

REFINITIV

DELTA REPORT

10-Q

ARC - ARC DOCUMENT SOLUTIONS, I

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	700
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 CHANGES	178
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 DELETIONS	268
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 ADDITIONS	254
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023** **March 31, 2024**
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
(Address of principal executive offices)

San Ramon

California

94583
(Zip Code)

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

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

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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 42,961,796 43,179,344 as of October 25, 2023 April 29, 2024.

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended September 30, 2023 March 31, 2024

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In this Quarterly Report on Form 10-Q, "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 Quarterly Report on Form 10-Q 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 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 Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements 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 Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions as described under the section titled "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. 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 are listed below:

- A significant portion of our revenue across all of our products and services is generated from customers in the architectural, engineering, construction and building owner/operator industry. 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.
- 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. Failure to do so could impede our future growth and adversely affect our competitive position.
- 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 protect our customers' confidential information against security breaches could damage our reputation, harm our business and adversely affect our results of operation.
- Our failure to adequately protect the proprietary aspects of our technology solutions may cause us to lose market share.
- Our failure to comply with laws related to privacy and data security could adversely affect our financial condition.
- Our information technology and telecommunications systems are susceptible to damage, breach or interruption.
- Added risks are associated with our international operations.
- Our business could suffer if we fail to attract, retain, and successfully integrate skilled personnel.
- The market price 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.
- 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 Quarterly Report on Form 10-Q 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. Unless required by law, we undertake no 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—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ARC DOCUMENT SOLUTIONS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30,	December 31,
(In thousands, except per share data)	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,586	\$ 52,561
Accounts receivable, net of allowances for accounts receivable of \$1,884 and \$1,947	40,401	38,748
Inventory	8,666	8,610
Prepaid expenses	4,587	4,018
Other current assets	3,705	3,540
Total current assets	107,945	107,477
Property and equipment, net of accumulated depreciation of \$232,377 and \$231,913	39,106	40,214
Right-of-use assets from operating leases	27,933	28,163
Goodwill	121,051	121,051
Other intangible assets, net	167	208
Deferred income taxes	4,192	7,993
Other assets	2,078	2,209
Total assets	\$ 302,472	\$ 307,315
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 22,313	\$ 22,972
Accrued payroll and payroll-related expenses	10,350	11,235
Accrued expenses	16,566	16,882
Current operating lease liability	9,362	9,924
Current portion of finance leases	9,346	11,558
Total current liabilities	67,937	72,571
Long-term operating lease liabilities	23,126	23,339
Long-term debt and finance leases	52,880	54,916
Other long-term liabilities	160	199
Total liabilities	144,103	151,025
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; 52,472 and 51,400 shares issued and 42,962 and 43,101 shares outstanding	52	51
Additional paid-in capital	135,801	132,952
Retained earnings	47,132	44,416
Accumulated other comprehensive loss	(4,481)	(4,187)
	178,504	173,232

Less cost of common stock in treasury, 9,510 and 8,299 shares	21,726	18,877
Total ARC Document Solutions, Inc. stockholders' equity	156,778	154,355
Noncontrolling interest	1,591	1,935
Total equity	158,369	156,290
Total liabilities and equity	\$ 302,472	\$ 307,315

	March 31,	December 31,
(In thousands, except per share data)	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,029	\$ 56,093
Accounts receivable, net of allowances for accounts receivable of \$1,942 and \$1,857	37,887	35,775
Inventory	9,277	8,818
Prepaid expenses	4,507	3,988
Other current assets	3,571	3,978
Total current assets	107,271	108,652
Property and equipment, net of accumulated depreciation of \$227,877 and \$229,122	40,848	40,925
Right-of-use assets from operating leases	34,459	32,838
Goodwill	121,051	121,051
Other intangible assets, net	149	162
Deferred income taxes	3,559	4,383
Other assets	1,947	2,113
Total assets	\$ 309,284	\$ 310,124
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 24,023	\$ 24,175
Accrued payroll and payroll-related expenses	9,022	9,401
Accrued expenses	17,549	18,787
Current operating lease liability	10,171	9,924
Current portion of finance leases	8,095	8,870
Total current liabilities	68,860	71,157
Long-term operating lease liabilities	28,730	27,357
Long-term debt and finance leases	52,635	53,366
Deferred income taxes	148	52
Other long-term liabilities	2,455	2,467
Total liabilities	152,828	154,399
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; 52,941 and 52,526 shares issued and 43,179 and 42,783 shares outstanding	53	52
Additional paid-in capital	137,146	136,460
Retained earnings	44,495	44,144
Accumulated other comprehensive loss	(4,347)	(4,200)
	177,347	176,456
Less cost of common stock in treasury, 9,762 and 9,743 shares	22,445	22,390
Total ARC Document Solutions, Inc. stockholders' equity	154,902	154,066

Noncontrolling interest	1,554	1,659
Total equity	156,456	155,725
Total liabilities and equity	\$ 309,284	\$ 310,124

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)					
(In thousands, except per share data)					
(In thousands, except per share data)	(In thousands, except per share data)	2023	2022	2023	2022
Net sales	Net sales	\$ 71,057	\$ 73,136	\$ 212,325	\$ 217,188
Net sales					
Net sales					
Cost of sales					
Cost of sales					
Cost of sales	Cost of sales	46,908	48,315	140,075	144,380
Gross profit	Gross profit	24,149	24,821	72,250	72,808
Gross profit					
Gross profit					
Selling, general and administrative expenses	Selling, general and administrative expenses	19,269	19,082	57,764	58,376
Selling, general and administrative expenses					
Selling, general and administrative expenses					
Amortization of intangible assets					
Amortization of intangible assets	Amortization of intangible assets	10	17	31	87
Income from operations	Income from operations	4,870	5,722	14,455	14,345
Income from operations					
Income from operations					
Other income, net					
Other income, net					
Other income, net	Other income, net	(16)	(15)	(42)	(49)
Interest expense, net	Interest expense, net	397	454	1,300	1,330
Interest expense, net					
Interest expense, net					
Income before income tax provision					

Income before income tax provision					
Income before income tax provision	Income before income tax provision	4,489	5,283	13,197	13,064
Income tax provision	Income tax provision	1,368	1,577	4,262	4,376
Income tax provision					
Income tax provision					
Net income					
Net income					
Net income	Net income	3,121	3,706	8,935	8,688
Loss attributable to the noncontrolling interest	Loss attributable to the noncontrolling interest	44	31	188	283
Loss attributable to the noncontrolling interest					
Loss attributable to the noncontrolling interest					
Net income attributable to ARC Document Solutions, Inc. stockholders					
Net income attributable to ARC Document Solutions, Inc. stockholders					
Net income attributable to ARC Document Solutions, Inc. stockholders	Net income attributable to ARC Document Solutions, Inc. stockholders	\$ 3,165	\$ 3,737	\$ 9,123	\$ 8,971
Earnings per share attributable to ARC Document Solutions, Inc. stockholders	Earnings per share attributable to ARC Document Solutions, Inc. stockholders				
Earnings per share attributable to ARC Document Solutions, Inc. stockholders					
Earnings per share attributable to ARC Document Solutions, Inc. stockholders					
Basic					
Basic					
Basic	Basic	\$ 0.07	\$ 0.09	\$ 0.21	\$ 0.21
Diluted	Diluted	\$ 0.07	\$ 0.09	\$ 0.21	\$ 0.21
Diluted					
Diluted					
Weighted average common shares outstanding:					
Weighted average common shares outstanding:					
Weighted average common shares outstanding:	Weighted average common shares outstanding:				
Basic	Basic	42,554	42,283	42,634	42,209

Basic					
Basic					
Diluted	Diluted	43,516	42,956	43,624	43,414
Diluted					
Diluted					

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	(In thousands)	2023	2022	2023	2022
(In thousands)					
(In thousands)					
Net income	Net income	\$ 3,121	\$ 3,706	\$ 8,935	\$ 8,688
Other comprehensive loss, net of tax					
Net income					
Net income					
Other comprehensive (loss) gain, net of tax					
Other comprehensive (loss) gain, net of tax					
Other comprehensive (loss) gain, net of tax					
Foreign currency translation adjustments					
Foreign currency translation adjustments					
Foreign currency translation adjustments	Foreign currency translation adjustments	(178)	(1,068)	(450)	(2,470)
Other comprehensive loss, net of tax		(178)	(1,068)	(450)	(2,470)
Other comprehensive (loss) gain, net of tax					
Other comprehensive (loss) gain, net of tax					
Other comprehensive (loss) gain, net of tax					
Comprehensive income					
Comprehensive income					
Comprehensive income	Comprehensive income	2,943	2,638	8,485	6,218
Comprehensive loss attributable to noncontrolling interest, net of tax	Comprehensive loss attributable to noncontrolling interest, net of tax	(25)	(171)	(344)	(777)
Comprehensive loss attributable to noncontrolling interest, net of tax					
Comprehensive loss attributable to noncontrolling interest, net of tax					

Comprehensive income attributable to ARC Document Solutions, Inc. stockholders	Comprehensive income attributable to ARC Document Solutions, Inc. stockholders	\$ 2,968	\$ 2,809	\$ 8,829	\$ 6,995
Comprehensive income attributable to ARC Document Solutions, Inc. stockholders					
Comprehensive income attributable to ARC Document Solutions, Inc. stockholders					

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

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

	ARC Document Solutions, Inc. Stockholders							
	Common Stock		Accumulated					
			Additional		Other	Common		
		Par	Paid-in	Retained	Comprehensive	Stock in	Noncontrolling	
(In thousands, except per share data)	Shares	Value	Capital	Earnings	Loss	Treasury	Interest	Total
Balance at June 30, 2022	50,896	\$ 51	\$ 131,119	\$ 42,773	\$ (3,549)	\$ (18,101)	\$ 2,051	\$ 154,344
Stock-based compensation	—	—	441	—	—	—	—	441
Stock options exercised	15	—	41	—	—	—	—	41
Issuance of common stock under Employee Stock Purchase Plan	13	—	24	—	—	—	—	24
Cash dividends - common stock (\$0.05 per share)	—	—	—	(2,097)	—	—	—	(2,097)
Comprehensive income (loss), net of tax	—	—	—	3,737	(928)	—	(171)	2,638
Balance at September 30, 2022	50,924	\$ 51	\$ 131,625	\$ 44,413	\$ (4,477)	\$ (18,101)	\$ 1,880	\$ 155,391
	ARC Document Solutions, Inc. Stockholders							
	Common Stock		Accumulated					
			Additional		Other	Common		
		Par	Paid-in	Retained	Comprehensive	Stock in	Noncontrolling	
(In thousands, except per share data)	Shares	Value	Capital	Earnings	Loss	Treasury	Interest	Total
Balance at June 30, 2023	52,436	\$ 52	\$ 135,115	\$ 46,087	\$ (4,284)	\$ (20,685)	\$ 1,616	\$ 157,901
Stock-based compensation	—	—	599	—	—	—	—	599
Stock options exercised	22	—	49	—	—	—	—	49
Issuance of common stock under Employee Stock Purchase Plan	14	—	38	—	—	—	—	38
Treasury shares	—	—	—	—	—	(1,041)	—	(1,041)
Cash dividends - common stock (\$0.05 per share)	—	—	—	(2,120)	—	—	—	(2,120)
Comprehensive income (loss), net of tax	—	—	—	3,165	(197)	—	(25)	2,943
Balance at September 30, 2023	52,472	\$ 52	\$ 135,801	\$ 47,132	\$ (4,481)	\$ (21,726)	\$ 1,591	\$ 158,369
	ARC Document Solutions, Inc. Stockholders							
	Common Stock		Accumulated					
			Additional		Other	Common		
		Par	Paid-in	Retained	Comprehensive	Stock in	Noncontrolling	
(In thousands, except per share data)	Shares	Value	Capital	Earnings	Loss	Treasury	Interest	Total

Balance at December 31, 2021	50,584	\$ 50	\$ 129,881	\$ 41,768	\$ (2,501)	\$ (16,771)	\$ 6,565	\$ 158,992
Stock-based compensation	152	—	1,331	—	—	—	—	1,331
Stock options exercised	160	1	351	—	—	—	—	352
Issuance of common stock under Employee Stock Purchase Plan	28	—	62	—	—	—	—	62
Treasury shares	—	—	—	—	—	(1,330)	—	(1,330)
Cash dividends - common stock (\$0.15 per share)	—	—	—	(6,326)	—	—	—	(6,326)
Distribution to noncontrolling interest	—	—	—	—	—	—	(3,908)	(3,908)
Comprehensive income (loss), net of tax	—	—	—	8,971	(1,976)	—	(777)	6,218
Balance at September 30, 2022	50,924	\$ 51	\$ 131,625	\$ 44,413	\$ (4,477)	\$ (18,101)	\$ 1,880	\$ 155,391

ARC Document Solutions, Inc. Stockholders

(In thousands, except per share data)	Common Stock			Accumulated					Total
	Shares	Par	Paid-in Capital	Retained Earnings	Other Comprehensive	Common Stock in	Noncontrolling Interest		
		Value			Loss	Treasury			
Balance at December 31, 2022	51,400	\$ 51	\$ 132,952	\$ 44,416	\$ (4,187)	\$ (18,877)	\$ 1,935	\$ 156,290	
Stock-based compensation	236	—	1,622	—	—	—	—	1,622	
Stock options exercised	799	1	1,129	—	—	—	—	1,130	
Issuance of common stock under Employee Stock Purchase Plan	37	—	98	—	—	—	—	98	
Treasury shares	—	—	—	—	—	(2,849)	—	(2,849)	
Cash dividends - common stock (\$0.15 per share)	—	—	—	(6,407)	—	—	—	(6,407)	
Comprehensive income (loss), net of tax	—	—	—	9,123	(294)	—	(344)	8,485	
Balance at September 30, 2023	52,472	\$ 52	\$ 135,801	\$ 47,132	\$ (4,481)	\$ (21,726)	\$ 1,591	\$ 158,369	

ARC Document Solutions, Inc. Stockholders

(In thousands, except per share data)	Common Stock			Accumulated					Total
	Shares	Par	Additional	Retained	Other	Common	Noncontrolling		
		Value	Paid-in	Earnings	Comprehensive	Stock in	Interest		
			Capital		Loss	Treasury			
Balance at December 31, 2022	51,400	\$ 51	\$ 132,952	\$ 44,416	\$ (4,187)	\$ (18,877)	\$ 1,935	\$ 156,290	
Stock-based compensation	105	—	494	—	—	—	—	494	
Stock options exercised	751	1	1,035	—	—	—	—	1,036	
Issuance of common stock under Employee Stock Purchase Plan	12	—	29	—	—	—	—	29	
Treasury shares	—	—	—	—	—	(117)	—	(117)	
Cash dividends - common stock (\$0.05 per share)	—	—	—	(2,125)	—	—	—	(2,125)	
Comprehensive income (loss), net of tax	—	—	—	1,940	49	—	(124)	1,865	
Balance at March 31, 2023	52,268	\$ 52	\$ 134,510	\$ 44,231	\$ (4,138)	\$ (18,994)	\$ 1,811	\$ 157,472	

ARC Document Solutions, Inc. Stockholders

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

Balance at December 31, 2023	52,526	\$ 52	\$ 136,460	\$ 44,144	\$ (4,200)	\$ (22,390)	\$ 1,659	\$ 155,725
Stock-based compensation	400	1	650	—	—	—	—	651
Stock options exercised	2	—	4	—	—	—	—	4
Issuance of common stock under Employee Stock Purchase Plan	13	—	32	—	—	—	—	32
Treasury shares	—	—	—	—	—	(55)	—	(55)
Cash dividends - common stock (\$0.05 per share)	—	—	—	(2,102)	—	—	—	(2,102)
Comprehensive income (loss), net of tax	—	—	—	2,453	(147)	—	(105)	2,201
Balance at March 31, 2024	52,941	\$ 53	\$ 137,146	\$ 44,495	\$ (4,347)	\$ (22,445)	\$ 1,554	\$ 156,456

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

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

	Nine Months Ended September 30,		
(In thousands)	(In thousands)	2023	2022
(In thousands)			
(In thousands)			
Cash flows from operating activities			
Cash flows from operating activities			
Cash flows from operating activities	Cash flows from operating activities		
Net income	Net income	\$ 8,935	\$ 8,688
Net income			
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for credit losses	Allowance for credit losses	285	275
Allowance for credit losses			
Allowance for credit losses			
Depreciation			
Depreciation			
Depreciation	Depreciation	13,503	15,512
Amortization of intangible assets	Amortization of intangible assets	31	87
Amortization of intangible assets			
Amortization of intangible assets			
Amortization of deferred financing costs			

Amortization of deferred financing costs			
Amortization of deferred financing costs	Amortization of deferred financing costs	50	46
Stock-based compensation	Stock-based compensation	1,622	1,331
Stock-based compensation			
Stock-based compensation			
Deferred income taxes	Deferred income taxes	3,646	4,187
Deferred income taxes			
Deferred income taxes			
Deferred tax valuation allowance			
Deferred tax valuation allowance			
Deferred tax valuation allowance	Deferred tax valuation allowance	160	30
Other non-cash items, net	Other non-cash items, net	(347)	(135)
Other non-cash items, net			
Other non-cash items, net			
Changes in operating assets and liabilities:			
Changes in operating assets and liabilities:			
Changes in operating assets and liabilities:	Changes in operating assets and liabilities:		
Accounts receivable	Accounts receivable	(1,968)	(2,880)
Accounts receivable			
Accounts receivable			
Inventory			
Inventory			
Inventory	Inventory	(135)	(896)
Prepaid expenses and other assets	Prepaid expenses and other assets	6,489	6,874
Prepaid expenses and other assets			
Prepaid expenses and other assets			
Accounts payable and accrued expenses			
Accounts payable and accrued expenses			
Accounts payable and accrued expenses	Accounts payable and accrued expenses	(9,414)	(6,721)
Net cash provided by operating activities	Net cash provided by operating activities	22,857	26,398
Net cash provided by operating activities			
Net cash provided by operating activities			
Cash flows from investing activities	Cash flows from investing activities		
Cash flows from investing activities			
Cash flows from investing activities			
Capital expenditures			
Capital expenditures			
Capital expenditures	Capital expenditures	(7,728)	(4,284)

Other	Other	267	210
Other			
Other			
Net cash used in investing activities			
Net cash used in investing activities			
Net cash used in investing activities	Net cash used in investing activities	(7,461)	(4,074)
Cash flows from financing activities	Cash flows from financing activities		
Cash flows from financing activities			
Cash flows from financing activities			
Proceeds from stock option exercises			
Proceeds from stock option exercises			
Proceeds from stock option exercises	Proceeds from stock option exercises	1,130	352
Proceeds from issuance of common stock under Employee Stock Purchase Plan	Proceeds from issuance of common stock under Employee Stock Purchase Plan	98	62
Proceeds from issuance of common stock under Employee Stock Purchase Plan			
Proceeds from issuance of common stock under Employee Stock Purchase Plan			
Share repurchases			
Share repurchases			
Share repurchases	Share repurchases	(2,849)	(1,330)
Distribution to noncontrolling interest		—	(3,908)
Payments on finance leases			
Payments on finance leases			
Payments on finance leases	Payments on finance leases	(9,163)	(11,588)
Borrowings under revolving credit facilities	Borrowings under revolving credit facilities	122,000	114,000
Borrowings under revolving credit facilities			
Borrowings under revolving credit facilities			
Payments under revolving credit facilities	Payments under revolving credit facilities	(122,000)	(117,750)
Payment of deferred financing costs		(23)	—
Payments under revolving credit facilities			
Payments under revolving credit facilities			
Dividends paid			
Dividends paid			
Dividends paid	Dividends paid	(6,399)	(6,332)
Net cash used in financing activities	Net cash used in financing activities	(17,206)	(26,494)
Net cash used in financing activities			
Net cash used in financing activities			

Effect of foreign currency translation on cash balances			
Effect of foreign currency translation on cash balances			
Effect of foreign currency translation on cash balances	Effect of foreign currency translation on cash balances	(165)	(1,111)
Net change in cash and cash equivalents	Net change in cash and cash equivalents	(1,975)	(5,281)
Net change in cash and cash equivalents			
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	52,561	55,929
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	\$ 50,586	\$ 50,648
Cash and cash equivalents at end of period			
Cash and cash equivalents at end of period			
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information	Supplemental disclosure of cash flow information		
Noncash investing and financing activities	Noncash investing and financing activities		
Noncash investing and financing activities			
Noncash investing and financing activities			
Finance lease obligations incurred	Finance lease obligations incurred	\$ 5,145	\$ 6,388
Finance lease obligations incurred			
Finance lease obligations incurred			
Operating lease obligations incurred			
Operating lease obligations incurred			
Operating lease obligations incurred	Operating lease obligations incurred	\$ 7,070	\$ 7,154

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

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

1. Description of Business and Basis of Presentation

ARC Document Solutions, Inc. ("ARC Document Solutions," "ARC" or "the Company") is a digital printing company. ARC provides digital printing and document-related services to customers in a growing variety of industries. ARC offers Digital Printing services, Managed Print Services ("MPS"), and Scanning and Digital Imaging services. In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, ARC Document Solutions, LLC, a Texas limited liability company, and its affiliates.

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in conformity with the requirements of the U.S. Securities and Exchange Commission ("SEC"). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements

have been condensed or omitted. In management's opinion, the accompanying interim Condensed Consolidated Financial Statements reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 December 31, 2024.

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

These interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

Noncontrolling Interest

The Company accounted for its investment in UNIS Document Solutions Co. Ltd. ("UDS"), under the purchase method of accounting, in accordance with Accounting Standards Codification ("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% noncontrolling interest in UDS owned by the joint venture ("JV") partner, is reflected on the Company's Condensed Consolidated Financial Statements.

Revenue Recognition

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

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2023	2022	2023	2022
Service Sales	Service Sales				
Service Sales					
Service Sales					
Digital Printing					
Digital Printing					
Digital Printing	Digital Printing	\$ 43,537	\$ 44,654	\$ 129,134	\$ 132,766
MPS ⁽¹⁾	MPS ⁽¹⁾	18,582	19,415	56,556	57,317
MPS ⁽¹⁾					
MPS ⁽¹⁾					
Scanning and Digital Imaging					
Scanning and Digital Imaging					
Scanning and Digital Imaging	Scanning and Digital Imaging	4,991	4,779	14,845	13,268
Total services sales	Total services sales	\$ 67,110	\$ 68,848	\$ 200,535	\$ 203,351
Total services sales					
Total services sales					
Equipment and Supplies Sales					
Equipment and Supplies Sales					
Equipment and Supplies Sales	Equipment and Supplies Sales	3,947	4,288	11,790	13,837

Total net sales	Total net sales	\$ 71,057	\$ 73,136	\$ 212,325	\$ 217,188
Total net sales					
Total net sales					

(1) MPS includes \$17.0 million of rental income and \$1.6 million of service income for the three months ended September 30, 2023 and \$52.0 million of rental income and \$4.6 million of service income for the nine months ended September 30, 2023 March 31, 2024. MPS includes \$17.9 million \$17.5 million of rental income and \$1.5 million of service income for the three months ended September 30, 2022 and \$52.9 million of rental income and \$4.4 million of service income for the nine months ended September 30, 2022 March 31, 2023.

Digital Printing consists of professional services and software services to (i) reproduce and distribute large-format and small-format documents in either black and white or color ("Ordered Prints") and (ii) specialized graphic color printing. Substantially all of the Company's revenue from Digital Printing comes from professional services to reproduce Ordered Prints. Sales of Ordered Prints are initiated through a customer order or quote and are governed by established terms and conditions agreed upon at the onset of the customer relationship. Revenue is recognized when the performance obligation under the terms of a contract with a customer are satisfied, which generally occurs with the transfer of control of the Ordered Prints. Transfer of control occurs at a specific point in time, when the Ordered Prints are delivered to the customer's site or handed to the customer for walk-in orders. Revenue is measured as the amount of consideration 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 customers' offices, job sites, and other facilities. MPS relieves the Company's customers of the burden of purchasing print equipment and related supplies and maintaining print devices and print networks, and it shifts their costs to a "per-use" basis. MPS is supported by 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 Certain 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, Leases.

Scanning and Digital Imaging combines software and professional services to facilitate the capture, management, access and retrieval of documents and information that have been produced in the past. Scanning and Digital Imaging includes the Company's hosted SKYSITE® software and ARC Facilities solution 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 Scanning and Digital Imaging professional services, which represent substantially all revenue for the business line, 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, ARC Facilities, or through other 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 the Company expects to receive in exchange for transferring goods or providing services. Taxes collected concurrent with revenue-producing activities are excluded from revenue. The Company has experienced minimal customer returns or refunds and does not offer a warranty on equipment that it is reselling.

Recently Adopted

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, December 2023, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Loss ASU 2023-09, "Income Taxes (Topic 326) ("740): Improvements to Income Tax Disclosures," which requires public entities to disclose specific tax rate reconciliation categories, as well as income taxes paid disaggregated by jurisdiction, amongst other disclosure enhancements. The ASU 2016-13", which updates the guidance on recognition and measurement of credit losses is effective for financial assets, statements issued for annual periods beginning after December 15, 2024, with early adoption permitted. 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 can be adopted on a modified-retrospective approach. This update was prospective or retrospective basis. The Company is evaluating the disclosure requirements related to the new standard.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which updates reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses and information used to assess segment performance. The guidance is effective for fiscal years beginning after December 15, 2020 December 15, 2023, including and 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 December 15, 2024. Retrospective adoption is required for all prior periods within those fiscal years. Therefore, presented in the effective date for this update was January 1, 2023. financial statements. The implementation of CECL did not have a material impact on Company is evaluating the Company's consolidated statements of financial condition and results of operations. disclosure requirements related to the new standard.

Segment Reporting

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

Risk and Uncertainties

The Company generates a significant portion 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 results largely depend on the strength of that industry. The Company's historical operating results reflect the cyclical and variable nature of the AEC/O industry. ARC believes 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 all of the Company's products and services, and would therefore negatively affect the Company's revenues and have a material adverse effect on the Company's business, operating results and financial condition.

As part of the Company's growth strategy, ARC intends to continue to offer and grow a variety of service offerings that 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 sell the new service offerings to existing customers. The Company's inability to successfully market and execute these relatively new service offerings could significantly affect its business and reduce its long- term revenue, resulting in an adverse effect on its results of operations and financial condition.

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of shares of common stock 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 shares of common stock that would have been outstanding if shares subject to outstanding options and acquisition rights had been issued and if the additional shares were dilutive. Common share equivalents are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2023 March 31, 2024, 4.0 million and 4.2 million 4.6 million shares of common stock respectively, were excluded from the calculation of diluted net income attributable to ARC per common share, because they were anti-dilutive. For the three and nine months ended September 30, 2022 March 31, 2023, 3.8 million and 3.1 million shares of common stock respectively, were excluded from the calculation of

diluted net income attributable to ARC per common share, because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's equity incentive plan.

Basic and diluted weighted average common shares outstanding were calculated as follows for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Weighted average common shares outstanding during the period—basic	Weighted average common shares outstanding during the period—basic	42,554	42,283	42,634	42,209

Weighted average common shares outstanding during the period—basic					
Weighted average common shares outstanding during the period—basic					
Effect of dilutive stock awards					
Effect of dilutive stock awards					
Effect of dilutive stock awards	Effect of dilutive stock awards	962	673	990	1,205
Weighted average common shares outstanding during the period—diluted	Weighted average common shares outstanding during the period—diluted	43,516	42,956	43,624	43,414
Weighted average common shares outstanding during the period—diluted					
Weighted average common shares outstanding during the period—diluted					

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, 2023, the Company performed its annual 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.

There can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment analysis in 2023 will prove to be accurate predictions of the future. If the Company's assumptions, including forecasted EBITDA of certain reporting units, are not achieved, or its assumptions regarding disruptions caused by the pandemic, and its impact on the recovery from COVID-19 change, then the Company may be required to record goodwill impairment charges in future periods, whether in connection with the next annual impairment testing in the third quarter of 2023, 2024, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles-Goodwill and Other*) outside of the quarter when the Company regularly performs its annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material. There was no change in the carrying amount of goodwill from January 1, 2022 January 1, 2023 through September 30, 2023 March 31, 2024.

See "Critical Accounting Policies and Significant Judgements and Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 for further information regarding the process and assumptions used in the goodwill impairment analysis.

Long-lived and Other Intangible Assets

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

Factors considered by the Company include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic

trends. When the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, the Company recognizes an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair value of the asset, based on the fair value if available, or discounted cash flows, if fair value is not available. The Company assessed potential impairments of its long-lived assets as of September 30, 2023 and concluded that there was no impairment.

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

The following table sets forth the Company's other intangible assets resulting from business acquisitions as of **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023** which continue to be amortized:

		September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets	Amortizable other intangible assets												
Customer relationships	Customer relationships	\$ 99,055	\$ 99,047	\$ 8	\$ 99,087	\$ 99,073	\$ 14						
	Customer relationships												
	Customer relationships												
Trade names and trademarks	Trade names and trademarks	20,243	20,084	159	20,281	20,087	194						
		<u>\$119,298</u>	<u>\$ 119,131</u>	<u>\$ 167</u>	<u>\$119,368</u>	<u>\$ 119,160</u>	<u>\$ 208</u>						
	<u>\$</u>												

Estimated future amortization expense of other intangible assets for the remainder of the **2023**, **2024** fiscal year, and each of the subsequent four fiscal years and thereafter, are as follows:

2023 (excluding the nine months ended September 30, 2023)	\$	10
2024		38
2024 (excluding the three months ended March 31, 2024)		
2025	2025	34
2026	2026	33
2027	2027	33
Thereafter		19
2028		
	\$	167
	\$	
	\$	
	\$	

4. Income Taxes

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

The Company recorded an income tax provision of \$1.4 million and \$4.3 million \$1.1 million in relation to pretax income of \$4.5 million and \$13.2 million, respectively, \$3.5 million for the three and nine months ended September 30, 2023 March 31, 2024, which resulted in an effective income tax rate of 30.5% and 32.3% 31.5%, respectively, primarily impacted by state taxes, non-deductible compensation, certain stock-based compensation, and other non-deductible expenses, expenses, and U.S. taxes on foreign income. The Company recorded an income tax provision of \$1.6 million and \$4.4 million \$1.2 million in relation to pretax income of \$5.3 million and \$13.1 million, respectively, \$3.0 million for the three and nine months ended September 30, 2022 March 31, 2023, which resulted in an effective income tax rate of 29.9% and 33.5% 38.8%, respectively, primarily impacted by state taxes, non-deductible compensation, certain stock-based compensation and other non-deductible expenses.

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

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

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

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

The Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative income/losses in recent years, as adjusted for permanent differences. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's current estimates, due to unanticipated events, such as the ultimate financial impact of and recovery from the COVID-19 pandemic or otherwise, could have a material effect on its financial condition and results of operations. The Company has a \$2.8 million \$1.4 million valuation allowance against certain deferred tax assets as of September 30, 2023 March 31, 2024.

Based on the Company's current assessment, the remaining net deferred tax assets as of September 30, 2023 March 31, 2024 are considered more likely than not to be realized. The valuation allowance of \$2.8 million \$1.4 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.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2023	December 31, 2022
Revolving Loans; 6.8% and 5.6% interest rate at September 30, 2023 and December 31, 2022	\$ 40,000	\$ 40,000
Various finance leases; weighted average interest rate of 5.4% and 5.1% at September 30, 2023 and December 31, 2022, respectively; principal and interest payable monthly through August 2028	22,226	26,474
	62,226	66,474
Less current portion	(9,346)	(11,558)
	<u>\$ 52,880</u>	<u>\$ 54,916</u>

	March 31, 2024	December 31, 2023

Revolving Loans; 6.8% interest rate at March 31, 2024 and December 31, 2023	\$ 40,000	\$ 40,000
Various finance leases; weighted average interest rate of 5.7% and 5.5% at March 31, 2024 and December 31, 2023, respectively; principal and interest payable monthly through November 2029	20,730	22,236
	60,730	62,236
Less current portion	(8,095)	(8,870)
	\$ 52,635	\$ 53,366

Credit Agreement

On June 15, 2023, the Company entered into an amendment (the "Amendment") to its Credit Agreement dated as of April 22, 2021 (the "2021 Credit Agreement") with U.S. Bank National Association, as administrative agent and the lenders part thereto. The Amendment, among other things, modifies certain terms of the 2021 Credit Agreement to replace the relevant benchmark provisions from the London Interbank Offered Rate to the forward-looking term rate based on the Secured Overnight Financing Rate ("SOFR"). The Amendment also modifies certain terms of the 2021 Credit Agreement relating to the payment of dividends and stock repurchases by the Company and the related component calculations included in the fixed charge coverage ratio that the Company is required to maintain. After giving effect to the Amendment, the Company is permitted to repurchase up to \$10 million of its stock in any twelve-month period and all such permitted stock repurchases will be excluded from the calculation of the fixed charge coverage ratio. In addition, the Company is permitted to make other restricted payments that are not stock repurchases, such as the payment of dividends, of up to \$12 million made during any twelve-month period which will be excluded from the calculation of the fixed charge coverage ratio. The making of stock repurchases and the payment of dividends and other restricted payments is subject, in each case, to pro forma compliance with the financial covenants and other customary conditions set forth in the 2021 Credit Agreement.

The 2021 Credit Agreement provides for the extension of revolving loans in an aggregate principal amount not to exceed \$70 million and replaces the Credit Agreement dated as of November 20, 2014, as amended (the "2014 Credit Agreement"). The obligation under the 2021 Credit Agreement matures on April 22, 2026.

As of **September 30, 2023** **March 31, 2024**, the Company's borrowing availability under the revolving loan commitment was \$27.8 million, after deducting outstanding letters of credit of \$2.2 million and outstanding revolving loans of \$40.0 million.

Loans borrowed under the 2021 Credit Agreement bear interest, in the case of Term SOFR loans (as such terms is defined in the 2021 Credit Agreement), at a per annum rate equal to the applicable Term SOFR (which rate shall not be less than zero), plus a margin ranging from 1.25% to 1.75%, based on the Company's Total Leverage Ratio (as defined in the 2021 Credit Agreement). Loans borrowed under the 2021 Credit Agreement that are not Term SOFR loans bear interest at a per annum rate equal to the Alternate Base Rate (as such terms is defined in the 2021 Credit Agreement) plus a margin ranging from 0.25% to 0.75%, based on the Company's Total Leverage Ratio. As of **September 30, 2023** **March 31, 2024**, one month Term SOFR loans borrowed under the 2021 Credit Agreement accrued interest at 6.8%.

The Company pays certain recurring fees with respect to the 2021 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 2021 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 2021 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; make certain 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 2021 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 2021 Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. ARC was in compliance with its covenants as of **September 30, 2023** **March 31, 2024**.

The 2021 Credit Agreement allows for payment of dividends. In **July 2023**, **February 2024**, the Company's board of directors declared a quarterly cash dividend of \$0.05 per share that is payable on **November 30, 2023** **May 31, 2024** to stockholders of record as of **October 31, 2023** **April 30, 2024**. Accordingly, the Company recorded a dividend payable of \$2.1 million within accrued expenses as of **September 30, 2023** **March 31, 2024**.

The 2021 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 2021 Credit Agreement are guaranteed by the Company and each of the Company's other United States subsidiaries. The 2021 Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the credit facility or any affiliate of such a lender are secured on a first priority basis by a perfected security interest in substantially all of the borrower's, the Company's and each guarantor's assets (subject to certain exceptions).

6. Commitments and Contingencies

Operating Leases. The Company leases machinery, equipment, and office and operational facilities under non-cancelable operating lease agreements used in the ordinary course of business. Certain lease agreements for the Company's facilities generally contain renewal options and provide for annual increases in rent based on the local Consumer Price Index. Refer to Note 7, *Leasing*, on the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** for a schedule of the Company's future minimum operating lease payments.

Legal Proceedings. The Company is involved, and will continue to be involved, in legal proceedings arising out of the conduct of the Company's 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 the Company's assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of **September 30, 2023** **March 31, 2024**, 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 its 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 the Company's results of operations, financial condition, or cash flows.

Environmental Matters. Site Remediation Obligation. As part of a business acquisition in the 1990s, the Company purchased a site located in California where a commercial gas station had operated from 1939 until approximately 1986. Prior to the Company's acquisition, the gas station was demolished and its underground storage tanks were removed.

Environmental monitoring of the property was conducted from 1987 through 2017 under the oversight of the local County's Department of Environmental Health ("CDEH") and it eventually revealed petroleum products in the soil, groundwater, and the air in between soil particles. As a result, a Corrective Action Implementation Plan ("CAIP") detailing remedial clean-up methods at the site was required to be submitted in 2020. Accordingly, the Company recorded a liability on an undiscounted basis of \$0.6 million in 2020, the estimated cost, to remediate the site.

The Company has accrued liabilities for environmental assessment and remediation matters relating 2020 CAIP was approved by the CDEH, but based on additional site data, the department requested a submission of addenda to operations at certain locations the CAIP to address other site conditions. The additional review conducted in the past by predecessor companies fourth quarter of 2023 identified certain potential risks arising out of a structure on a neighboring property. As a result, in December of 2023, the CDEH requested that do not relate an alternative remedial plan be developed and submitted, to ARC's current operations, address the structural aspects of the site. The additional concerns identified in 2023 required that the new plan be designed in a way that is significantly more expensive than the original plan, is more complicated, and will result in a longer duration to remediate the site. The Company has accrued these liabilities because it is in the process of finalizing an alternative plan with the guidance and expertise of an environmental consulting firm engaged expressly for this purpose, which will need to be approved by the CDEH.

The Company's Condensed Consolidated Balance Sheets include a liability on an undiscounted basis for the site remediation of \$4.5 million as of March 31, 2024 and December 31, 2023, of which \$2.2 million is classified as a current liability. As of March 31, 2024, the liability represents the Company's estimate of the probable cleanup, investigation, and remediation costs based on available information. The Company anticipates that a loss or cost most of this liability will be incurred paid out over seven years, but some costs may be paid out over a longer period.

As noted above, the estimate of the final remediation expenses may change over time because of the varying costs of currently available cleanup techniques, unpredictable contaminant reduction rates associated with available cleanup techniques, and the amount difficulty of loss determining in advance the nature and full extent of contamination. However, evolving statutory and regulatory standards, their interpretation, more vigorous enforcement policies of regulatory agencies, or cost stricter or different interpretations of existing statutory and regulatory standards, may require additional expenditures by the Company, which may be material. Accordingly, there can be reasonably estimated. These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, the Company's future expenses relating to these matters could be higher than the liabilities it has accrued. Based upon current information, no assurance that the Company believes that the impact of

the resolution of these matters would will not be, individually or incur significant additional environmental compliance costs in the aggregate, material to its financial position, results of operations or cash flows. future.

7. Stock-Based Compensation

On April 29, 2021, the Company's stockholders approved the Company's 2021 Incentive Plan, replacing the 2014 Stock Incentive Plan, as amended, which is the only equity incentive plan under which the Company can currently grant equity incentive awards. The 2021 Incentive Plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards, to employees, directors and consultants of the Company. On April 26, 2023, the Company's stockholders approved an amendment to the 2021 Incentive Plan ("Amended 2021 Plan") to increase the aggregate number of equity incentive shares authorized for issuance by 5,000,000 shares of common stock. Under the Amended 2021 Plan, the Company is authorized to issue up to 8.5 million shares plus such additional number of shares of common stock (up to 6,132,593 shares) as is equal to the number of shares of common stock subject to awards granted under the 2014 Incentive Plan and the Company's 2005 Stock Plan, which awards expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company pursuant to a contractual repurchase right. As of September 30, 2023 March 31, 2024, 5.1 million 4.0 million shares remained available for issuance under the 2021 Incentive Plan.

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

During the nine three months ended September 30, 2023 March 31, 2024, the Company granted options to acquire a total of 1.1 million 0.8 million shares of the Company's common stock to certain key employees with an exercise price equal to the fair market value of the Company's common stock on the date of grant. These stock options vest annually over three years to four years from the grant date and expire 10 years after the date of grant. During the nine three months ended September 30, 2023 March 31, 2024, the Company granted 0.2 million 0.4 million shares of restricted stock awards to certain key employees with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. These restricted stock awards vest annually over three years from the grant date.

Stock-based compensation expense was \$0.6 million and \$1.6 million \$0.7 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, compared to stock-based compensation expense of \$0.4 million and \$1.3 million \$0.5 million for the three and nine months ended September 30, 2022, respectively, March 31, 2023.

As of September 30, 2023 March 31, 2024, total unrecognized compensation cost related to unvested stock-based payments totaled \$3.2 million \$3.9 million and is expected to be recognized over a weighted-average period of approximately 1.9 2.2 years.

8. Fair Value Measurements

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

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

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

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

As of September 30, 2023 March 31, 2024, the Company's assets and liabilities that are measured at fair value were not material.

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

Cash equivalents: Cash equivalents are time deposits with a maturity of three months or less when purchased, which are highly liquid and readily convertible to cash. Cash equivalents reported in the Company's interim Condensed Consolidated Balance Sheet were \$1.3 million \$1.2 million as of September 30, 2023 March 31, 2024 and \$1.7 million as of December 31, 2022 December 31, 2023 and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Long-term debt: Short- and long-term debt and finance leases: The carrying amount of the Company's finance leases reported in the Condensed Consolidated Balance Sheet as of March 31, 2024 approximates fair value based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount reported in the Company's interim Condensed Consolidated Balance Sheet as of September 30, 2023 March 31, 2024 for borrowings under its 2021 Credit Agreement is \$40.0 million. The Company has determined, utilizing observable market quotes, that the fair value of borrowings under its 2021 Credit Agreement is of \$40.0 million as of September 30, 2023. March 31, 2024 approximates its fair value.

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

The following discussion should be read in conjunction with our interim Condensed Consolidated Financial Statements and the related notes and other financial information appearing elsewhere in this report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024.

Business Summary

ARC Document Solutions Inc. is a digital printing company. We provide digital printing and document-related services to customers in a growing variety of industries. Our primary services and product offering are:

- digital printing of general and specialized business documents such as those found in marketing and advertising, engineering and construction and other industries, as well as producing highly-customized display graphics of all types and sizes;
- acquiring, placing and managing ARC-certified office printing equipment with proprietary device tracking and print management software at our customers' offices and job sites;
- scanning documents, indexing them and adding digital search features for use in digital document management, document archives and facilities management, as well as providing other digital imaging services; and
- reselling digital printing equipment and supplies.

Each of these services frequently include additional logistics services in the form of distributing and delivering finished documents, installing display graphics, or the digital storage of graphic files.

We have categorized our service and product offerings to report distinct sales recognized from:

Digital Printing: We print documents of any size in color and black and white on a variety of materials including plain paper, vinyl, fabric, metal, wood and other three-dimensional substrates. While we can and do print high-page count work such as manuals or catalogs, the documents we typically produce are usually characterized by their high-quality production, low-volume and quick turnaround, and are produced using highly-sophisticated digital printing equipment.

Managed Print Services: We acquire and manage digital printing equipment and place it in our customers' facilities for their use, based on a service level agreement. We lease or own the equipment ourselves, while our customers pay for what they use. Per-use minimum charges are often part of our service agreements. We operate approximately 10,500 10,400 managed print services, or MPS locations, ranging in size from one or two pieces of equipment in a single office, to hundreds of pieces of equipment in offices around the world. We also provide proprietary software to our customers to control their print expenses and connect their remote employees with their offices and ARC print centers nationwide. This software is developed and integrated by ARC.

Scanning and Digital Imaging: We scan hard-copy small format or large format documents in color or black and white, typically providing them to our customers as searchable PDF files. We also use our patented optical character recognition technology to make documents searchable, and we host them on proprietary applications for use as part of our ARC Facilities solutions. The types of documents that we scan include office files, construction plans and other small or large documents. We also process, distribute and print-on-demand images we capture for our customers. Our large, centralized Scanning and Digital Imaging centers are compliant with the Health Insurability Portability and Accountability Act of 1996, or HIPAA, so we can convert documents that include protected health information. Our unique software creates efficient search tags on scanned data for easy search and retrieval. We offer Cloud-based document management software and other digital hosting services to our customers or make files available for our customers to host themselves.

Equipment and Supplies Sales: We sell equipment and supplies to a small segment of our customer base. We also provide ancillary services such as equipment service and maintenance, often as a way to generate recurring revenue in addition to a one-time sale. In addition, we offer certified used equipment available for sale or for use in our MPS offering.

The majority of our products and services are available from each of our service centers. Our primary operational objective is to optimize our business performance by driving as much customer work through our service center network as is practical, and leveraging our production infrastructure, workforce, and production-grade equipment. All our production centers are digitally connected and we operate standard software and systems to support seamless movement of customers digital data and print anywhere within the ARC system.

In addition, we can provide many of our services in our customers' offices. Our geographic presence is concentrated in the U.S., with additional service centers in Canada, the United Arab Emirates (UAE), China, India, and the United Kingdom. Our origin as a company was in California, and the initial expansion of our business was concentrated there. We ~~derive~~ ~~derived~~ approximately ~~30%~~ ~~29%~~ of our total revenue from the products and services delivered in ~~California~~. ~~California during the three months ended March 31, 2024.~~

All of our production facilities are connected via a Software-Defined Wide Area Network (SD-WAN). Our cloud offerings are 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. All of our technology operations are designed to meet ISO 29001 standards for data security, and several of our service centers are HIPAA-compliant allowing us to manage document conversions and other scanning tasks involving protected health information, or PHI.

Costs and Expenses

Our cost of sales consists primarily of materials (paper, toner and other consumables), labor, and "indirect costs." Indirect costs consist primarily of equipment expenses related to our MPS locations (typically our customers' offices and job sites) and our service centers. Facilities and equipment expenses include maintenance, repairs, rents, insurance, and depreciation. Paper is the largest component of our material cost; however, the impact of paper pricing on our operating margins is mitigated, and in some cases eliminated, as ~~we attempt to pass it is often passed~~ on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste, and we maintain low levels of inventory. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

The effects of the 2022 global supply chain disruptions on our business ~~have~~ eased in ~~2023~~. ~~2023 and 2024~~. The supply chain disruptions, for us were primarily confined to price increases. As noted above, price increases are often passed on to our customers. Our labor costs have increased moderately as we sought to retain valuable employees and competed for new hires ~~during~~ in 2023 and in the ~~nine months ended September 30, 2023~~, ~~first quarter of 2024~~. ~~Labor costs have also increased moderately due to the change in our business mix, primarily driven by our need for more employees to support our growing digital color print and scanning business.~~ While these increases had an effect on our results of operations, we believe our cost optimization ~~program~~ ~~initiatives~~ allowed us to mitigate their impact and will allow us to continue to manage them in future periods.

Historically, our capital expenditure requirements have varied based on our need for printing equipment in our MPS locations and service centers. Over the past ~~two~~ ~~several~~ years, the pandemic has reduced the number of employees ~~working~~ in our ~~customers'~~ ~~customers'~~ locations, which has, in turn, reduced ~~our the~~ need for ~~printing~~ equipment. We believe this ~~equipment~~ trend ~~is likely to has~~ become permanent and, as a result, we think the past ~~two~~ ~~three~~ years of capital expenditures are more indicative of our future capital needs than our ~~historical results~~. ~~longer-term history suggests.~~

Because our relationships with credit providers allows us to obtain attractive lease rates, we have historically chosen to lease rather than purchase most of our ~~equipment over the past two years~~. ~~equipment~~. With the rising cost of capital, in 2023 we have ~~decided to adjust~~ ~~adjusted~~ our historical ~~procurement~~ strategy and use more of our available cash to acquire equipment and ~~minimize~~ in order to reduce the impact of interest expense on our ~~results of operations~~. ~~operating results.~~

Research and development costs consist mainly of the salaries, leased building space, and computer equipment related to 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 COVID-19 pandemic adversely impacted our financial performance ~~during from~~ 2020 to 2022, but we expect that its acute impact is ~~mostly~~ behind us. We believe, however, that the reduced ~~in~~ office presence of employees brought on by the COVID-19 pandemic ~~will be are~~ permanent. As a result, our MPS business has been and remains under pressure as most employers have left work-from-home policies in ~~place~~. We expect that ~~remote work place~~ and ~~hybrid work arrangements~~ will remain the norm for many of our customers for the remainder of 2023. ~~We less equipment is needed to support them in typical office spaces. By contrast, we~~ believe work-from-home and hybrid work practices benefit our scanning business ~~as because~~ employees need access to documents, regardless of where they are working, and document scanning is the first step in making them accessible in the cloud.

~~Uncertainty around the potential disruption to our business related to the COVID-19 pandemic and its effect on the U.S. economy and our clients' ongoing business operations has largely been mitigated, but we remain watchful and prepared to alter our business operations to protect employees and customers. The following discussions are subject to the future effects of the COVID-19 pandemic on our ongoing business operations.~~

Results of Operations

		Three Months Ended September 30,				Increase (decrease)				Nine Months Ended September 30,				Increase (decrease)			
(In millions, except percentages)	(In millions, except percentages)	2023 ⁽¹⁾	2022 ⁽¹⁾	\$	%					2023 ⁽¹⁾	2022 ⁽¹⁾	\$	%				
(In millions, except percentages)																	
(In millions, except percentages)																	
Digital Printing	Digital Printing																
Digital Printing	Digital Printing																
Digital Printing	Digital Printing	\$ 43.5	\$ 44.7	\$ (1.1)	(2.5) %			\$ 129.1	\$ 132.8	\$ (3.6)	(2.7) %						
MPS	MPS	18.6	19.4	(0.8)	(4.3) %			56.6	57.3	(0.8)	(1.3) %						
MPS																	
MPS																	
Scanning and Digital Imaging	Scanning and Digital Imaging																
Scanning and Digital Imaging	Scanning and Digital Imaging																
Scanning and Digital Imaging	Scanning and Digital Imaging	5.0	4.8	0.2	4.4 %			14.8	13.3	1.6	11.9 %						
Equipment and Supplies sales	Equipment and Supplies sales	3.9	4.3	(0.3)	(8.0) %			11.8	13.8	(2.0)	(14.8) %						
Equipment and Supplies sales																	
Equipment and Supplies sales																	
Total net sales	Total net sales																
Total net sales	Total net sales	\$ 71.1	\$ 73.1	\$ (2.1)	(2.8) %			\$ 212.3	\$ 217.2	\$ (4.9)	(2.2) %						
Gross profit	Gross profit	\$ 24.1	\$ 24.8	\$ (0.7)	(2.7) %			\$ 72.3	\$ 72.8	\$ (0.6)	(0.8) %						
Gross profit																	
Gross profit																	
Selling, general and administrative expenses	Selling, general and administrative expenses	\$ 19.3	\$ 19.1	\$ 0.2	1.0 %			\$ 57.8	\$ 58.4	\$ (0.6)	(1.0) %						
Selling, general and administrative expenses																	
Selling, general and administrative expenses																	
Amortization of intangible assets	Amortization of intangible assets																
Amortization of intangible assets	Amortization of intangible assets																
Amortization of intangible assets	Amortization of intangible assets	\$ —	\$ —	\$ —	(41.2) %			\$ —	\$ 0.1	\$ (0.1)	(64.4) %						
Interest expense, net	Interest expense, net	\$ 0.4	\$ 0.5	\$ (0.1)	(12.6) %			\$ 1.3	\$ 1.3	\$ —	(2.3) %						

Interest expense, net															
Interest expense, net															
Income tax provision															
Income tax provision															
Income tax provision	Income tax provision	\$	1.4	\$	1.6	\$	(0.2)	(13.3) %	\$	4.3	\$	4.4	\$	(0.1)	(2.6) %
Net income attributable to ARC	Net income attributable to ARC	\$	3.2	\$	3.7	\$	(0.6)	(15.3) %	\$	9.1	\$	9.0	\$	0.2	1.7 %
Net income attributable to ARC															
Net income attributable to ARC															
Non-GAAP ⁽²⁾															
Non-GAAP ⁽²⁾															
Non-GAAP ⁽²⁾	Non-GAAP ⁽²⁾														
Adjusted net income attributable to ARC ⁽²⁾	Adjusted net income attributable to ARC ⁽²⁾	\$	3.2	\$	3.7	\$	(0.5)	(13.9) %	\$	9.4	\$	9.4	\$	—	0.4 %
Adjusted net income attributable to ARC ⁽²⁾															
Adjusted net income attributable to ARC ⁽²⁾															
EBITDA ⁽²⁾															
EBITDA ⁽²⁾															
EBITDA ⁽²⁾	EBITDA ⁽²⁾	\$	9.4	\$	10.8	\$	(1.3)	(12.3) %	\$	28.2	\$	30.3	\$	(2.1)	(6.8) %
Adjusted EBITDA ⁽²⁾	Adjusted EBITDA ⁽²⁾	\$	10.0	\$	11.2	\$	(1.2)	(10.4) %	\$	29.8	\$	31.6	\$	(1.8)	(5.6) %
Adjusted EBITDA ⁽²⁾															
Adjusted EBITDA ⁽²⁾															

1. Column does not foot due to rounding.

2. See "Non-GAAP Financial Measures" following "Results of Operations" for definitions, reconciliations and 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				As Percentage of Net Sales				
	Three Months Ended September 30,				Nine Months Ended September 30,				
	2023		2022 ⁽¹⁾		2023		2022 ⁽¹⁾		
	Three Months Ended March 31,								
	Three Months Ended March 31,								
	Three Months Ended March 31,								
Net sales									
Net sales									
Net sales	Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	Cost of sales	66.0		66.1		66.0		66.5	
Cost of sales									
Cost of sales									
Gross profit									

Gross profit							
Gross profit	Gross profit	34.0		33.9		34.0	33.5
Selling, general and administrative expenses	Selling, general and administrative expenses	27.1		26.1		27.2	26.9
Selling, general and administrative expenses							
Selling, general and administrative expenses							
Amortization of intangible assets							
Amortization of intangible assets							
Amortization of intangible assets	Amortization of intangible assets	—		—		—	—
Income from operations	Income from operations	6.9		7.8		6.8	6.6
Income from operations							
Income from operations							
Interest expense, net							
Interest expense, net							
Interest expense, net	Interest expense, net	0.6		0.6		0.6	0.6
Income before income tax provision	Income before income tax provision	6.3		7.2		6.2	6.0
Income before income tax provision							
Income before income tax provision							
Income tax provision							
Income tax provision							
Income tax provision	Income tax provision	1.9		2.2		2.0	2.0
Net income	Net income	4.4		5.1		4.2	4.0
Net income							
Net income							
Loss attributable to the noncontrolling interest							
Loss attributable to the noncontrolling interest							
Loss attributable to the noncontrolling interest	Loss attributable to the noncontrolling interest	0.1		—		0.1	0.1
Net income attributable to ARC	Net income attributable to ARC	4.5	%	5.1	%	4.3	4.1
Net income attributable to ARC							
Net income attributable to ARC							
Non-GAAP ⁽²⁾							
Non-GAAP ⁽²⁾							
Non-GAAP ⁽²⁾	Non-GAAP ⁽²⁾						

EBITDA (2)	EBITDA (2)	13.3	%	14.7	%	13.3	%	13.9	%
EBITDA (2)									
EBITDA (2)									
Adjusted EBITDA (2)	Adjusted EBITDA (2)	14.1	%	15.3	%	14.1	%	14.6	%
Adjusted EBITDA (2)									
Adjusted EBITDA (2)									

(1) Column does not foot due to rounding.

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

Three and Nine Months Ended September 30, 2023 March 31, 2024 Compared to Three and Nine Months Ended September 30, 2022 March 31, 2023

Net Sales

Net sales for the three and nine months ended September 30, 2023 March 31, 2024, decreased 2.8% and 2.2% increased 2.7%, respectively, compared to the same period in 2022, 2023. The decrease increase in net sales for the three and nine months ended September 30, 2023 March 31, 2024 compared to the same period in 2022 2023 was primarily driven by a the year-over-year drop growth of sales in our Digital Printing and Equipment & Supplies sales, partially offset by the year-over-year increase in sales from Scanning and Digital Imaging services. It should also be noted that sales Growth for the three period was partially offset by small declines in sales of our other products and nine months ended September 30, 2023 had one less business day as compared to the same periods in 2022. services.

Digital Printing. Year-over-year sales of Digital Printing services decreased \$1.1 million increased \$1.3 million, or 2.5% 3.3%, for the three months ended September 30, 2023 March 31, 2024. Year-over-year sales of Digital Printing services decreased \$3.6 million, or 2.7%, for the nine months ended September 30, 2023. Year-over-year sales increased saw healthy increases in digital color graphic printing from new and existing customers and we experienced continuing demand for digital color graphic printing across most of our customer base. customers. This growth was offset by the a small decrease in digital plan printing sales which we continue to attribute to less activity and lower spending on new construction projects due to high interest rates and the increased subsequent higher costs of capital compared to over the prior year period. past year. Digital Printing services represented 61% 60% of total net sales for the three and nine months ended September 30, 2023 March 31, 2024, and for the three and nine months ended September 30, 2022 March 31, 2023.

MPS. Year-over-year sales of MPS services for the three months ended September 30, 2023 March 31, 2024, decreased \$0.8 million \$0.4 million, or 4.3%. Year-over-year sales of MPS services for the nine months ended September 30, 2023 also decreased \$0.8 million, or 1.3% 2.3%. MPS sales have remained in a narrow band between \$18 million to \$19 million per quarter for the past more than two years. Fewer years, strongly implying fewer employees returning to in the workplace after the pandemic has generally constrained will continue to constrain onsite print volumes. We expect MPS sales volumes relative to fluctuate for the balance of the year. historical averages.

MPS sales represented approximately 26% and 27%, respectively, of total net sales for the three and nine months ended September 30, 2023 March 31, 2024, compared to 27% and 26% 28% for the three and nine months ended September 30, 2022, respectively. March 31, 2023.

The number of MPS locations we serve declined slightly to approximately 10,500 10,400 as of September 30, 2023 March 31, 2024, representing a net decrease of approximately 300 locations compared to September 30, 2022 March 31, 2023.

Scanning and Digital Imaging. Year-over-year sales of Scanning and Digital Imaging services increased \$0.2 million \$1.1 million, or 4.4% and \$1.6 million, or 11.9% 23.4% for the three and nine months ended September 30, 2023, respectively. March 31, 2024. The increase in sales of our Scanning and Digital Imaging services was primarily attributable continues to be driven by growing demand for paper-to-digital document conversions used in day-to-day business operations, and the creation of digital archives to replace long-term warehoused paper document storage. We are expanding have expanded operational capacity in this service line over the past year, and we continue to drive an expansion employ aggressive marketing programs to raise awareness, as this, too, has proven to help grow sales of our addressable market for Scanning and Digital Imaging services with increased marketing activity, as well as by targeting this service. Targeting building owners and facility managers that who require on-demand access to their legacy documents to operate their assets efficiently. efficiently continues to be a key audience and plays to our strengths in the broader construction industry. We believe that with the expansion of the markets and industries we serve and the desire of our existing customers to have digital access to documents, our Scanning and Digital Imaging services will continue to grow in the future.

Equipment and Supplies Sales. Year-over-year sales of Equipment and Supplies decreased \$0.3 million \$0.1 million, or 8.0% 3.0%, for the three months ended September 30, 2023 and decreased \$2.0 million, or 14.8%, for the nine months ended September 30, 2023 March 31, 2024. Equipment and Supplies sales continue to decline primarily in the U.S. as well as in , while sales from our China operations. Chinese joint venture rose slightly. We attribute the decrease in U.S. sales to the increased desire of our domestic customers to reduce capital spending due to the increasing interest rates which reduced our customers' willingness to invest in equipment expenditures. of the past couple of years.

Gross Profit

During the three months ended September 30, 2023 March 31, 2024, gross profit was \$24.1 million and gross margin were \$22.8 million, or 34.0% 32.2%, respectively, compared to \$24.8 million \$22.9 million, or 33.9% and 33.3% during the three months ended September 30, 2022 March 31, 2023. Despite a sales decrease of \$2.1 million in the third quarter of 2023 gross profit only decreased by \$0.7 million and represents a 10 The 110 basis points increase in gross margin. The increase decrease in gross margin was driven primarily by improved efficiency increases in our cost structure labor and a reduction in depreciation expense of \$0.5 million.

During the nine months ended September 30, 2023, gross profit was \$72.3 million, or 34.0%, compared to \$72.8 million, or 33.5% during the nine months ended September 30, 2022. The 50 basis point improvement in gross margin was material costs due to driving more work through inflation pressures and increased hiring as we increased and adjusted capacity for our service centers which allowed us to leverage our facilities digital color graphic printing services and equipment, cross-trained workforce, Scanning and production-grade equipment, and Digital Imaging Services. The increase in labor cost was also enhanced by production efficiencies we achieved during the period. Improvements in gross margin were partially offset by increased labor expenses attributable to wage inflation pressures experienced during the past nine months.

decrease in depreciation of \$0.6 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of \$19.3 million \$19.1 million for the three months ended September 30, 2023 March 31, 2024, were relatively flat decreased by \$0.4 million or 2.1% as compared to the three months ended September 30, 2022. Selling, general and administrative expenses were \$57.8 million for the nine months ended September 30, 2023, a decrease of \$0.6 million, or 1.0%, compared to the nine months ended September 30, 2022 March 31, 2023. The decrease in selling, general and administrative expenses during the nine months ended September 30, 2023 were is primarily driven by due to lower commission and bonus accruals due to and consulting fees, partially offset by the decline increase in net sales and marketing initiatives that are helping drive the growth within digital color graphic printing and Scanning and Digital Imaging Service sales.

Amortization of Intangibles

Amortization of intangibles decreased to less than \$0.1 million for the three and nine months ended September 30, 2023 March 31, 2024, due to the completion of amortization for certain customer relationship intangibles related to historical acquisitions.

Interest Expense, Net

Net interest expense of \$0.4 million and \$1.3 million \$0.3 million for the three and nine months ended September 30, 2023 March 31, 2024, respectively, remained relatively flat declined \$0.1 million compared to the same period in 2022. The increase in interest rates during the nine months ended September 30, 2023 were offset by 2023 due to the continued pay-down of our long-term debt. debt, partially offset by the increase in interest rates under certain of our finance leases. Our 2021 Credit Agreement (as defined below) features a flexible payment schedule which allows us to pay down or draw on it at any time. As such, we intend to use available cash throughout the year to reduce the revolving loan and manage our quarterly interest expense.

Income Taxes

We recorded an income tax provision of \$1.4 million \$1.1 million in relation to pretax income of \$4.5 million \$3.5 million for the three months ended September 30, 2023. We recorded an income tax provision of \$4.3 million in relation to pretax income of \$13.2 million for the nine months ended September 30, 2023 March 31, 2024. This resulted in an effective income tax rate for the three and nine months ended September 30, 2023 March 31, 2024, of 30.5% and 32.3%, respectively. 31.5%.

Our effective income tax rate for the three and nine months ended September 30, 2023 March 31, 2024, was primarily affected by state taxes, non-deductible compensation, certain stock-based compensation, and other non-deductible expenses. expenses and U.S. taxes on foreign income. Excluding the impact of certain stock-based compensation, an increase in certain valuation allowances, and other discrete items and U.S. taxes on foreign income, our effective income tax rate for the consolidated company would have been 29.9% and 29.9%, respectively, 27.8% and our effective income tax rate attributable to ARC Document Solutions, Inc. would have been 29.4% and 29.6% 27.7% for the three and nine months ended September 30, 2023 March 31, 2024.

By comparison, we recorded an income tax provision of \$1.6 million \$1.2 million in relation to pretax income of \$5.3 million \$3.0 million for the three months ended September 30, 2022. We recorded an income tax provision of \$4.4 million in relation to pretax income of \$13.1 million for the nine months ended September 30, 2022 March 31, 2023. This resulted in an effective income tax rate for the three and nine months ended September 30, 2022 March 31, 2023, of 29.9% and 33.5%, respectively. 38.8%.

Our effective income tax rate for the three and nine months ended September 30, 2022 March 31, 2023, was primarily impacted by state taxes, non-deductible compensation, certain stock-based compensation and other non-deductible expenses. Excluding the impact of certain stock-based compensation, our effective income tax rate for the consolidated company would have been 30.4% and 30.0%, respectively, and our effective income tax rate attributable to ARC Document Solutions, Inc. would have been 30.2% and 29.7%, respectively, 29.9% for the three and nine months ended September 30, 2022 March 31, 2023.

We have a \$2.8 million \$1.4 million valuation allowance against certain deferred tax assets as of September 30, 2023 March 31, 2024.

Noncontrolling Interest

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

Net Income Attributable to ARC

Net income attributable to ARC was \$3.2 million \$2.5 million during the three months ended September 30, 2023 March 31, 2024, as compared to \$3.7 million \$1.9 million for the three months ended September 30, 2022 March 31, 2023. The decrease/increase was driven primarily by lower sales which resulted in lower gross profit.

Net income attributable to ARC was \$9.1 million during the nine months ended September 30, 2023, as compared to \$9.0 million during the nine months ended September 30, 2022. The increase in net income attributable to ARC was primarily driven by the reduction in selling, general and administrative expenses and interest expense, during the nine months ended September 30, 2023, as noted/described above.

EBITDA

EBITDA margin and Adjusted EBITDA margin is not a recognized measure under GAAP. When analyzing our operating performance, investors should use EBITDA margin and Adjusted EBITDA in addition to, and not as an alternative for, operating income or any other performance measure presented in accordance with GAAP. It is a measure we use to measure our performance and liquidity. We believe EBITDA margin and Adjusted EBITDA reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our business. We believe the measure is used by investors and is a useful indicator to measure our performance. Because not all companies use identical calculations, our presentation of EBITDA margin and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. See Non-GAAP Financial Measures below for additional discussion.

EBITDA margin was 13.3% 11.2% for the three months ended September 30, 2023 March 31, 2024, compared to 14.7% 11.9% for the same period in 2022. 2023. Excluding the effect of stock-based compensation, Adjusted EBITDA margin was 14.1% 12.1% during the three months ended September 30, 2023 March 31, 2024, as compared to 15.3% 12.6% for the same period in 2022. The decrease was primarily driven by 2023. Despite the reduction/increase in selling, general and administrative expenses mentioned above, partially offset by revenue in the decline in sales and gross profit.

EBITDA margin was 13.3% for the nine months ended September 30, 2023, down slightly from 13.9% for first quarter of 2024 as compared to the same period in 2022. Excluding the effect of stock-based compensation, adjusted 2023, EBITDA margin was 14.1% during slightly decreased due to the nine months ended September 30, 2023, decrease in gross margin, as compared to 14.6% for the same period in 2022. The decrease for the nine months ended September 30, 2023 is largely attributable to lower sales. described above.

Impact of Inflation

Rising costs for raw materials, such as paper, inks and fuel charges toners and increase in labor are largely partly being passed on to customers via price increases during the ordinary course of business. These price increases have moderated business, moderating the impact of inflation on our financial results in 2023. results. As these inflationary pressures continue, however, the increased cost of labor, materials and other indirect costs require close and active management to avoid material impacts to our cost structure.

Non-GAAP Financial Measures

EBITDA, EBITDA margin, Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income and adjusted earnings per share 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, net income margin, diluted earnings per share 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. We have presented these measures 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.

EBITDA represents net income before interest, taxes, depreciation and amortization. We calculate EBITDA margin by dividing EBITDA by net sales.

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

EBITDA and EBITDA margin 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 EBITDA margin only as supplements.

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

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC stockholders for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 to reflect the exclusion of changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. We believe this presentation helps facilitate our investors understanding of our results of operations and allows them to make meaningful comparisons of our operating results for the three and nine months ended September 30, 2023 March 31, 2024 against the corresponding periods in 2022, 2023. We believe these changes were the result of items which are not indicative of our actual operating performance.

We have presented Adjusted EBITDA for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 to exclude stock-based compensation expense. We calculate Adjusted EBITDA margin by dividing Adjusted EBITDA by net sales. The adjustment to exclude stock-based compensation expense from EBITDA is consistent with the definition of Adjusted EBITDA in our 2021 Credit Agreement; therefore, we believe this information is useful to investors in assessing our financial performance and ability to access our 2021 Credit Facility.

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

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
(In thousands)	(In thousands)	2023	2022	2023	2022
(In thousands)					
(In thousands)					
Cash flows provided by operating activities					
Cash flows provided by operating activities					
Cash flows provided by operating activities	Cash flows provided by operating activities	\$ 8,704	\$ 14,869	\$ 22,857	\$ 26,398

Changes in operating assets and liabilities	Changes in operating assets and liabilities	610	(4,056)	5,028	3,623
Changes in operating assets and liabilities	Changes in operating assets and liabilities				
Non-cash expenses, including depreciation and amortization	Non-cash expenses, including depreciation and amortization				
Non-cash expenses, including depreciation and amortization	Non-cash expenses, including depreciation and amortization				
Non-cash expenses, including depreciation and amortization	Non-cash expenses, including depreciation and amortization	(6,193)	(7,107)	(18,950)	(21,333)
Income tax provision	Income tax provision	1,368	1,577	4,262	4,376
Income tax provision	Income tax provision				
Interest expense, net	Interest expense, net				
Interest expense, net	Interest expense, net				
Interest expense, net	Interest expense, net	397	454	1,300	1,330
Loss attributable to the noncontrolling interest	Loss attributable to the noncontrolling interest	44	31	188	283
Loss attributable to the noncontrolling interest	Loss attributable to the noncontrolling interest				
Loss attributable to the noncontrolling interest	Loss attributable to the noncontrolling interest				
Depreciation and amortization	Depreciation and amortization	4,498	4,982	13,534	15,599
Depreciation and amortization	Depreciation and amortization				
Depreciation and amortization	Depreciation and amortization				
EBITDA	EBITDA				
EBITDA	EBITDA				
EBITDA	EBITDA	\$ 9,428	\$ 10,750	\$ 28,219	\$ 30,276

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	(In thousands)	2023	2022	2023	2022
(In thousands)	(In thousands)				
(In thousands)	(In thousands)				
Net income attributable to ARC Document Solutions, Inc.	Net income attributable to ARC Document Solutions, Inc.				
Net income attributable to ARC Document Solutions, Inc.	Net income attributable to ARC Document Solutions, Inc.				

Net income attributable to ARC Document Solutions, Inc.	Net income attributable to ARC Document Solutions, Inc.	\$	3,165	\$	3,737	\$	9,123	\$	8,971
Interest expense, net	Interest expense, net		397		454		1,300		1,330
Interest expense, net	Interest expense, net								
Income tax provision	Income tax provision								
Income tax provision	Income tax provision								
Income tax provision	Income tax provision		1,368		1,577		4,262		4,376
Depreciation and amortization	Depreciation and amortization		4,498		4,982		13,534		15,599
Depreciation and amortization	Depreciation and amortization								
Depreciation and amortization	Depreciation and amortization								
EBITDA	EBITDA								
EBITDA	EBITDA								
EBITDA	EBITDA		9,428		10,750		28,219		30,276
Stock-based compensation	Stock-based compensation		599		441		1,622		1,331
Stock-based compensation	Stock-based compensation								
Stock-based compensation	Stock-based compensation								
Adjusted EBITDA	Adjusted EBITDA	\$	10,027	\$	11,191	\$	29,841	\$	31,607
Adjusted EBITDA	Adjusted EBITDA								
Adjusted EBITDA	Adjusted EBITDA								

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

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2023	2022 ⁽¹⁾	2023 ⁽¹⁾	2022 ⁽¹⁾
		2024 ⁽¹⁾			
		2024 ⁽¹⁾			
		2024 ⁽¹⁾			
Net income margin attributable to ARC Document Solutions, Inc.	Net income margin attributable to ARC Document Solutions, Inc.				
Net income margin attributable to ARC Document Solutions, Inc.	Net income margin attributable to ARC Document Solutions, Inc.				
Net income margin attributable to ARC Document Solutions, Inc.	Net income margin attributable to ARC Document Solutions, Inc.	4.5	5.1	4.3	4.1
Interest expense, net	Interest expense, net	0.6	0.6	0.6	0.6
Interest expense, net	Interest expense, net				
Interest expense, net	Interest expense, net				

Income tax provision					
Income tax provision					
Income tax provision	Income tax provision	1.9	2.2	2.0	2.0
Depreciation and amortization	Depreciation and amortization	6.3	6.8	6.4	7.2
Depreciation and amortization					
Depreciation and amortization					
EBITDA margin					
EBITDA margin					
EBITDA margin	EBITDA margin	13.3	14.7	13.3	13.9
Stock-based compensation	Stock-based compensation	0.8	0.6	0.8	0.6
Stock-based compensation					
Stock-based compensation					
Adjusted EBITDA margin	Adjusted EBITDA margin	14.1 %	15.3 %	14.1 %	14.6 %
Adjusted EBITDA margin					
Adjusted EBITDA margin					

(1) Column does not foot due to rounding.

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

	Three Months Ended				Nine Months Ended	
	September 30,		September 30,		September 30,	
(In thousands, except per share amounts)	(In thousands, except per share amounts)	2023	2022	2023	2022	2022
(In thousands, except per share amounts)						
(In thousands, except per share amounts)						
Net income attributable to ARC Document Solutions, Inc.						
Net income attributable to ARC Document Solutions, Inc.						
Net income attributable to ARC Document Solutions, Inc.	Net income attributable to ARC Document Solutions, Inc.	\$ 3,165	\$ 3,737	\$ 9,123	\$ 8,971	
Deferred tax valuation allowance and other discrete tax items	Deferred tax valuation allowance and other discrete tax items	30	(28)	297	410	
Deferred tax valuation allowance and other discrete tax items						
Deferred tax valuation allowance and other discrete tax items						
Adjusted net income attributable to ARC Document Solutions, Inc.						

Adjusted net income attributable to ARC Document Solutions, Inc.					
Adjusted net income attributable to ARC Document Solutions, Inc.	Adjusted net income attributable to ARC Document Solutions, Inc.	\$	3,195	\$	3,709
Actual:	Actual:	\$	9,420	\$	9,381
Actual:					
Actual:					
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:					
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:					
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:	Earnings per share attributable to ARC Document Solutions, Inc. stockholders:				
Basic	Basic	\$	0.07	\$	0.09
Basic					
Basic					
Diluted					
Diluted					
Diluted	Diluted	\$	0.07	\$	0.09
Weighted average common shares outstanding:	Weighted average common shares outstanding:				
Weighted average common shares outstanding:					
Weighted average common shares outstanding:					
Basic					
Basic					
Basic	Basic	42,554	42,283	42,634	42,209
Diluted	Diluted	43,516	42,956	43,624	43,414
Diluted					
Diluted					
Adjusted:					
Adjusted:					
Adjusted:	Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:	Earnings per share attributable to ARC Document Solutions, Inc. stockholders:				
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:					
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:					

Basic					
Basic					
Basic	Basic	\$	0.08	\$	0.09
				\$	0.22
				\$	0.22
Diluted	Diluted	\$	0.07	\$	0.09
				\$	0.22
				\$	0.22
Diluted					
Diluted					
Weighted average common shares					
outstanding:					
Weighted average common shares					
outstanding:					
Weighted average common shares outstanding:	Weighted average common shares outstanding:				
Basic	Basic		42,554	42,283	42,634
					42,209
Basic					
Basic					
Diluted	Diluted		43,516	42,956	43,624
					43,414
Diluted					
Diluted					

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, dividends, and stock repurchases.

Total cash and cash equivalents as of **September 30, 2023** **March 31, 2024** was **\$50.6 million** **\$52.0 million**. Of this amount, **\$4.5 million** **\$5.5 million** was held in foreign countries, with **\$2.0 million** **\$2.4 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, our ability to access our cash and cash equivalents held outside of the U.S. may be limited and our financial flexibility may be reduced.

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

		Nine Months Ended	
		September 30,	
(In thousands)	(In thousands)	2023	2022
(In thousands)			
(In thousands)			
Net cash provided by operating activities			
Net cash provided by operating activities			
Net cash provided by operating activities	Net cash provided by operating activities	\$ 22,857	\$ 26,398
Net cash used in investing activities	Net cash used in investing activities	\$ (7,461)	\$ (4,074)
Net cash used in investing activities			
Net cash used in investing activities			

Net cash used in financing activities	Net cash used in financing activities	\$	(17,206)	\$	(26,494)
Net cash used in financing activities					
Net cash used in financing activities					

Operating Activities

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

The slight decrease in cash flows from operations during the nine three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023, was primarily due to timing of payables and overall decrease receivable collections as a result of an increase in sales. Closely managing our cash collections resulted in days sales outstanding, or DSO, improving to 48 days as of March 31, 2024, compared to 51 days as of September 30, 2023, which was the same as of September 30, 2022 March 31, 2023.

DSO is calculated by taking the respective years September 30, March 31, accounts receivable balance divided by the net sales for the quarter multiplied by the number of total days in a quarter. Other companies, including companies in our industry, may calculate DSO differently than we do, limiting its usefulness as a comparative measure.

We have presented DSO because we consider it to be an important indicator of the efficiency of our business and the quality of our cash flows. We believe investors may also find this metric meaningful given the importance of cash flows from operations and management's ability to efficiently manage our working capital.

We use DSO to measure and compare the cash management performance of our operating divisions.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling \$7.7 million \$3.1 million and \$4.3 million \$2.3 million for the nine three months ended September 30, 2023 March 31, 2024, and 2022, March 31, 2023, respectively. The year-over-year increase in capital expenditures is driven primarily by our decision to enter into fewer leases and acquire more equipment outright in 2023 2024 due to increasing interest rates. The overall amount of equipment we have acquired has, however, remained consistent with prior year. year, when you combine cash expenditures with new leases incurred for the period.

Financing Activities

Net cash of \$17.2 million \$4.7 million used in financing activities during the nine three months ended September 30, 2023 March 31, 2024, primarily relates to payments on our finance leases dividends, and share repurchases, partially offset by proceeds from stock option exercises. dividends.

Our cash position, working capital, and debt obligations as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are shown below and should be read in conjunction with our interim Condensed Consolidated Balance Sheets and related notes contained elsewhere in this report.

(In thousands)	(In thousands)	September 30, 2023	December 31, 2022	(In thousands)	March 31, 2024	December 31, 2023
Cash and cash equivalents	Cash and cash equivalents	\$50,586	\$52,561			
Working capital	Working capital	\$40,008	\$34,906			
Borrowings from revolving credit facility	Borrowings from revolving credit facility	\$40,000	\$40,000			
Borrowings from revolving credit facility	Borrowings from revolving credit facility					
Other debt obligations	Other debt obligations	22,226	26,474			

Total debt obligations	Total debt obligations	\$62,226	\$66,474
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The increase of \$5.1 million \$0.9 million in working capital was primarily driven by the increase in accounts receivable and inventory of \$1.7 million \$2.1 million and \$0.5 million, respectively and a decrease in the current portion of our finance lease liability and accrued payroll and accrued expenses, partially offset by the decrease in cash. To manage our working capital, we chiefly focus on our DSO and monitor the aging of our accounts receivable, as receivables are the most significant element of our working capital.

We believe that our current cash and cash equivalents balance of \$50.6 million \$52.0 million, the availability under our 2021 Credit Agreement, the availability under our equipment lease lines, and cash flows provided by operations should be adequate to cover the next twelve months and beyond 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 2021 Credit Agreement.

A significant portion of our revenue across all of our product and services is generated from customers in 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 pandemics and other global health crises like the COVID-19 pandemic. 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. The financial constraints as they relate to the recent rising interest rates have had an impact on digital plan printing and Equipment and Supplies sales as noted above, however cash collections have remained consistent to prior periods.

We have not been actively seeking growth through acquisition since 2009, and while but will consider acquisitions that we remain opportunistic with regard feel add value to acquisition opportunities, we don't intend to pursue them in the near future. overall company.

Debt Obligations

Credit Agreement

On June 15, 2023, we entered into an amendment (the "Amendment") to its Credit Agreement dated as of April 22, 2021 (the "2021 Credit Agreement") with U.S. Bank National Association, as administrative agent and the lenders part thereto. The Amendment, among other things, modifies certain terms of the 2021 Credit Agreement to replace the relevant benchmark provisions from the London Interbank Offered Rate to the forward-looking term rate based on the Secured Overnight Financing Rate ("SOFR"). The Amendment also modifies certain terms of the 2021 Credit Agreement relating to the payment of dividends and stock repurchases made by us and the related component calculations included in the fixed charge coverage ratio that we are required to maintain. After giving effect to the Amendment, we are permitted to repurchase up to \$10 million of its stock in any twelve-month period and all such permitted stock repurchases will be excluded from the calculation of the fixed charge coverage ratio. In addition, we are permitted to make other restricted payments that are not stock repurchases, such as the payment of dividends, of up to \$12 million during any twelve-month period which will be excluded from the calculation of the fixed charge coverage ratio. The making of stock repurchases and the payment of dividends and other restricted payments is subject, in each case, to pro forma compliance with the financial covenants and other customary conditions set forth in the 2021 Credit Agreement.

The 2021 Credit Agreement provides for the extension of revolving loans in an aggregate principal amount not to exceed \$70 million and replaces the Credit Agreement dated as of November 20, 2014, as amended (the "2014 Credit Agreement"). The obligation under the 2021 Credit Agreement matures on April 22, 2026.

As of September 30, 2023 March 31, 2024, our borrowing availability under the revolving loan commitment was \$27.8 million, after deducting outstanding letters of credit of \$2.2 million and outstanding revolving loans of \$40.0 million.

Loans borrowed under the 2021 Credit Agreement bear interest, in the case of Term SOFR loans (as defined in the 2021 Credit Agreement), at a per annum rate equal to the applicable Term SOFR (which rate shall not be less than zero), plus a margin ranging from 1.25% to 1.75%, based on our Total Leverage Ratio (as defined in the 2021 Credit Agreement). Loans borrowed under the 2021 Credit Agreement that are not Term SOFR loans bear interest at a per annum rate equal to the Alternate Base Rate (as such terms is defined in the 2021 Credit Agreement) plus a margin ranging from 0.25% to 0.75%, based on our Total Leverage Ratio. As of September 30, 2023 March 31, 2024, one month Term SOFR loans borrowed under the 2021 Credit Agreement accrued interest at 6.8%. We pay certain recurring fees with respect to the 2021 Credit Agreement, including administration fees to the administrative agent.

Subject to certain exceptions, including, in certain circumstances, reinvestment rights, the loans extended under the 2021 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 2021 Credit Agreement); the net proceeds from certain issuances of equity securities; and net proceeds of certain insurance recoveries and condemnation events.

The 2021 Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) we and our subsidiaries: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; make certain distributions or repurchase our equity securities or those of our 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 2021 Credit Agreement contains financial covenants which requires we 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 2021 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 under the 2021 Credit Agreement as of September 30, 2023 March 31, 2024.

The 2021 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 2021 Credit Agreement are guaranteed by us and each of our other United States domestic subsidiaries. The 2021 Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the credit facility or any affiliate of such a lender are secured on a first priority basis by a perfected security interest in substantially all of our and each guarantor's assets (subject to certain exceptions).

Finance Leases

As of September 30, 2023 March 31, 2024, we had \$22.2 million \$20.7 million of finance lease obligations outstanding, with a weighted average interest rate of 5.4% 5.7% and maturities between 2023 2024 and 2028, 2029. Refer to Note 7, *Leasing*, as previously disclosed on our Annual Report on Form 10-K for the fiscal year ended for December 31, 2022 December 31, 2023, for the schedule on maturities of finance lease liabilities, as there have been no material changes to report as of September 30, 2023 March 31, 2024.

Contractual Obligations and Other Commitments

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business. Refer to Note 7, *Leasing*, as previously disclosed on our Annual Report on Form 10-K for the fiscal year ended for December 31, 2022 December 31, 2023, for the schedule on maturities of operating lease liabilities as there were no material changes as of September 30, 2023 March 31, 2024.

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. We evaluate whether a loss is reasonably probable based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of September 30, 2023 March 31, 2024, 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.

Environmental Matters. Site Remediation Obligation. We have accrued liabilities for environmental assessment As part of a business acquisition in the 1990s, we purchased a site located in California where a commercial gas station had operated from 1939 until approximately 1986. Prior to our acquisition, the gas station was demolished and remediation matters relating its underground storage tanks were removed.

Environmental monitoring of the property was conducted from 1987 through 2017 under the oversight of the local County's Department of Environmental Health (CDEH) and it eventually revealed petroleum products in the soil, groundwater, and the air in between soil particles. As a result, a Corrective Action Implementation Plan (CAIP) detailing remedial clean-up methods at the site was required to operations at certain locations be submitted in 2020. Accordingly, we recorded a liability on an undiscounted basis of \$0.6 million in 2020, the estimated cost, to remediate the site.

The 2020 CAIP was approved by the CDEH, but based on additional site data, the department requested a submission of addenda to the CAIP to address other site conditions. The additional review conducted in the past fourth quarter of 2023 identified certain potential risks arising out of a structure on a neighboring property. As a result, in December of 2023, the CDEH requested that an alternative remedial plan be developed and submitted, to address the structural aspects of the site. The

additional concerns identified in 2023 required that the new plan be designed in a way that is significantly more expensive than the original plan, is more complicated, and will result in a longer duration to remediate the site. We are in the process of finalizing an alternative plan with the guidance and expertise of an environmental consulting firm engaged expressly for this purpose, which will need to be approved by predecessor companies the CDEH.

The Condensed Consolidated Balance Sheets include a liability on an undiscounted basis for the site remediation of \$4.5 million as of March 31, 2024 and December 31, 2023, of which \$2.2 million is classified as a current liability. As of March 31, 2024, the liability represents our estimate of the probable cleanup, investigation, and remediation costs based on available information. We anticipate that do not relate to our current operations. We have accrued these liabilities because it is probable that a loss or cost most of this liability will be incurred paid out over seven years, but some costs maybe be paid out over a longer period.

The estimate of our final remediation expenses may change over time because of the varying costs of currently available cleanup techniques, unpredictable contaminant reduction rates associated with available cleanup techniques, and the amount difficulty of loss determining in advance the nature and full extent of contamination. However, evolving statutory and regulatory standards, their interpretation, more vigorous enforcement policies of regulatory agencies, or cost stricter or different interpretations of existing statutory and regulatory standards, may require additional expenditures, which may be material. Accordingly, there can be reasonably estimated. These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, no assurance that we will not incur significant additional environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, our future expenses relating to these matters could be higher than the liabilities we have accrued. Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or compliance costs in the aggregate, material to our financial position, results of operations or cash flows.

future.

Critical Accounting Policies and Significant Judgements and Estimates

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. Our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 includes a description of certain critical accounting policies, including those with respect to goodwill, revenue recognition, and income taxes, which we believe are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates. There have been no material changes to the critical accounting policies, significant judgements and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

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, 2023, 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 judgment and estimation is inherently higher in these uncertain economic times.

The results of the annual goodwill impairment test, as of September 30, 2023, were as follows:

	Number of Reporting Units	Representing Goodwill of
(Dollars in thousands)		
No goodwill balance	6	\$ —

Fair value of reporting units exceeds their carrying values by more than 15%	1	121,051
	7	\$ 121,051

Based upon a sensitivity analysis, a reduction of approximately 50-basis points of projected EBITDA margin in 2023 and beyond, assuming all other assumptions remain constant, would result in no impairment of goodwill.

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

Given the uncertain economic times 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 2023 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, 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 2024, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, *Intangibles - Goodwill and Other*) outside of the quarter when we regularly perform our annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

Income Taxes

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

When establishing a valuation allowance, we consider future sources of taxable income such as future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards and tax planning strategies. A tax planning strategy is an action that: is prudent and feasible; an enterprise ordinarily might not take but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets. In the event we determine that our deferred tax assets, more likely than not, will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have a \$2.8 million \$1.4 million valuation allowance against certain deferred tax assets as of September 30, 2023 March 31, 2024.

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide the information required under this Item 3.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of **September 30, 2023** **March 31, 2024**. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of **September 30, 2023** **March 31, 2024**, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the three months ended **September 30, 2023** **March 31, 2024**, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are involved, 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 **September 30, 2023** **March 31, 2024**, 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.

For additional discussion regarding certain environmental proceedings see the discussion in Note 6, Commitments and Contingencies - Site Remediation Obligation within Part I, Item 1 - "Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Information concerning certain risks and uncertainties are set forth in "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** filed with the SEC on **February 23, 2023** **February 29, 2024**.

Item 2. Unregistered Sales of Equity Securities, and Use of Proceeds, and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

	(a) Total Number of Shares Purchased	(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
(In thousands, except for price per share)	(1)			(1)
Period				
July 1, 2023 - July 31, 2023	—	\$ —	—	\$ 9,718
August 1, 2023 - August 31, 2023	183	\$ 3.44	183	\$ 9,088
September 1, 2023 - September 30, 2023	120	\$ 3.43	120	\$ 8,676
Total repurchases	303		303	

(In thousands, except for price per share)	(a) Total Number	(b) Average	(c) Total Number of Shares	(d) Approximate Dollar
	of		Purchased as Part of	Value of Shares That May
	Shares Purchased	Price Paid per	Publicly Announced Plans	Yet Be Purchased Under
	(1)	Share (\$)	or Programs	The Plans or Programs
Period				(1)
January 1, 2024 - January 31, 2024	—	\$ —	—	\$ 8,013
February 1, 2024 - February 29, 2024	—	\$ —	—	\$ 8,013
March 1, 2024 - March 31, 2024	—	\$ —	—	\$ 8,013
Total repurchases	—		—	

(1) On February 23, 2023, we announced that our Board of Directors expanded the repurchase program we previously announced on May 1, 2019 by an additional \$5.0 million for an aggregate program size of \$20.0 million through March 31, 2026. 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 us to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time without prior notice.

Item 5. Other Information

During the **third first** quarter of **2023, 2024**, none of the Company's board of directors or executive officers (as defined in Rule 16a-1(f)) adopted Rule 10b5-1 trading plans and none of the Company's board of directors or executive officers terminated a Rule 10b5-1 trading plan or adopted or terminated a non-Rule 10b5-1 trading arrangement.

Item 6. Exhibits

Exhibit Number	Description
<u>3.1</u>	<u>Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.2 to the Registrant's Form 10-K filed on March 13, 2013 and incorporated herein by reference)</u>
<u>3.2</u>	<u>Second Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.1 to Registrant's Form 8-K filed on October 6, 2009 and incorporated herein by reference)</u>
<u>10.1</u>	<u>Amendment to Credit Agreement, dated June 15, 2023, among ARC Document Solutions, LLC, U.S. Bank National Association, as administrative agent and the lenders party thereto, (filed as Exhibit 10.1 to the Registrant's Form 8-K filed on June 21, 2023 and incorporated herein by reference)</u>
<u>10.2</u>	<u>ARC Document Solutions, Inc. 2021 Incentive Plan, as amended (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A, filed on March 31, 2023)</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
<u>32.1</u>	<u>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.*</u>
<u>32.2</u>	<u>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.*</u>
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 *
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

SIGNATURES

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

Date: November 3, 2023 May 8, 2024

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar

Chairman and Chief Executive Officer

/s/ JORGE AVALOS

Jorge Avalos

Chief Financial Officer

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

I, Kumarakulasingham Suriyakumar, certify that:

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

Date: November 3, 2023 May 8, 2024

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingham Suriyakumar

Chairman and Chief Executive Officer (Principal Executive Officer)

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

I, Jorge Avalos, certify that:

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

Date: **November 3, 2023** May 8, 2024

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)

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

I, Kumarakulasingham Suriyakumar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents in all material respects the financial condition and results of operations of the Company.

Date: November 3, 2023 May 8, 2024

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingham Suriyakumar

Chairman and Chief Executive Officer (Principal Executive Officer)

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

I, Jorge Avalos, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2023 May 8, 2024

/s/ JORGE AVALOS

Jorge Avalos

Chief Financial Officer

(Principal Financial Officer)

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