u>
10.9	<u>Form of ARC Document Solutions Stock Option Grant Notice - Non-employee Directors (Discretionary Non-statutory Stock Options) (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 16, 2005).^</u>

- 10.10 [Form of ARC Document Solutions Non-employee Directors Nonstatutory Stock Option Agreement \(Discretionary Grants\) \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on December 16, 2005\).](#)[^]
- 10.11 [Amended and Restated ARC Document Solutions 2005 Employee Stock Purchase Plan amended and restated as of July 30, 2009 \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on November 9, 2009\).](#)[^]
- 10.12 [Lease Agreement, for the premises commonly known as 934 and 940 Venice Boulevard, Los Angeles, CA, dated November 19, 1997, by and between American Reprographics Company, L.L.C. \(formerly Ford Graphics Group, L.L.C.\) and Sumo Holdings LA, LLC \(incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 \(Reg. No. 333-119788\), as filed on October 15, 2004\).](#)
- 10.13 [Amendment to Lease for the premises commonly known as 934 and 940 Venice Boulevard, Los Angeles, CA, effective as of August 2, 2005, by and between Sumo Holdings LA, LLC, Landlord and American Reprographics Company, L.L.C. \(formerly known as Ford Graphics Group, L.L.C.\) Tenant \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on November 14, 2005\)](#)
- 10.14 [Lease Agreement for the premises commonly known as 345 Clinton Street, Costa Mesa, CA, dated September 23, 2003, by and between American Reprographics Company \(dba Consolidated Reprographics\) and Sumo Holdings Costa Mesa, LLC \(incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 \(Reg. No. 333-119788\), as filed on October 15, 2004\).](#)
- 10.15 [Lease Agreement for the premises commonly known as 616 Monterey Pass Road, Monterey Park, CA, by and dated November 19, 1997, between Dieterich-Post Company and American Reprographics Company, L.L.C. \(as successor lessee\) \(incorporated by reference to Exhibit 10.26 to the Registrant's Form 10-K filed on March 1, 2007\).](#)
- 10.16 [Indemnification Agreement, dated April 10, 2000, among American Reprographics Company, L.L.C., American Reprographics Holdings, L.L.C., ARC Acquisition Co., L.L.C., Mr. Chandramohan, Mr. Suriyakumar, Micro Device, Inc., Dieterich-Post Company, ZS Ford L.P., and ZS Ford L.L.C. \(incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form S-1 \(Reg. No. 333-119788\), as filed on October 15, 2004\).](#)
- 10.17 [Form of Indemnification Agreement between ARC Document Solutions, Inc. and each of its Directors and Executive Officers \(incorporated by reference to Exhibit 10.42 to the Registrant's Form 10-K filed on March 13, 2013\).](#)
- 10.18 [Letter Amendment, dated March 13, 2014, by and between ARC Document Solutions, Inc. and Mr. Suriyakumar \(incorporated by reference to Exhibit 10.47 to the Registrant's Form 10-K filed on March 14, 2014\).](#)[^]
- 10.19 [Amended and Restated Employment Agreement, dated March 13, 2014, between ARC Document Solutions, Inc. and Mr. Kumarakulasingam \(incorporated by reference to Exhibit 10.48 to the Registrant's Form 10-K filed on March 14, 2014\).](#)[^]
- 10.20 [Executive Employment Agreement, dated May 1, 2014, by and between ARC Document Solutions, Inc. and Rahul K. Roy \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on May 7, 2014\).](#)[^]
- 10.21 [Executive Employment Agreement, dated May 1, 2014, by and between ARC Document Solutions, Inc. and Dilantha Wijesuriya \(incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q filed on May 7, 2014\).](#)[^]

- 10.22 [Executive Employment Agreement, dated May 1, 2014, by and between ARC Document Solutions, Inc. and Jorge Avalos \(incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q filed on May 7, 2014\).](#)[^]
- 10.23 [ARC Document Solutions, Inc. 2014 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 7, 2014\).](#)
- 10.24 [Amendment No. 1 to ARC Document Solutions, Inc. 2014 Stock Incentive Plan \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on May 7, 2014\).](#)
- 10.25 [Amended and Restated Executive Employment Agreement dated May 17, 2014 by and between ARC Document Solutions, Inc. and Mr. Suriyakumar \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 19, 2014\).](#)[^]
- 10.26 [Credit Agreement dated November 20, 2014, among ARC Document Solutions, LLC, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on November 24, 2014\).](#)
- 10.27 [Amended and Restated Executive Employment Agreement, dated February 1, 2015, by and between ARC Document Solutions, Inc. and Jorge Avalos \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on January 30, 2015\).](#)[^]
- 10.28 [Amendment to Credit Agreement, dated June 4, 2015, among ARC Document Solutions, LLC, Wells Fargo Bank, National Association, as administrative agent and the financial institutions party thereto as lenders \(incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on June 5, 2015\).](#)
- 10.29 [Amended and Restated Executive Employment Agreement, dated June 9, 2015, between ARC Document Solutions, Inc. and Jorge Avalos \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 16, 2015\).](#)[^]
- 10.30 [Amended and Restated Executive Employment Agreement, dated June 9, 2015, between ARC Document Solutions, Inc. and Rahul K. Roy \(incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on June 16, 2015\).](#)[^]
- 10.31 [Amended and Restated Executive Employment Agreement, dated June 9, 2015, between ARC Document Solutions, Inc. and Dilantha Wijesuriya \(incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on June 16, 2015\).](#)[^]
- 10.32 [Amendment Letter, dated as of February 5, 2016, by and among ARC Document Solutions, LLC, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent \(incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K filed on February 9, 2016\).](#)
- 10.33 [Amendment dated May 9, 2016 to Amended and Restated Executive Employment Agreement, dated June 9, 2015, between ARC Document Solutions, Inc. and Rahul K. Roy \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 3, 2016\).](#)[^]
- 10.34 [Amendment to Credit Agreement, dated June 24, 2016, among ARC Documents Solutions, LLC, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2016\).](#)
- 10.35 [Amendment to Credit Agreement, dated July 14, 2017, among ARC Document Solutions, LLC, Wells Fargo Bank, National Association, as administrative agent, and the financial institutions party thereto as lenders \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on July 18, 2017\).](#)

- 10.36 [Amended and Restated Executive Employment Agreement, dated February 22, 2018 between ARC Document Solutions, Inc. and Kumarakulasingham Suriyakumar \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K files on February 23, 2018\).](#)[^]
- 10.37 [Amendment to the ARC Document Solutions, Inc. 2014 Stock Incentive Plan, dated May 1, 2018 \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 1, 2018\).](#)
- 10.38 [Amendment No 1 to the Amended and Restated Executive Employment Agreement, dated February 13, 2019, between ARC Document Solutions, Inc. and Jorge Avalos \(incorporated by reference to Exhibit 10.40 to the Registrant's Form 10-K filed on March 6, 2019\).](#)[^]
- 10.39 [Amendment No 1 to the Amended and Restated Executive Employment Agreement, dated February 13, 2019, between ARC Document Solutions, Inc. and Dilantha Wijesuriya \(incorporated by reference to Exhibit 10.41 to the Registrant's Form 10-K filed on March 6, 2019\).](#)[^]
- 10.40 [Sixth Amendment to Credit Agreement, dated December 17, 2019, among ARC Document Solutions, LLC, Wells Fargo Bank, National Association, as administrative agent, and the financial institutions party thereto as lenders \(incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on December 19, 2019\).](#)
- 10.41 [Amendment No. 3 to the Amended and Restated Executive Employment Agreement, dated February 13, 2020, between ARC Document Solutions, Inc. and Jorge Avalos.](#)[^]
- 10.42 [Forms of Stock Option Agreement under the 2014 Stock Incentive Plan, as amended.](#)^{* ^}
- 10.43 [Forms of Restricted Stock Award Agreement under the 2014 Stock Incentive Plan, as amended.](#)^{* ^}
- 10.44 [Amended and Restated ARC Document Solutions 2005 Employee Stock Purchase Plan, amended and restated as of April 30, 2020 \(incorporated by reference to Appendix A to the Registrant's Proxy Statement filed on April 2, 2020\).](#)[^]
- 21.1 [List of Subsidiaries.](#)^{*}
- 31.1 [Certification of Principal Executive Officer pursuant to Rules 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)^{*}
- 31.2 [Certification of Principal Financial and Accounting Officer pursuant to Rules 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)^{*}
- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)^{*}
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)^{*}
- 101.INS XBRL Instance Document *
- 101.SCH XBRL Taxonomy Extension Schema *
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase *
- 101.DEF XBRL Taxonomy Extension Definition Linkbase *

101.LAB XBRL Taxonomy Extension Label Linkbase *

101.PRE XBRL Taxonomy Extension Presentation Linkbase *

* Filed herewith

^ Indicates management contract or compensatory plan or agreement

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ARC DOCUMENT SOLUTIONS, INC.

By: /s/ KUMARAKULASINGAM SURIYAKUMAR
Chairman, President and Chief Executive Officer

Date: February 24, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ KUMARAKULASINGAM SURIYAKUMAR</u> Kumarakulasingam Suriyakumar	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2021
<u>/s/ JORGE AVALOS</u> Jorge Avalos	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2021
<u>/s/ TRACEY LUTTRELL</u> Tracey Luttrell	Director, Corporate Counsel and Corporate Secretary	February 24, 2021
<u>/s/ BRADFORD L. BROOKS</u> Bradford L. Brooks	Director	February 24, 2021
<u>/s/ CHERYL COOK</u> Cheryl Cook	Director	February 24, 2021
<u>/s/ DEWITT KERRY MCCLUGGAGE</u> Dewitt Kerry McCluggage	Director	February 24, 2021
<u>/s/ MARK W. MEALY</u> Mark W. Mealy	Director	February 24, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of ARC Document Solutions, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ARC Document Solutions Inc. and subsidiaries (the "Company") as of December 31, 2019, the related consolidated statement of operations, comprehensive income, equity, and cash flows, for the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842). Effects of the application of ASC 842 are further discussed in Note 7 to the financial statements.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
March 12, 2020

We have served as the Company's auditor since 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of ARC Document Solutions, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ARC Document Solutions, Inc. and Subsidiaries (collectively the "Company") as of December 31, 2020, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for the year ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition — Refer to Note 2 to the Financial Statements

Critical Audit Matter Description

The Company recognizes revenue in a manner that best depicts the transfer of promised goods or services to the customer, when control of the product or service is transferred to a customer. The Company's contracts with customers include CDIM, AIM, and Equipment and Supplies agreements. The Company's MPS revenue stream is accounted for as operating leases. The revenue streams of the Company result in a high volume of transactions. The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's revenue recognition for these customer agreements included the following:

- a. We tested the effectiveness of internal controls related to the transfer of goods or services and consideration the Company expects to receive in exchange for those products or services.
- b. We selected a sample of customer agreements and performed the following procedures:
 - i. Obtained and read contract source documents for each selection, including master agreements, and other documents that were part of the agreement to identify significant terms.
 - ii. Assessed the terms in the customer agreement and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of revenue recognition conclusions.
 - iii. Verified proper transfer of control and recognition of revenue for each selection.
- c. We tested the mathematical accuracy of management's calculations of revenue and the associated timing of recognizing the related revenue subject to any constraints in the financial statements.

Goodwill Impairment— Refer to Note 3 to the Financial Statements

Critical Audit Matter Description

The Company performs an annual impairment assessment of its goodwill as of September 30, 2020, or more frequently if events or circumstances indicate that assets might be impaired. Each impairment assessment may be qualitative or quantitative. Goodwill was valued at \$121 million as of December 31, 2020.

Auditing the valuation of goodwill involved complex judgment due to the significant estimation required in determining the fair value of the related reporting units with goodwill. Specifically, the fair value estimates were sensitive to significant assumptions about future market and economic conditions. Significant assumptions used in the Company's fair value estimates included revenue growth rates and EBITDA margins, discount rates, and future market conditions, among others.

Given these factors and assumptions are forward-looking and could be affected by future economic and market conditions, the related audit effort to evaluate management's goodwill valuation was extensive and required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's goodwill impairment analysis included the following:

- a. We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's annual impairment assessments for goodwill
- b. We tested management's risk assessment process to determine whether to perform a quantitative or qualitative assessment
- c. For impairment assessments of reporting units with goodwill, we also tested controls over the determination of the carrying value of the reporting units
- d. We tested the estimated fair values of the goodwill by performing the following:
 - i. Compared significant judgmental inputs to observable third party sources
 - ii. We involved our specialists to assist in our evaluation of certain significant assumptions used in the Company's impairment analysis
 - iii. We performed sensitivity analyses over the revenue growth rate and operating margin assumptions

We also assessed the Company's disclosure of its annual impairment assessments included in Note 3.

We have served as the Company's auditor since 2020.

Armanino^{LLP}

San Francisco, California

February 24, 2021

ARC DOCUMENT SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,950	\$ 29,425
Accounts receivable, net of allowances for accounts receivable of \$2,357 and \$2,099	36,279	51,432
Inventories, net	9,474	13,936
Prepaid expenses	4,065	4,783
Other current assets	3,979	6,807
Total current assets	108,747	106,383
Property and equipment, net of accumulated depreciation of \$219,834 and \$210,849	57,830	70,334
Right-of-use assets from operating leases	37,859	41,238
Goodwill	121,051	121,051
Other intangible assets, net	515	1,996
Deferred income taxes, net	17,261	19,755
Other assets	2,175	2,400
Total assets	\$ 345,438	\$ 363,157
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 18,661	\$ 23,231
Accrued payroll and payroll-related expenses	10,088	14,569
Accrued expenses	17,783	20,440
Current operating lease liabilities	12,158	11,060
Current portion of long-term debt and finance leases	17,557	17,075
Total current liabilities	76,247	86,375
Long-term operating lease liabilities	33,561	37,260
Long-term debt and finance leases	79,679	89,082
Other long-term liabilities	1,615	400
Total liabilities	191,102	213,117
Commitments and contingencies (Note 6)		
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; 49,422 and 49,189 shares issued and 42,792 and 45,228 shares outstanding	49	49
Additional paid-in capital	127,755	126,117
Retained earnings	37,308	31,969
Accumulated other comprehensive loss	(2,787)	(3,357)
Total ARC Document Solutions, Inc. stockholders' equity	162,325	154,778
Less cost of common stock in treasury, 6,630 and 3,960 shares	14,657	11,410
Total ARC Document Solutions, Inc. stockholders' equity	147,668	143,368
Noncontrolling interest	6,668	6,672
Total equity	154,336	150,040
Total liabilities and equity	\$ 345,438	\$ 363,157

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

ARC DOCUMENT SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,	
	2020	2019
Service sales	\$ 267,159	\$ 342,912
Equipment and supplies sales	22,308	39,503
Total net sales	289,467	382,415
Cost of sales	196,558	257,246
Gross profit	92,909	125,169
Selling, general and administrative expenses	79,016	107,260
Amortization of intangible assets	1,500	3,141
Restructuring expense	—	660
Income from operations	12,393	14,108
Other income, net	(57)	(71)
Loss on extinguishment and modification of debt	—	389
Interest expense, net	3,908	5,226
Income before income tax provision	8,542	8,564
Income tax provision	2,749	5,724
Net income	5,793	2,840
Loss attributable to noncontrolling interest	395	175
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 6,188	\$ 3,015
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	\$ 0.14	\$ 0.07
Diluted	\$ 0.14	\$ 0.07
Weighted average common shares outstanding:		
Basic	42,925	44,997
Diluted	43,021	45,083

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

ARC DOCUMENT SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,	
	2020	2019
Net income	\$ 5,793	\$ 2,840
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments, net of tax	961	(192)
Other comprehensive income (loss), net of tax	961	(192)
Comprehensive income	6,754	2,648
Comprehensive loss attributable to noncontrolling interest	(4)	(361)
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	\$ 6,758	\$ 3,009

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

ARC DOCUMENT SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except per share data)

ARC Document Solutions, Inc. Shareholders								
	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	2,459					2,460
Issuance of common stock under Employee Stock Purchase Plan	90		133					133
Treasury shares						(2,060)		(2,060)
Common stock cash dividends				(443)				(443)
Comprehensive income				3,015	(6)		(361)	2,648
Balance at December 31, 2019	49,189	\$ 49	\$ 126,117	\$ 31,969	\$ (3,357)	\$ (11,410)	\$ 6,672	\$ 150,040
Stock-based compensation	140		1,571					1,571
Issuance of common stock under Employee Stock Purchase Plan	93		67					67
Treasury shares						(3,247)		(3,247)
Common stock cash dividends				(849)				(849)
Comprehensive income				6,188	570		(4)	6,754
Balance at December 31, 2020	<u>49,422</u>	<u>\$ 49</u>	<u>\$ 127,755</u>	<u>\$ 37,308</u>	<u>\$ (2,787)</u>	<u>\$ (14,657)</u>	<u>\$ 6,668</u>	<u>\$ 154,336</u>

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

ARC DOCUMENT SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities		
Net income	\$ 5,793	\$ 2,840
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for accounts receivable	932	590
Depreciation	28,860	28,763
Amortization of intangible assets	1,500	3,141
Amortization of deferred financing costs	65	208
Stock-based compensation	1,571	2,459
Deferred income taxes	2,697	5,157
Deferred tax valuation allowance	(170)	51
Restructuring expense, non-cash portion	—	148
Loss on extinguishment and modification of debt	—	389
Other non-cash items, net	1	(444)
Changes in operating assets and liabilities:		
Accounts receivable	14,414	6,119
Inventory	4,566	2,791
Prepaid expenses and other assets	14,727	11,828
Accounts payable and accrued expenses	(20,478)	(11,259)
Net cash provided by operating activities	<u>54,478</u>	<u>52,781</u>
Cash flows from investing activities		
Capital expenditures	(6,440)	(12,885)
Other	512	641
Net cash used in investing activities	<u>(5,928)</u>	<u>(12,244)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	67	133
Share repurchases	(3,247)	(2,060)
Contingent consideration on prior acquisitions	—	(3)
Payments on long-term debt agreements and finance leases	(14,935)	(71,657)
Borrowings under revolving credit facilities	60,000	71,250
Payments under revolving credit facilities	(65,000)	(38,000)
Payment of deferred financing costs	—	(96)
Dividends paid	(870)	—
Net cash used in financing activities	<u>(23,985)</u>	<u>(40,433)</u>
Effect of foreign currency translation on cash balances	960	(112)
Net change in cash and cash equivalents	<u>25,525</u>	<u>(8)</u>
Cash and cash equivalents at beginning of period	29,425	29,433
Cash and cash equivalents at end of period	<u>\$ 54,950</u>	<u>\$ 29,425</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,567	\$ 5,151
Income taxes (received) paid, net	\$ (31)	\$ 522
Noncash financing activities:		
Finance lease obligations incurred	\$ 10,192	\$ 17,057
Operating lease obligations incurred	\$ 7,530	\$ 6,728

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

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

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 Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the 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 Consolidated Financial Statements.

Risk and Uncertainties

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

Cash Equivalents

Cash equivalents include demand deposits and short-term investments with a maturity of three months or less when purchased.

The Company maintains its cash deposits at numerous banks located throughout the United States, Canada, India, Australia, United Arab Emirates, the United Kingdom and China, which at times, may exceed federally insured limits. UDS, the Company’s joint venture in China, held \$14.9 million and \$12.7 million of the Company’s cash and cash equivalents as of December 31, 2020 and 2019, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents.

Concentrations of Credit Risk and Significant Vendors

Concentrations of credit risk with respect to trade receivables are limited due to a large, diverse customer base. No individual customer represented more than 2% of net sales during 2020 and 2019.

The Company has geographic concentration risk as sales in California, as a percent of total sales, were approximately 32% and 34% for 2020 and 2019, respectively.

The Company contracts with various suppliers. Although there are a limited number of suppliers that could supply the Company's inventory, management believes any shortfalls from existing suppliers would be absorbed from other suppliers on comparable terms. However, a change in suppliers could cause a delay in sales and adversely affect results.

Purchases from the Company's three largest vendors during 2020 and 2019 comprised approximately 53% and 41% respectively, of the Company's total purchases of inventory and supplies.

Allowance for Doubtful Accounts

The Company performs periodic credit evaluations of the financial condition of its customers, monitors collections and payments from customers, and generally does not require collateral. The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company writes off an account when it is considered uncollectible. The Company estimates the allowance for doubtful accounts based on historical experience, aging of accounts receivable, and information regarding the credit worthiness of its customers. Additionally, the Company provides an allowance for returns and discounts based on historical experience. The allowance for doubtful accounts activity was as follows:

	Balance at Beginning of Period	Charges to Cost and Expenses	Deductions ⁽¹⁾	Balance at End of Period
Year ended December 31, 2020				
Allowance for accounts receivable	\$ 2,099	\$ 932	\$ (674)	\$ 2,357
Year ended December 31, 2019				
Allowance for accounts receivable	\$ 2,016	\$ 590	\$ (507)	\$ 2,099

(1) Deductions represent uncollectible accounts written-off net of recoveries.

Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis; or average cost) or net realizable value. Inventories primarily consist of reprographics materials for use and resale, and equipment for resale. On an ongoing basis, inventories are reviewed and adjusted for estimated obsolescence or unmarketable inventories to reflect the lower of cost or net realizable value. Charges to increase inventory reserves are recorded as an increase in cost of sales. As of December 31, 2020 and 2019, the reserves for inventory obsolescence was \$0.8 million and \$0.9 million, respectively.

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 the Company's 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, the Company considers 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 the Company determines that its 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 the Company makes such a determination. The Company has a \$2.1 million valuation allowance against certain deferred tax assets as of December 31, 2020.

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

The Company calculates its 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 the Company reports to the various tax jurisdictions is subject to ongoing audits by federal, state and foreign tax authorities. The Company's 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. The Company uses 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. The Company records 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 the Company's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company reports tax-related interest and penalties as a component of income tax expense.

Property and Equipment, net

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, as follows:

Buildings	10-20 years
Leasehold improvements	10-20 years or lease term, if shorter
Machinery and equipment	3-7 years
Furniture and fixtures	3-7 years

Assets acquired under capital lease arrangements are included in machinery and equipment, are recorded at the present value of the minimum lease payments, and are depreciated using the straight-line method over the life of the asset or term of the lease, whichever is shorter. Expenses for repairs and maintenance are charged to expense as incurred, while renewals and betterments are capitalized. Gains or losses on the sale or disposal of property and equipment are reflected in operating income.

The Company accounts for software costs developed for internal use in accordance with ASC 350-40, *Intangibles – Goodwill and Other*, which requires companies to capitalize certain qualifying costs incurred during the application development stage of the related software development project. The primary use of this software is for internal use and, accordingly, such capitalized software development costs are depreciated on a straight-line basis over the economic lives of the related products not to exceed three years. The Company's machinery and equipment (see Note 4, *Property and Equipment, Net*) includes \$1.4 million and \$1.3 million of capitalized software development costs as of December 31, 2020 and 2019, net of accumulated amortization of \$21.6 million and \$20.7 million as of December 31, 2020 and 2019, respectively. Depreciation expense includes the amortization of capitalized software development costs which amounted to \$0.9 million and \$1.0 million, during the years ended December 31, 2020 and 2019, respectively.

Software development costs for products intended to be sold, leased or otherwise marketed are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Technological feasibility is established when a product design and working model have been completed and the completeness of the working model and its consistency with the product design have been confirmed by testing. To date, the establishment of technological feasibility of the Company's products and general release of such software have substantially coincided.

Software development costs for software to be sold, leased, or otherwise marketed are expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the product is available for general release to customers and amortized over the estimated life of the product. Technological feasibility is established upon the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. To date, costs and time incurred between the establishment of technological feasibility and product release have not been material, and all software development costs have been charged to research and development expense in our consolidated statements of comprehensive income (loss).

Impairment of Long-Lived 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. The Company had no long-lived asset impairments in 2020 or 2019.

Goodwill and Other Intangible Assets

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.

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 which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test.

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

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.

Deferred Financing Costs

Direct costs incurred in connection with debt agreements are recorded as incurred and amortized based on the effective interest method for the Company's borrowings under its credit agreement ("Credit Agreement"). At December 31, 2020 and 2019, the Company had less than \$0.1 million in unamortized deferred financing costs. The Company extinguished its term loan in December of 2019. See Note 5, *Long-Term Debt*, for additional information.

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 Consolidated Balance Sheet were \$13.2 million and \$9.3 million as of December 31, 2020 and 2019, respectively, 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 and finance leases: The carrying amount of the Company's finance leases reported in the 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 Consolidated Balance Sheet as of December 31, 2020 for borrowings under its Credit Agreement is \$55.0 million. The Company has determined that borrowings under its Credit Agreement of \$55.0 million as of December 31, 2020 approximates its fair value.

Insurance Liability

The Company maintains a high deductible insurance policy for a significant portion of its risks and associated liabilities with respect to workers' compensation. The Company's deductible is \$250 thousand per individual. The accrued liabilities associated with this program are based on the Company's estimate of the ultimate costs to settle known claims, as well as claims incurred but not yet reported to the Company, as of the balance sheet date. The Company's estimated liability is not discounted and is based upon an actuarial report obtained from a third party. The actuarial report uses information provided by the Company's insurance brokers and insurers, combined with the Company's judgments regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation, and the Company's claims settlement practices.

The Company is self-insured for healthcare benefits provided to certain employees in the United States, with a stop-loss at \$250 thousand per individual. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. The Company's results could be materially affected by claims and other expenses related to such plans if future occurrences and claims differ from these assumptions and historical trends. Other employees are covered by other offered healthcare benefits.

Commitments and Contingencies

In the normal course of business, the Company estimates potential future loss accruals related to legal, workers' compensation, healthcare, tax and other contingencies. These accruals require management's judgment on the outcome of various events based on the best available information. However, due to changes in facts and circumstances, the ultimate outcomes could differ from management's estimates.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration that the Company is expected to be entitled to in exchange for those goods or services. The Company applied practical expedients related to unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

Net sales of the Company's principal services and products were as follows:

	Year Ended December 31,	
	2020	2019
<i>Service Sales</i>		
CDIM	\$ 175,532	\$ 205,536
MPS	79,321	123,279
AIM	12,306	14,097
Total services sales	<u>267,159</u>	<u>342,912</u>
<i>Equipment and Supplies Sales</i>		
Total net sales	<u>\$ 289,467</u>	<u>\$ 382,415</u>

CDIM consists of professional services and software services to (i) re-produce and distribute large-format and small-format documents in either black & 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 re-produce 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 re-produced 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 the Company expects 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 the Company's hosted proprietary technology, Abacus[®], which allows 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 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. The pattern of revenue recognition for the Company's MPS revenue has remained substantially unchanged following the adoption of 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 the Company's hosted SKYSITE ® software to organize, search and retrieve documents, as well as the provision of services that include the capture and conversion of hardcopy and electronic documents into digital files (“Scanned Documents”), and their cloud-based storage and maintenance. Sales of AIM professional services, which represent substantially all revenue for AIM, 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 through electronic media. Revenue is measured as the amount of consideration the Company expects 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.

The Company has established contractual pricing for certain large national customer accounts (“Global Solutions”). These contracts generally establish uniform pricing at all operating segments for Global Solutions. Revenues earned from the Company’s Global Solutions are recognized in the same manner as non-Global Solutions revenues.

Included in revenues are fees charged to customers for shipping, handling, and delivery services. Such revenues amounted to \$9.9 million and \$11.1 million for 2020 and 2019, respectively.

Revenues from hosted software licensing activities are recognized ratably over the term of the license. Revenues from software licensing activities comprise less than 2% of the Company’s consolidated revenues during the years ended December 31, 2020 and 2019.

Management provides for returns, discounts and allowances based on historic experience and adjusts such allowances as considered necessary.

Comprehensive Income (Loss)

The Company’s comprehensive income (loss) includes foreign currency translation adjustments, net of taxes.

Asset and liability accounts of international operations are translated into the Company’s functional currency, U.S. dollars, at current rates. Revenues and expenses are translated at the average currency rate for the fiscal year.

Segment and Geographic 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.

The Company recognizes revenues in geographic areas based on the location to which the product was shipped or services have been rendered. See table below for revenues and property and equipment, net, attributable to the Company’s U.S. operations and foreign operations.

	Year Ended December 31,					
	2020			2019		
	U.S.	Foreign Countries	Total	U.S.	Foreign Countries	Total
Revenues from external customers	\$ 253,179	\$ 36,288	\$ 289,467	\$ 329,372	\$ 53,043	\$ 382,415
Property and equipment, net	\$ 51,058	\$ 6,772	\$ 57,830	\$ 63,458	\$ 6,876	\$ 70,334

Advertising and Shipping and Handling Costs

Advertising costs are expensed as incurred and approximated \$0.7 million and \$1.8 million during 2020 and 2019, respectively. Shipping and handling costs incurred by the Company are included in cost of sales.

Stock-Based Compensation

The Company applies the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which is then amortized on a straight-line basis over the requisite service period.

Total stock-based compensation for 2020 and 2019, was \$1.6 million and \$2.5 million, respectively, and was recorded in selling, general, and administrative expenses, consistent with the classification of the underlying salaries. In accordance with ASC 718, *Income Taxes*, any excess tax benefit resulting from stock-based compensation, in the Consolidated Statements of Cash Flows, are classified along with other income tax cash flows as an operating activity.

The weighted average fair value at the grant date for options issued in 2020 and 2019, was \$0.60 and \$1.30, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for 2020 and 2019:

	Year Ended December 31,	
	2020	2019
Weighted average assumptions used:		
Risk free interest rate	1.5 %	2.5 %
Expected volatility	52.2 %	54.8 %
Expected dividend yield	1.2 %	— %

Using historical exercise data as a basis, the Company determined that the expected term for stock options issued in 2020 and 2019, was 6.7 years.

For fiscal years 2020 and 2019, expected stock price volatility is based on the Company's historical volatility for a period equal to the expected term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. Since inception the Company had never paid out dividends and did not plan to issue dividends until the fourth quarter of 2019. The Company accounts for forfeitures of share-based awards when they occur.

As of December 31, 2020, total unrecognized stock-based compensation expense related to nonvested stock-based compensation was approximately \$1.2 million, which is expected to be recognized over a weighted average period of approximately 1.3 years.

For additional information, see Note 9, *Employee Stock Purchase Plan and Stock Plan*.

Research and Development Expenses

Research and development activities relate to costs associated with the design and testing of new technology or enhancements and maintenance to existing technology. Such costs are expensed as incurred and are primarily recorded to cost of sales. In total, research and development amounted to \$7.0 million and \$9.3 million, during 2020 and 2019, respectively.

Noncontrolling Interest

The Company accounted for its investment in UNIS Document Solutions Co. Ltd., ("UDS") under the purchase method of accounting, in accordance with ASC 805, *Business Combinations*. UDS has been consolidated in the Company's financial

statements from the date of acquisition. Noncontrolling interest, which represents the 35 percent non-controlling interest in UDS, is reflected on the Company's Consolidated Financial Statements.

Sales Taxes

The Company bills sales taxes, as applicable, to its customers. The Company acts as an agent and bills, collects, and remits the sales tax to the proper government jurisdiction. The sales taxes are accounted for on a net basis, and therefore are not included as part of the Company's revenue.

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. There were 5.2 million and 4.8 million common shares excluded from the calculation of diluted net income attributable to ARC per common share as their effect would have been anti-dilutive for 2020 and 2019, respectively. 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 2020 and 2019:

	Year Ended December 31,	
	2020	2019
Weighted average common shares outstanding during the period — basic	42,925	44,997
Effect of dilutive stock awards	96	86
Weighted average common shares outstanding during the period — diluted	43,021	45,083

Recently Adopted Accounting Pronouncements

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

Recent Accounting Pronouncements Not Yet Adopted

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

3. GOODWILL AND OTHER INTANGIBLES

Goodwill

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

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a

particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

In 2017 the Company elected to early-adopt ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test.

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

The carrying amount of goodwill from January 1, 2019 through December 31, 2020 is summarized as follows:

	Gross Goodwill	Accumulated Impairment Loss	Net Carrying Amount
January 1, 2019	\$ 405,558	\$ 284,507	\$ 121,051
December 31, 2019	\$ 405,558	\$ 284,507	\$ 121,051
December 31, 2020	\$ 405,558	\$ 284,507	\$ 121,051

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. The Company assessed potential impairments of its long lived assets as of September 30, 2020 and concluded that there was no impairment.

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

	December 31, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	\$ 99,425	\$ 99,191	\$ 234	\$ 99,127	\$ 97,430	\$ 1,697
Trade names and trademarks	20,325	20,044	281	20,279	19,980	299
	\$ 119,750	\$ 119,235	\$ 515	\$ 119,406	\$ 117,410	\$ 1,996

Estimated future amortization expense of other intangible assets for each of the next five fiscal years and thereafter are as follows:

2021	\$	179
2022		102
2023		44
2024		42
2025		38
Thereafter		110
	<u>\$</u>	<u>515</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	December 31,	
	2020	2019
Machinery and equipment	\$ 252,613	\$ 256,249
Buildings and leasehold improvements	22,397	22,050
Furniture and fixtures	2,654	2,884
	<u>277,664</u>	<u>281,183</u>
Less accumulated depreciation	(219,834)	(210,849)
	<u>\$ 57,830</u>	<u>\$ 70,334</u>

Depreciation expense was \$28.9 million and \$28.8 million for 2020 and 2019, respectively.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	2020	2019
Revolving Loans; 2.2% and 3.6% interest rate at December 31, 2020 and 2019	55,000	60,000
Various finance leases; weighted average interest rate of 4.9% at December 31, 2020 and 2019; principal and interest payable monthly through September 2026	42,236	46,157
	<u>97,236</u>	<u>106,157</u>
Less current portion	(17,557)	(17,075)
	<u>\$ 79,679</u>	<u>\$ 89,082</u>

Credit Agreement

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

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

As of December 31, 2020, the Company's borrowing availability of Revolving Loans under the Revolving Loan commitment was \$22.8 million, after deducting outstanding letters of credit of \$2.2 million and outstanding Revolving Loans of \$55.0 million.

Loans borrowed under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.25% to 1.75%, based on the Company's Total Leverage Ratio (as defined in the Credit Agreement). Loans borrowed under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00% per

annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its “prime rate,” plus (ii) a margin ranging from 0.25% to 0.75%, based on the Company’s Total Leverage Ratio.

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

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of the Company and its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of the Company or its subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend their organizational documents; or enter into certain restrictive agreements. In addition, the Credit Agreement contains financial covenants which requires the Company to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 2.75 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. We were in compliance with our covenants during the year ended December 31, 2020.

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

The amendment allows for payment of dividends. In December 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.01 per share that is payable on February 26, 2021 to shareholders of record as of January 29, 2021. Accordingly, the Company recorded a dividend payable of \$422 thousand within accrued expenses as of December 31, 2020.

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

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

6. COMMITMENTS AND CONTINGENCIES

The Company leases machinery, equipment, and office and operational facilities under non-cancelable operating lease agreements. Certain lease agreements for the Company’s facilities generally contain renewal options and provide for annual increases in rent based on the local Consumer Price Index. Refer to Note 7, *Leasing*, for the schedule of the Company’s future minimum operating lease payments as of December 31, 2020.

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

The Company is involved, and will continue to be involved, in legal proceedings arising out of the conduct of our business, including commercial and employment-related lawsuits. Some of these lawsuits purport or may be determined to be class actions and seek substantial damages, and some may remain unresolved for several years. The Company establishes accruals for

specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's evaluation of whether a loss is reasonably probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of December 31, 2020, the Company has accrued for the potential impact of loss contingencies that are probable and reasonably estimable. The Company does not currently believe that the ultimate resolution of any of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

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 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 as of, and the years ended, December 31, 2020 and December 31, 2019.

	Classification	December 31, 2020	December 31, 2019
Assets			
Operating lease assets	Right-of-use assets from operating leases	\$ 37,859	\$ 41,238
Finance lease assets	Property and equipment	85,205	85,914
	Less accumulated depreciation	(50,550)	(43,166)
	Property and equipment, net	34,655	42,748
Total lease assets		\$ 72,514	\$ 83,986
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	\$ 12,158	\$ 11,060
Finance	Current portion of long-term finance leases	17,557	17,075
Long-term			
Operating	Long-term portion of operating lease liabilities	33,561	37,260
Finance	Long-term portion of finance leases	24,679	29,082
Total lease liabilities		\$ 87,955	\$ 94,477

	Classification	Year Ended	
		December 31, 2020	December 31, 2019
Operating lease cost			
	Cost of sales	\$ 14,341	\$ 16,436
	Selling, general and administrative expenses	3,601	3,381
Total operating lease cost ⁽¹⁾⁽²⁾		\$ 17,942	\$ 19,817
Finance lease cost			
Amortization of leased assets	Cost of sales	\$ 18,426	\$ 18,314
	Selling, general and administrative expenses	329	246
Interest on lease liabilities	Interest expense, net	2,571	2,353
Total finance lease cost		21,326	20,913
Total lease cost		\$ 39,268	\$ 40,730

⁽¹⁾ Includes variable lease costs and short-term lease costs of \$2,774 and \$340, respectively for the year ended December 31, 2020.

⁽²⁾ Includes variable lease costs and short-term lease costs of \$2,893 and \$433, respectively for the year ended December 31, 2019.

Maturity of lease liabilities (as of December 31, 2020)	Operating Leases ⁽¹⁾⁽²⁾	Finance Leases ⁽³⁾
2021	\$ 14,338	\$ 19,187
2022	10,793	13,104
2023	8,812	8,277
2024	6,312	3,875
2025	4,784	684
Thereafter	7,588	7
Total	52,627	45,134
Less amount representing interest	6,908	2,898
Present value of lease liability	\$ 45,719	\$ 42,236

(1) Reflects payments for non-cancelable operating leases with initial terms of one year or more as of December 31, 2020. 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.

(2) The Company leased several of its facilities under lease agreements with entities owned by certain of its current and former executive officers which expire through December 2023. The rental payments on these facilities amounted to \$0.5 million during 2020. In the table above, annual rental payments of \$0.5 million for related parties are included in 2021 through 2023.

(3) 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.

Maturity of lease liabilities (as of December 31, 2019)	Operating Leases ⁽¹⁾⁽²⁾	Finance Leases ⁽³⁾
2020	\$ 15,247	\$ 19,421
2021	12,709	15,183
2022	10,797	9,784
2023	8,418	5,229
2024	5,709	1,777
Thereafter	11,970	65
Total	64,850	51,459
Less amount representing interest	16,530	5,302
Present value of lease liability	\$ 48,320	\$ 46,157

(1) Reflects payments for non-cancelable operating leases with initial terms of one year or more as of December 31, 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.

(2) The Company leased several of its facilities under lease agreements with entities owned by certain of its current and former executive officers which expire through December 2023. The rental payments on these facilities amounted to \$0.5 million during 2019. In the table above, annual rental payments of \$0.5 million for related parties are included in 2020 through 2023.

(3) 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.

	December 31, 2020	December 31, 2019
Weighted average remaining lease term (years)		
Operating leases	5.0	5.5
Finance leases	2.9	3.2
Weighted average discount rate		
Operating leases	5.8 %	5.9 %
Finance leases	4.9 %	4.9 %
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating cash flows from operating leases	\$ 12,842	\$ 15,415
Operating cash flows from finance leases	\$ 1,849	\$ 2,373
Financing cash flows from finance leases	\$ 14,935	\$ 18,407

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 \$72.9 million of rental income and \$6.4 million of service income for the year ended December 31, 2020. MPS revenue includes \$114.7 million of rental income and \$8.6 million of service income for the year ended December 31, 2019. The Company's property and equipment, net of accumulated depreciation, includes approximately \$35 million and \$40 million of equipment subject to leases with customers under the Company's MPS arrangements for the years ended December 31, 2020 and December 31, 2019, respectively. 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. INCOME TAXES

The following table includes the consolidated income tax provision for federal, state, and foreign income taxes related to the Company's total earnings before taxes for 2020 and 2019:

	Year Ended December 31,	
	2020	2019
Current:		
Federal	\$ (45)	\$ (45)
State	59	187
Foreign	208	354
	<u>222</u>	<u>496</u>
Deferred:		
Federal	2,089	3,680
State	330	1,606
Foreign	108	(58)
	<u>2,527</u>	<u>5,228</u>
Income tax provision	<u>\$ 2,749</u>	<u>\$ 5,724</u>

The Company's foreign earnings before taxes were \$0.9 million and \$0.7 million for 2020 and 2019, respectively.

The Company's US earnings before taxes were \$7.6 million and \$7.9 million for 2020 and 2019, respectively.

The consolidated deferred tax assets and liabilities consist of the following:

	December 31,	
	2020	2019
Deferred tax assets:		
Financial statement accruals not currently deductible	\$ 2,113	\$ 2,047
Social security tax deferral	699	—
Accrued vacation	678	849
Deferred revenue, net	42	84
Fixed assets	3,595	3,637
Right of use operating lease liabilities	12,154	12,025
Goodwill and other identifiable intangibles	4,521	7,297
Stock-based compensation	2,850	2,952
Federal tax net operating loss carryforward	16,718	16,914
State tax net operating loss carryforward, net	5,765	5,803
Foreign tax net operating loss carryforward	659	602
Tax credits, net	1,681	1,726
Gross deferred tax assets	<u>51,475</u>	<u>53,936</u>
Less: valuation allowance	<u>(2,092)</u>	<u>(2,254)</u>
Net deferred tax assets	<u>\$ 49,383</u>	<u>\$ 51,682</u>
Deferred tax liabilities:		
Goodwill	\$ (22,394)	\$ (21,705)
Right of use assets	(9,728)	(10,222)
Net deferred tax assets	<u>\$ 17,261</u>	<u>\$ 19,755</u>

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,			
	2020		2019	
Statutory federal income tax rate	21	%	21	%
State taxes, net of federal benefit	6		7	
Foreign taxes	2		2	
Valuation allowance	(2)		1	
Non-deductible expenses and other	1		2	
Section 162(m) limitation	1		3	
Stock based compensation	4		29	
Discrete items for federal, state and foreign taxes	(2)		1	
Global intangible low taxed income	1		1	
Effective income tax rate	32	%	67	%

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 \$2.1 million valuation allowance against certain deferred tax assets as of December 31, 2020.

Based on the Company's current assessment, the remaining net deferred tax assets as of December 31, 2020 are considered more likely than not to be realized. The valuation allowance of \$2.1 million may be increased or reduced as conditions change or if the Company is unable to implement certain available tax planning strategies. The realization of the Company's net deferred tax assets ultimately depends on future taxable income, reversals of existing taxable temporary differences or through a loss carry back.

As of December 31, 2020, the Company had approximately \$79.6 million of consolidated federal, \$93.2 million of state and \$3.7 million of foreign net operating loss carryforwards available to offset future taxable income, respectively. Certain federal net operating loss carryforwards will begin to expire in varying amounts between 2031 and 2037. Certain state net operating loss carryforwards will begin to expire in varying amounts between 2020 and 2041. The foreign net operating loss carryforwards begin to expire in varying amounts beginning in 2022. As of December 31, 2020, the Company had approximately \$2.0 million of foreign and certain state tax credit carryforwards which will begin to expire in varying amounts between 2023 and 2024.

The Company and some of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2016.

There were no unrecognized tax benefits as of and for the years ended December 31, 2020 or 2019. The Company includes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company does not anticipate any significant changes to unrecognized tax benefits over the next 12 months. During the years ended December 31, 2020 and 2019, no interest or penalties were required to be recognized related to unrecognized tax benefits.

9. EMPLOYEE STOCK PURCHASE PLAN AND STOCK PLAN

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan (the "ESPP") eligible employees may purchase up to a calendar year maximum per eligible employee of the lesser of (i) 2,500 shares of common stock, or (ii) a number of shares of common stock having an aggregate fair market value of \$25 thousand as determined on the date of purchase at 85% of the fair market value of such shares of common stock on the applicable purchase date. The compensation expense in connection with the ESPP in 2020 and 2019, was \$11 thousand and \$23 thousand, respectively.

Employees purchased the following shares in the periods presented:

	Year Ended December 31,	
	2020	2019
Shares purchased	93	90
Average price per share	\$ 0.72	\$ 1.51

Stock Plan

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. The Company's Stock Plan authorizes the Company to issue up to 7.0 million shares of common stock. At December 31, 2020, 1.5 million shares remain 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 must be 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 2020 and 2019, the Company granted options to acquire a total of 535 thousand shares and 747 thousand shares, respectively, 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. The granted stock options vest annually over three to four years from the grant date and expire 10 years after the date of grant.

The following is a further breakdown of the stock option activity under the Stock Plan:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2018	5,257	\$ 4.95		
Granted	747	\$ 2.30		
Exercised	—	\$ —		
Forfeited/Canceled	(1,097)	\$ 7.11		
Outstanding at December 31, 2019	4,907	\$ 4.06		
Granted	535	\$ 1.27		
Exercised	—	\$ —		
Forfeited/Canceled	(230)	\$ 4.31		
Outstanding at December 31, 2020	<u>5,212</u>	<u>\$ 3.77</u>	<u>4.87</u>	<u>\$ 126</u>
Vested or expected to vest at December 31, 2020	<u>5,212</u>	<u>\$ 3.77</u>	<u>4.87</u>	<u>\$ 126</u>
Exercisable at December 31, 2020	<u>4,017</u>	<u>\$ 4.33</u>	<u>3.83</u>	<u>\$ 6</u>

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing stock price on December 31, 2020 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all the option holders exercised their options on December 31, 2020. This amount changes based on the fair market value of the common stock. There were no options exercised during the years ended 2020 and 2019.

A summary of the Company's non-vested stock options as of December 31, 2020, and changes during the year then ended is as follows:

Non-vested Options	Shares	Weighted Average Grant Date Fair Market Value per Share
Non-vested at December 31, 2019	1,246	\$ 1.44
Granted	535	\$ 0.60
Vested	(560)	\$ 1.62
Forfeited/Canceled	(26)	\$ 1.12
Non-vested at December 31, 2020	<u>1,195</u>	<u>\$ 0.99</u>

The following table summarizes certain information concerning outstanding options at December 31, 2020:

Range of Exercise Price per Share	Options Outstanding at December 31, 2020
\$1.14 – \$2.70	3,012
\$3.65 – \$4.75	828
\$5.37 – \$7.19	916
\$8.66 – \$9.09	456
\$1.14 – \$9.09	<u>5,212</u>

Restricted Stock

In 2020, the Company granted 35 thousand shares of restricted stock to each of the Company's four non-employee members of its board of directors at a price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. The restricted stock vests on the one-year anniversary of the grant date.

In 2019, the Company granted 450 thousand shares of restricted stock to certain key employees at a price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. The granted restricted stock vest

annually over three years from the grant date. In addition, the Company granted approximately 26 thousand shares of restricted stock to each of the Company's six non-employee members of its board of directors at a price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. The restricted stock vests on the one-year anniversary of the grant date.

A summary of the Company's non-vested restricted stock as of December 31, 2020, and changes during the year then ended is as follows:

Non-vested Restricted Stock	Shares	Weighted Average Grant Date Fair Market Value per Share
Non-vested at December 31, 2019	926	\$ 2.69
Granted	140	\$ 0.70
Vested	(517)	\$ 2.87
Forfeited/Canceled	—	\$ —
Non-vested at December 31, 2020	549	\$ 2.02

The total fair value of restricted stock awards vested during the years ended December 31, 2020 and 2019 was \$0.5 million and \$1.0 million, respectively.

10. RETIREMENT PLANS

The Company sponsors a 401(k) Plan, which covers substantially all employees of the Company who have attained age 21. Under the Company's 401(k) Plan, eligible employees may contribute up to 75% of their annual eligible compensation (or in the case of highly compensated employees, up to 6% of their annual eligible compensation), subject to contribution limitations imposed by the Internal Revenue Service. The Company matches 20% of an employee's contributions, up to a total of 4% of that employee's compensation. An independent third party administers the Company's 401(k) Plan. The Company's total expense under these plans amounted to \$0.3 million and \$0.5 million annually during 2020 and 2019, respectively.

11. 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 as set forth below. 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.

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a nonrecurring basis in the consolidated financial statements as of and for the year ended December 31, 2020 and 2019:

Nonrecurring Fair Value Measure	Significant Other Unobservable Inputs			
	December 31, 2020		December 31, 2019	
	Level 3	Total Losses	Level 3	Total Losses
Goodwill	\$ 121,051	\$ —	\$ 121,051	\$ —

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED**

The common stock, par value \$0.001 per share ("Common Stock") of ARC Document Solutions, Inc. (the "Company," "we," "us," and "our") is registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The following description sets forth certain general terms and provisions of our Common Stock. These description are in all respects subject to and qualified in their entirety by, and should be read in conjunction with the applicable provisions of, our Restated Certificate of Incorporation (the "Charter") and our Second Amended and Restated Bylaws (the "Bylaws"), each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part, and by applicable law. We encourage you to read our Charter, our Bylaws and the applicable provisions of the Delaware General Corporation Law ("DGCL") for additional information.

Authorized Capital Stock

Our authorized capital stock consists of 150,000,000 shares of Common Stock, and 25,000,000 shares of preferred stock, par value \$0.001 per share ("Preferred Stock").

Common Stock

The holders of our Common Stock are entitled to one vote for each share held on all matters submitted to a vote of the stockholders. The holders of our Common Stock do not have any cumulative voting rights. Holders of our Common Stock are entitled to receive ratably any dividends declared by our board of directors ("Board") out of funds legally available for that purpose, subject to any preferential dividend rights of any outstanding Preferred Stock. Our Common Stock has no preemptive rights, conversion rights or other subscription rights or redemption rights.

In the event of our liquidation, dissolution or winding up, holders of our Common Stock will be entitled to share ratably in all assets remaining after payment of all debts and other liabilities and any liquidation preference of any outstanding Preferred Stock. Each outstanding share of Common Stock is duly and validly issued, fully paid and non-assessable.

Preferred Stock

Our Board will have the authority, without further action by our stockholders, to issue up to 25,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting, or the designation of, such series, any or all of which may be greater than the rights of Common Stock. The issuance of our Preferred Stock could adversely affect the voting power of holders of Common Stock and the likelihood that such holders will receive dividend payments and payments upon our liquidation. In addition, the issuance of Preferred Stock could have the effect of delaying, deferring or preventing a change in control of our company or other corporate action.

No shares of Preferred Stock are outstanding as of the date of our Annual Report on Form 10-K with which this exhibit is filed as an exhibit.

Anti-Takeover Effects of Delaware Law and Provisions of our Charter and our Bylaws

Certain provisions of the DGCL and of our Charter and our Bylaws could have the effect of delaying, deferring or preventing another party from acquiring control of us and encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Delaware Anti-Takeover Statute

Section 203 of the DGCL is applicable to us. Section 203 of the DGCL restricts some types of transactions and business combinations between a corporation and a 15% stockholder. A 15% stockholder is generally considered by Section 203 to be a person owning 15% or more of the corporation's outstanding voting stock. Section 203 refers to a 15% stockholder as an "interested stockholder." Section 203 restricts these transactions for a period of three years from the date the stockholder acquires 15% or more of our outstanding voting stock. With some exceptions, unless the transaction is approved by the board of directors and the holders of at least two-thirds of the outstanding voting stock of the corporation, Section 203 prohibits significant business transactions such as:

- a merger with, disposition of significant assets to or receipt of disproportionate financial benefits by the interested stockholder, and
- any other transaction that would increase the interested stockholder's proportionate ownership of any class or series of our capital stock.

The shares held by the interested stockholder are not counted as outstanding when calculating the two-thirds of the outstanding voting stock needed for approval.

The prohibition against these transactions does not apply if:

- prior to the time that any stockholder became an interested stockholder, the board of directors approved either the business combination or the transaction in which such stockholder acquired 15% or more of our outstanding voting stock, or
- the interested stockholder owns at least 85% of our outstanding voting stock as a result of a transaction in which such stockholder acquired 15% or more of our outstanding voting stock. Shares held by persons who are both directors and officers or by some types of employee stock plans are not counted as outstanding when making this calculation.

No Written Consent of Stockholders

Our Charter provides that all stockholder actions are required to be taken by a vote of the stockholders at an annual or special meeting, and that stockholders may not take any action by written consent in lieu of a meeting. This limit may lengthen the amount of time required to take stockholder actions and would prevent the amendment of our bylaws or removal of directors by our stockholders without holding a meeting of stockholders.

Special Meetings of Stockholders

Our Charter provides that special meetings of the stockholders for any purpose or purposes, unless required by law, may only be called our board of directors (the “**Board**”), the chairman of the board, if any, the chief executive officer or the president. This limitation on the ability to call a special meeting could make it more difficult for stockholders to initiate actions that are opposed by the Board. These actions could include the removal of an incumbent director or the election of a stockholder nominee as a director. They could also include the implementation of a rule requiring stockholder ratification of specific defensive strategies that have been adopted by the board with respect to unsolicited takeover bids. In addition, the limited ability to call a special meeting of stockholders may make it more difficult to change the existing Board and management.

Board Vacancies

Subject to the rights of the holders of any outstanding series of preferred stock, our Charter authorizes the Board to fill vacancies, including newly created directorships, unless the Board determines by resolution that any such vacancies or newly created directorships shall be filled by the stockholders. Our Charter also provides that directors may be removed by stockholders only by affirmative vote of holders of two-thirds of the outstanding shares of voting stock.

Advance Notice Requirements

Our Bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures provide that notice of stockholder proposals must be timely given in writing to our corporate secretary prior to the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year. Our Bylaws specify the requirements as to form and content of all stockholders’ notices. These requirements may preclude stockholders from bringing matters before the stockholders at an annual or special meeting.

Amendment to our Charter and Bylaws

Any amendment of our Charter must first be approved by a majority of our Board, and if required by law or our Charter, must thereafter be approved by a majority of the outstanding shares entitled to vote on the amendment and a majority of the outstanding shares of each class entitled to vote thereon as a class, except that the amendment of the provisions relating to stockholder action, board composition, limitation of liability and the amendment of our Bylaws and Charter must be approved by not less than two thirds (2/3) of the outstanding shares entitled to vote on the amendment.

Our Bylaws may be amended by the affirmative vote of a majority of the directors then in office, subject to any limitations set forth in the Bylaws; and may also be amended by the affirmative vote of at least two thirds (2/3) of the outstanding shares entitled to vote on the amendment.

Undesignated Preferred Stock

Our Charter provides for 25,000,000 authorized shares of Preferred Stock. The existence of authorized but unissued shares of convertible Preferred Stock may enable our Board to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, our board of directors were to determine that a takeover proposal is not in the best interests of our stockholders, our Board could cause shares of convertible Preferred Stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, our Charter grants our Board broad power to establish the rights and preferences of authorized and unissued shares of convertible Preferred Stock. The issuance of shares of convertible Preferred Stock could decrease the amount of earnings and assets available for distribution to holders of shares of Common Stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of us.

Stock Exchange Listing

Our Common Stock is listed on New York Stock Exchange under the trading symbol "ARC."

Transfer Agent and Registrar

The transfer agent and registrar for our Common Stock is Broadridge Corporate Issuer Solutions, Inc. The transfer agent and registrar's address is 1155 Long Island Avenue, Edgewood, NY 11717, and its telephone number is 1-877-830-4932.

ARC DOCUMENT SOLUTIONS, INC.
2014 STOCK INCENTIVE PLAN
NOTICE OF STOCK OPTION GRANT

You have been granted the following Option to purchase Common Stock of ARC Document Solutions, Inc. (the "Company") under the Company's 2014 Stock Incentive Plan (the "Plan"):

<i>Name of Optionee:</i>	[Name of Optionee]
<i>Total Number of Option Shares Granted:</i>	[Total Number of Shares]
<i>Type of Option:</i>	Incentive Stock Option Nonstatutory Stock Option
<i>Exercise Price Per Share:</i>	\$ _____
<i>Grant Date:</i>	[Date of Grant]
<i>Vesting Commencement Date:</i>	[Vesting Commencement Date]
<i>Vesting Schedule:</i>	[This Option becomes exercisable with respect to the first 1/3rd of the Shares subject to this Option when you complete 12 months of continuous Service as an Employee or a Consultant from the Vesting Commencement Date. Thereafter, this Option becomes exercisable with respect to an additional 1/3rd of the Shares subject to this Option when you complete each additional 12 months of such Service.]
<i>Expiration Date:</i>	[Expiration Date] This Option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the term and conditions of the Plan and the Stock Option Agreement (the "Agreement"), both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

OPTIONEE:

ARC DOCUMENT SOLUTIONS, INC.

Optionee's Signature

By: _____

Optionee's Printed Name

Title: _____

ARC Document Solutions, Inc.
Notice of Stock Option Grant
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ARC DOCUMENT SOLUTIONS, INC.

2014 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

Tax Treatment

This Option is intended to be an incentive stock option under Section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant. Even if this Option is designated as an incentive stock option, it shall be deemed to be a nonstatutory option to the extent required by the \$100,000 annual limitation under Section 422(d) of the Internal Revenue Code.

Vesting

This Option becomes exercisable in installments, as shown in the Notice of Stock Option Grant. This Option will in no event become exercisable for additional Shares after your Service as an Employee or a Consultant has terminated for any reason.

Term

This Option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, as shown on the Notice of Stock Option Grant (fifth anniversary for a more than 10% shareholder as provided under the Plan if this is an incentive stock option). This Option may expire earlier if your Service terminates, as described below.

Regular Termination

If your Service terminates for any reason other than for "Cause" (as defined below), death or "Total and Permanent Disability" (as defined in the Plan), then this Option will expire at the close of business at Company headquarters on the date three (3) months after the date your Service terminates (or, if earlier, the Expiration Date). The Company determines when your Service terminates for this purpose and all purposes under the Plan and its determinations are conclusive and binding on all persons.

Termination for Cause

If your Service is terminated for Cause, then this Option will expire immediately and you shall be prohibited from exercising your Option as of such time.

For this purpose, "Cause" means, with respect to you, the occurrence of any of the following: (i) willful refusal without proper cause to perform (other than by reason of physical or mental disability or death) your duties; (ii) gross negligence, self-dealing or willful misconduct in connection with the performance of your duties, including, without limitation, misappropriation of funds or property of the Company or its Subsidiaries or Affiliates, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or its Subsidiaries or Affiliates, or any willful act or gross negligence having the effect of injuring the reputation, business or business relationships of the Company or its Subsidiaries or Affiliates; (iii) fraud, dishonesty or misappropriation of Company business and assets that harms the business of the Company or its Subsidiaries or Affiliates; (iv) habitual insobriety, abuse of alcohol, abuse of prescription drugs or use of illegal drugs; (v) engaging in any criminal activity involving moral turpitude; (vi) indictment or being held for trial in connection with a misdemeanor involving moral turpitude or any felony; (vii) conviction of a felony or entry into a guilty plea; or (viii) any material breach of any written agreement between you and the Company or its Subsidiaries or Affiliates. The determination that a termination is for Cause shall be made by the Company in its sole discretion.

Death

If your Service terminates because of death, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date). During that period of up to 12 months, your estate or heirs may exercise the Option.

Disability

If your Service terminates because of your Total and Permanent Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date).

Leaves of Absence

For purposes of this Option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law or regulation. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of the Company stock pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Company stock as to which such approval shall not have been obtained.

Notice of Exercise

When you wish to exercise this Option you must provide a notice of exercise form in accordance with such procedures as are established by the Company and communicated to you from time to time. Any notice of exercise must specify how many Shares you wish to purchase and how your Shares should be registered. The notice of exercise will be effective when it is received by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

When you submit your notice of exercise, you must include payment of the Option exercise price for the Shares you are purchasing. Payment may be made in the following form(s):

- Your personal check, a cashier's check or a money order.
- Certificates for Shares that you own, along with any forms needed to effect a transfer of those Shares to the Company. The value of the Shares, determined as of the effective date of the Option exercise, will be applied to the Option exercise price. Instead of surrendering Shares, you may attest to the ownership of those Shares on a form provided by the Company and have the same number of Shares subtracted from the Shares issued to you upon exercise of the Option. However, you may not surrender or attest to the ownership of Shares in payment of the exercise price if your action would cause the Company to recognize a compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes.

- By delivery on a form approved by the Company of an irrevocable direction to a securities broker approved by the Company to sell all or part of the Shares that are issued to you when you exercise this Option and to deliver to the Company from the sale proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by providing a notice of exercise form approved by the Company.
- Any other form permitted by the Committee in its sole discretion.

Notwithstanding the foregoing, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

Withholding Taxes and Stock Withholding

Regardless of any action the Company or your actual employer (the “Employer”) takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate your liability for Tax-Related Items.

Prior to exercise of the Option, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account of obligations of the Company and/or the Employer. In this regard, you authorize the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by the Company and/or the Employer. With the Company’s consent, these arrangements may also include, if permissible under local law, (a) withholding Shares that otherwise would be issued to you when you exercise this Option, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization), or (c) any other arrangement approved by the Company. The Fair Market Value of these Shares, determined as of the effective date of the Option exercise, will be applied as a credit against the withholding taxes. Finally, you shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares that cannot be satisfied by the means previously described. The Company may refuse to honor the exercise and refuse to deliver the Shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

Restrictions on Resale

You agree not to sell any Shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.

Transfer of Option

In general, only you can exercise this Option prior to your death. You may not sell, transfer, assign, pledge or otherwise dispose of this Option, other than as designated by you by will or by the laws of descent and distribution, except as provided below. For instance, you may not use this Option as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may in any event dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your Option in any other way.

However, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, "family member" means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest.

In addition, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights.

The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

Retention Rights

Neither your Option nor this Agreement gives you the right to be employed or retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.

Shareholder Rights

Your Options carry neither voting rights nor rights to dividends. You, or your estate or heirs, have no rights as a shareholder of the Company unless and until you have exercised this Option by giving the required notice to the Company and paying the exercise price. No adjustments will be made for dividends or other rights if the applicable record date occurs before you exercise this Option, except as described in the Plan.

Adjustments

The number of Shares covered by this Option and the exercise price per Share shall be subject to adjustment in the event of a stock split, a stock dividend or a similar change in Company Shares, and in other circumstances, as set forth in the Plan.

Successors and Assigns

Except as otherwise provided in the Plan or this Agreement, every term of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors, transferees and assigns.

Notice

Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earliest of personal delivery, receipt or the third full day following mailing with postage and fees prepaid, addressed to the other party hereto at the address last known in the Company's records or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of California (without regard to their choice-of-law provisions).

Miscellaneous

You understand and acknowledge that (i) the Plan is entirely discretionary, (ii) the Company and your employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of an Option does not in any way create any contractual or other right to receive additional grants of Options (or benefits in lieu of options) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when Options will be granted, the number of Shares offered, the exercise price and the vesting schedule, will be at the sole discretion of the Company.

The value of this Option shall be an extraordinary item of compensation outside the scope of your employment contract, if any, and shall not be considered a part of your normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

You understand and acknowledge that participation in the Plan ceases upon termination of your Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

You hereby authorize and direct your employer to disclose to the Company or any Subsidiary any information regarding your employment, the nature and amount of your compensation and the fact and conditions of your participation in the Plan, as your employer deems necessary or appropriate to facilitate the administration of the Plan.

You consent to the collection, use and transfer of personal data as described in this subsection. You understand and acknowledge that the Company, your employer and the Company's other Subsidiaries hold certain personal information regarding you for the purpose of managing and administering the Plan, including (without limitation) your name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all options or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in your favor (the "Data"). You further understand and acknowledge that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. You understand and acknowledge that the recipients of Data may be located in the United States or elsewhere. You authorize such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering your participation in the Plan, including a transfer to any broker or other third party with whom you elect to deposit Shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf. You may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this subsection by contacting the Human Resources Department of the Company in writing.

**The Plan and Other
Agreements**

The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in the Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended by the Committee without your consent; however, if any such amendment would materially impair your rights or obligations under the Agreement, this Agreement may be amended only by another written agreement, signed by you and the Company.

**By signing the cover sheet of this Agreement,
you agree to all of the terms and conditions
described above and in the Plan.**

ARC Document Solutions, Inc.
Stock Option Agreement

ARC DOCUMENT SOLUTIONS, INC.
2014 STOCK INCENTIVE PLAN
NOTICE OF CASH EXERCISE OF STOCK OPTION

OPTIONEE INFORMATION:

Name: _____ Social Security Number: _____

Address: _____ Employee Number: _____

OPTION INFORMATION:

Date of Grant: _____, 20__ Type of Stock Option:
Exercise Price per Share: \$ _____ Nonstatutory (NSO)
Total number of Shares of ARC Document Solutions, Inc. (the "Company") covered Incentive (ISO)
by option: _____

Number of Shares of the Company for which option is being exercised now: _____ ("Purchased Shares").

Total exercise price for the Purchased Shares: \$ _____

Form of payment enclosed:

Check for \$ _____, payable to "ARC Document Solutions, Inc."

Name(s) in which the Purchased Shares should be registered:

The certificate for the Purchased Shares should be sent to the _____
following address: _____

ACKNOWLEDGMENTS:

1. I understand that all sales of Purchased Shares are subject to compliance with the Company's policy on securities trades.
2. I hereby acknowledge that I received and read a copy of the prospectus describing the Company's 2014 Stock Incentive Plan and the tax consequences of an exercise.
3. In the case of a nonstatutory option, I understand that I must recognize ordinary income equal to the spread between the fair market value of the Purchased Shares on the date of exercise and the exercise price. I further understand that I am required to pay withholding taxes at the time of exercising a nonstatutory option.
4. In the case of an incentive stock option, I agree to notify the Company if I dispose of the Purchased Shares before I have met both of the tax holding periods applicable to incentive stock options (that is, if I make a disqualifying disposition).

SIGNATURE AND DATE:

_____ , 20__

ARC Document Solutions, Inc.
Notice of Exercise

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ARC DOCUMENT SOLUTIONS, INC.
2014 STOCK INCENTIVE PLAN
NOTICE OF RESTRICTED STOCK AWARD

You have been granted the following Restricted Shares of Common Stock of ARC Document Solutions, Inc. (the “Company”) under the Company’s 2014 Stock Incentive Plan (the “Plan”):

Date of Grant: [Date of Grant]

Name of Recipient: [Name of Recipient]

*Total Number of Shares
Granted:* [Total Shares]

Fair Market Value per Share: \$[Value Per Share]

*Total Fair Market Value
Of Award:* \$[Total Value]

Vesting Commencement Date: [_____]

Vesting Schedule: [The Shares subject to this Award vest with respect to the first 1/3rd of the Shares subject to this Award when you complete 12 months of continuous Service as an Employee or a Consultant from the Vesting Commencement Date. Thereafter, the Shares subject to this Award vest with respect to an additional 1/3rd of the Shares subject to this Award when you complete each additional 12 months of such Service.]

By your signature and the signature of the Company’s representative below, you and the Company agree that these Restricted Shares are granted under and governed by the term and conditions of the Plan and the Restricted Stock Agreement (the “Agreement”), both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

ARC Document Solutions, Inc.
Notice of Restricted Stock Award

RECIPIENT:

ARC DOCUMENT SOLUTIONS, INC.

Recipient's Signature

By: _____

Kumarakulasingam Suriyakumar

Recipient's Printed Name

Title

President & CEO

MERU NETWORKS, INC.
NOTICE OF RESTRICTED STOCK AWARD

**ARC DOCUMENT SOLUTIONS, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

Payment For Shares

No cash payment is required for the Shares you receive. You are receiving the Shares in consideration for Services rendered by you.

Vesting

The Shares that you are receiving will vest in installments, as shown in the Notice of Restricted Stock Award.

No additional Shares vest after your Service as an Employee or a Consultant has terminated for any reason.

Shares Restricted

Unvested Shares will be considered "Restricted Shares." Except to the extent permitted by the Committee, you may not sell, transfer, assign, pledge or otherwise dispose of Restricted Shares.

Forfeiture

If your Service terminates for any reason, then your Shares will be forfeited to the extent that they have not vested before the termination date and do not vest as a result of termination. This means that the Restricted Shares will immediately revert to the Company. You receive no payment for Restricted Shares that are forfeited. The Company determines when your Service terminates for this purpose and all purposes under the Plan and its determinations are conclusive and binding on all persons.

Leaves Of Absence

For purposes of this Award, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Restricted Stock Award may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Restricted Stock Award may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Stock Certificates

The certificates for the Restricted Shares have stamped on them a special legend referring to the forfeiture restrictions. In addition to or in lieu of imposing the legend, the Company may hold the certificates in escrow. As your vested percentage increases, you may request (at reasonable intervals) that the Company release to you a non-legended certificate for your vested Shares.

Shareholder Rights

During the period of time between the date of grant and the date the Restricted Shares become vested, you shall have all the rights of a shareholder with respect to the Restricted Shares except for the right to transfer the Restricted Shares, as set forth above. Accordingly, you shall have the right to vote the Restricted Shares and to receive any cash dividends paid with respect to the Restricted Shares.

ARC Document Solutions, Inc.
Restricted Stock Agreement

Withholding Taxes

Regardless of any action the Company or your employer (the “Employer”) takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or your Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the shares received under this Award, including the award or vesting of such shares, the subsequent sale of shares under this Award and the receipt of any dividends; and (2) do not commit to structure the terms of the award to reduce or eliminate your liability for Tax-Related Items.

No stock certificates will be released to you, unless you have paid or made adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account of obligations of the Company and/or your Employer. In this regard, you authorize the Company and/or your Employer to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by the Company and/or your Employer. With the Company’s consent, these arrangements may also include, if permissible under local law, (a) withholding shares that otherwise would be delivered to you when they vest having a Fair Market Value equal to the amount necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization), or (c) any other arrangement approved by the Company. The Fair Market Value of these Shares, determined as of the date when taxes otherwise would have been withheld in cash, will be applied as a credit against the withholding taxes. Finally, you shall pay to the Company or your Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your acquisition of Shares that cannot be satisfied by the means previously described. The Company may refuse to deliver the Shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

Restrictions On Resale

You agree not to sell any Shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.

No Retention Rights

Neither your Award nor this Agreement gives you the right to be employed or retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.

Adjustments

In the event of a stock split, a stock dividend or a similar change in Company Shares, or an extraordinary dividend, or a merger or a reorganization of the Company, the forfeiture provisions described above will apply to all new, substitute or additional securities or other assets to which you are entitled by reason of your ownership of the Shares.

Successors and Assigns

Except as otherwise provided in the Plan or this Agreement, every term of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors, transferees and assigns.

Notice

Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earliest of personal delivery, receipt or the third full day following mailing with postage and fees prepaid, addressed to the other party hereto at the address last known in the Company's records or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of California (without regard to their choice-of-law provisions).

Miscellaneous

You understand and acknowledge that (i) the Plan is entirely discretionary, (ii) the Company and your employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of your Award does not in any way create any contractual or other right to receive additional grants of awards (or benefits in lieu of awards) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when awards will be granted, the number of shares offered, the purchase price and the vesting schedule, will be at the sole discretion of the Company.

The value of this Award shall be an extraordinary item of compensation outside the scope of your employment contract, if any, and shall not be considered a part of your normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

You understand and acknowledge that participation in the Plan ceases upon termination of your Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

You hereby authorize and direct your employer to disclose to the Company or any Subsidiary any information regarding your employment, the nature and amount of your compensation and the fact and conditions of your participation in the Plan, as your employer deems necessary or appropriate to facilitate the administration of the Plan.

You consent to the collection, use and transfer of personal data as described in this subsection. You understand and acknowledge that the Company, your employer and the Company's other Subsidiaries hold certain personal information regarding you for the purpose of managing and administering the Plan, including (without limitation) your name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company and details of all awards or any other entitlements to shares awarded, canceled, exercised, vested, unvested or outstanding in your favor (the "Data"). You further understand and acknowledge that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. You understand and acknowledge that the recipients of Data may be located in the United States or elsewhere. You authorize such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering your participation in the Plan, including a transfer to any broker or other third party with whom you elect to deposit shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares on your behalf. You may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this subsection by contacting the Human Resources Department of the Company in writing.

The Plan and Other Agreements

The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in this Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Award. Any prior agreements, commitments or negotiations concerning this Award are superseded. This Agreement may be amended by the Committee without your consent; however, if any such amendment would materially impair your rights or obligations under the Agreement, this Agreement may be amended only by another written agreement, signed by you and the Company.

**By signing the cover sheet of this Agreement,
you agree to all of the terms and conditions
described above and in the Plan.**

ARC Document Solutions, Inc.
Restricted Stock Agreement

LIST OF SUBSIDIARIES

	<u>Jurisdiction of Formation</u>	<u>Doing Business As</u>
American Reprographics Company, L.L.C.	California	ARC ARC Imaging Resources Blair Graphics City Digital Imaging Consolidated Reprographics Dieterich - Post Digital Reprographics FDC Digital Imaging Solutions Ford Graphics Mercury - LDO Mossner Olympic Reprographics Pikes Peak Reprographics Reprographics Northwest Riot Creative Imaging SBD Reprographics
ARC Document Solutions India Private Limited (fka: American Reprographics Company India Private Limited)	India	
ARC — UK Technologies Limited	United Kingdom	
ARC Acquisition Corporation	California	
ARC Digital Canada Corp.	British Columbia	ARC
ARC Document Solutions Australia Pty Limited	Australia	
ARC Reprographics Canada Corp	British Columbia	
ARC Reprographics Hong Kong, Limited	Hong Kong	
Face of Somerset Limited	United Kingdom	
Henan UNIS Waytron Document Technology Co., Ltd	People's Republic of China	
Licensing Services International, LLC	California	
Reprografia Digital de Mexico, S.A. de C.V.	Mexico	
Reprographics Fort Worth, Inc.	Delaware	
SkySite Technologies, Inc.	Delaware	

ARC Document Solutions, LLC
(fka: Ridgway's, LLC)

Jurisdiction of Formation	Doing Business As
Texas	A&E Supply Company A-Plus Digital Reprographics ARC ARC - Delaware ARC - Eastern ARC - LA Gulf Coast ARC - Southern ARC - Southern LLC ARC - Maryland ARC - Oklahoma Central ARC - Texas ARC BIM Services Group ARC Document Solutions ARC Imaging Resources ARC Technology Resources Crest Graphics Dunn Blue Print Company Georgia Blue Imaging Technologies Services IT Plus Technologies Mirror Plus Technologies NGI NGI Digital NPI Digital Pennsylvania Ridgway's, LLC Planwell Licensing Planwell Professional Services RCMS RCMS Group Reprographics Arlington Reprographics Dallas Reprographics Fort Worth Reprographics Roanoke Ridgway's IL, LLC Ridgway's MD, LLC a/k/a Ridgway's, LLC Ridgway's NY, LLC Riot Creative Imaging SubHub The Pier Group Veenestra Reproductions
Shenzhen Unis - Printing Document Solutions Co., Ltd Shenzhen Unis Technologies Co., Ltd. UNIS Document Solutions Co., Ltd.	People's Republic of China People's Republic of China People's Republic of China

**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 Annual Report on Form 10-K 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 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 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.

/s/ KUMARAKULASINGAM SURIYAKUMAR

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

Date: February 24, 2021

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING 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 Annual Report on Form 10-K 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 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 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.

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 24, 2021

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

In connection with the Annual Report of ARC Document Solutions, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kumarakulasingham Suriyakumar, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingham Suriyakumar
Chairman, President and Chief Executive Officer

Date: February 24, 2021

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

In connection with the Annual Report of ARC Document Solutions, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jorge Avalos, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 24, 2021