

**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, 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 43,262,384 as of October 21, 2024.

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended September 30, 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, 2023 and "Part II - Item 1A. Risk Factors" of this Quarterly Report on Form 10Q for the quarterly period ended September 30, 2024. 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:

- Whether we are able to complete the transactions contemplated by that certain Agreement and Plan of Merger, dated as of August 27, 2024, by and among us, TechPrint Holdings, LLC and TechPrint Merger Sub, Inc. (the “Merger Agreement”) on the expected timeline or at all.
- Unexpected costs, charges, or expenses resulting from the transaction contemplated by the Merger Agreement, including potential litigation in connection with the proposed transaction or other settlements or investigations that may affect the timing or occurrence of the proposed transaction or result in significant costs of defense, indemnification, and liability.
- 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)

<u>(In thousands, except per share data)</u>	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,291	\$ 56,093
Accounts receivable, net of allowances for accounts receivable of \$1,640 and \$1,857	41,896	35,775
Inventory	9,202	8,818
Prepaid expenses	4,828	3,988
Other current assets	4,310	3,978
Total current assets	111,527	108,652
Property and equipment, net of accumulated depreciation of \$226,164 and \$229,122	43,668	40,925
Right-of-use assets from operating leases	33,670	32,838
Goodwill	121,051	121,051
Other intangible assets, net	134	162
Deferred income taxes	1,450	4,383
Other assets	1,955	2,113
Total assets	\$ 313,455	\$ 310,124
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 25,639	\$ 24,175
Accrued payroll and payroll-related expenses	10,572	9,401
Accrued expenses	20,860	18,787
Current operating lease liability	10,655	9,924
Current portion of finance leases	6,976	8,870
Total current liabilities	74,702	71,157
Long-term operating lease liabilities	27,367	27,357
Long-term debt and finance leases	52,172	53,366
Deferred income taxes	236	52
Other long-term liabilities	2,431	2,467
Total liabilities	156,908	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; 53,125 and 52,526 shares issued and 43,262 and 42,783 shares outstanding	53	52
Additional paid-in capital	138,516	136,460
Retained earnings	43,327	44,144
Accumulated other comprehensive loss	(4,135)	(4,200)
	177,761	176,456
Less cost of common stock in treasury, 9,863 and 9,743 shares	22,727	22,390
Total ARC Document Solutions, Inc. stockholders' equity	155,034	154,066
Noncontrolling interest	1,513	1,659
Total equity	156,547	155,725
Total liabilities and equity	\$ 313,455	\$ 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)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net sales	\$ 74,448	\$ 71,057	\$ 220,354	\$ 212,325
Cost of sales	49,689	46,908	146,400	140,075
Gross profit	24,759	24,149	73,954	72,250
Selling, general and administrative expenses	23,268	19,269	63,681	57,764
Amortization of intangible assets	9	10	29	31
Income from operations	1,482	4,870	10,244	14,455
Other income, net	(23)	(16)	(94)	(42)
Interest expense, net	327	397	968	1,300
Income before income tax provision	1,178	4,489	9,370	13,197
Income tax provision	1,279	1,368	3,972	4,262
Net (loss) income	(101)	3,121	5,398	8,935
Loss attributable to the noncontrolling interest	36	44	149	188
Net (loss) income attributable to ARC Document Solutions, Inc. stockholders	\$ (65)	\$ 3,165	\$ 5,547	\$ 9,123
Earnings per share attributable to ARC Document Solutions, Inc. stockholders				
Basic	\$ —	\$ 0.07	\$ 0.13	\$ 0.21
Diluted	\$ —	\$ 0.07	\$ 0.13	\$ 0.21
Weighted average common shares outstanding:				
Basic	42,529	42,554	42,355	42,634
Diluted	43,440	43,516	43,192	43,624

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

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net (loss) income	\$ (101)	\$ 3,121	\$ 5,398	\$ 8,935
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	453	(178)	68	(450)
Other comprehensive income (loss), net of tax	453	(178)	68	(450)
Comprehensive income	352	2,943	5,466	8,485
Comprehensive income (loss) attributable to noncontrolling interest, net of tax	38	(25)	(146)	(344)
Comprehensive income attributable to ARC Document Solutions, Inc. stockholders	\$ 314	\$ 2,968	\$ 5,612	\$ 8,829

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		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value						
(In thousands, except per share data)								
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	<u>52,472</u>	<u>\$ 52</u>	<u>\$ 135,801</u>	<u>\$ 47,132</u>	<u>\$ (4,481)</u>	<u>\$ (21,726)</u>	<u>\$ 1,591</u>	<u>\$ 158,369</u>

	ARC Document Solutions, Inc. Stockholders							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value						
(In thousands, except per share data)								
Balance at June 30, 2024	53,111	\$ 53	\$ 137,888	\$ 45,522	\$ (4,514)	\$ (22,727)	\$ 1,475	\$ 157,697
Stock-based compensation	—	—	593	—	—	—	—	593
Stock options exercised	5	—	12	—	—	—	—	12
Issuance of common stock under Employee Stock Purchase Plan	9	—	23	—	—	—	—	23
Treasury shares	—	—	—	—	—	—	—	—
Cash dividends - common stock (\$0.05 per share)	—	—	—	(2,130)	—	—	—	(2,130)
Comprehensive (loss) income, net of tax	—	—	—	(65)	379	—	38	352
Balance at September 30, 2024	<u>53,125</u>	<u>\$ 53</u>	<u>\$ 138,516</u>	<u>\$ 43,327</u>	<u>\$ (4,135)</u>	<u>\$ (22,727)</u>	<u>\$ 1,513</u>	<u>\$ 156,547</u>

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									
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value			Other Comprehensive Loss	Income			
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	<u>52,472</u>	<u>\$ 52</u>	<u>\$ 135,801</u>	<u>\$ 47,132</u>	<u>\$ (4,481)</u>	<u>\$ (21,726)</u>	<u>\$ 1,591</u>	<u>\$ 158,369</u>	

ARC Document Solutions, Inc. Stockholders									
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value			Other Comprehensive (Loss) Income	Income			
Balance at December 31, 2023	52,526	\$ 52	\$ 136,460	\$ 44,144	\$ (4,200)	\$ (22,390)	\$ 1,659	\$ 155,725	
Stock-based compensation	543	1	1,934	—	—	—	—	1,935	
Stock options exercised	22	—	40	—	—	—	—	40	
Issuance of common stock under Employee Stock Purchase Plan	34	—	82	—	—	—	—	82	
Treasury shares	—	—	—	—	—	(337)	—	(337)	
Cash dividends - common stock (\$0.15 per share)	—	—	—	(6,364)	—	—	—	(6,364)	
Comprehensive income (loss), net of tax	—	—	—	5,547	65	—	(146)	5,466	
Balance at September 30, 2024	<u>53,125</u>	<u>\$ 53</u>	<u>\$ 138,516</u>	<u>\$ 43,327</u>	<u>\$ (4,135)</u>	<u>\$ (22,727)</u>	<u>\$ 1,513</u>	<u>\$ 156,547</u>	

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

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

(In thousands)	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	\$ 5,398	\$ 8,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for credit losses	135	285
Depreciation	12,026	13,503
Amortization of intangible assets	29	31
Amortization of deferred financing costs	52	50
Stock-based compensation	1,935	1,622
Deferred income taxes	3,256	3,646
Deferred tax valuation allowance	(107)	160
Other non-cash items, net	(394)	(347)
Changes in operating assets and liabilities:		
Accounts receivable	(6,151)	(1,968)
Inventory	(368)	(135)
Prepaid expenses and other assets	6,249	6,489
Accounts payable and accrued expenses	(2,851)	(9,414)
Net cash provided by operating activities	19,209	22,857
Cash flows from investing activities		
Capital expenditures	(10,933)	(7,728)
Other	477	267
Net cash used in investing activities	(10,456)	(7,461)
Cash flows from financing activities		
Proceeds from stock option exercises	40	1,130
Proceeds from issuance of common stock under Employee Stock Purchase Plan	82	98
Share repurchases	(337)	(2,849)
Payments on finance leases	(7,055)	(9,163)
Borrowings under revolving credit facilities	120,000	122,000
Payments under revolving credit facilities	(120,000)	(122,000)
Payment of deferred financing costs	—	(23)
Dividends paid	(6,346)	(6,399)
Net cash used in financing activities	(13,616)	(17,206)
Effect of foreign currency translation on cash balances	61	(165)
Net change in cash and cash equivalents	(4,802)	(1,975)
Cash and cash equivalents at beginning of period	56,093	52,561
Cash and cash equivalents at end of period	\$ 51,291	\$ 50,586
Supplemental disclosure of cash flow information		
Noncash investing and financing activities		
Finance lease obligations incurred	\$ 3,935	\$ 5,145
Operating lease obligations incurred	\$ 8,187	\$ 7,070

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.

On August 27, 2024, ARC entered into an Agreement and Plan of Merger with TechPrint Holdings, LLC ("Parent") and TechPrint Merger Sub, Inc. ("Merger Sub") pursuant to which Merger Sub will merge with and into ARC with ARC surviving the merger as the surviving corporation (the "Surviving Corporation") and a subsidiary of Parent (the "Merger"). Parent and Merger Sub are affiliates of Kumarakulasingam Suriyakumar, Chairman and Chief Executive Officer of ARC, Dilantha Wijesuriya, President and Chief Operating Officer of ARC, Jorge Avalos, Chief Financial Officer of ARC, Rahul Roy, Chief Technology Officer of ARC, Sujewa Sean Pathiratne, a private stockholder of ARC, the Suriyakumar Family Trust, the Shiyulli Suriyakumar 2013 Irrevocable Trust and the Seiyonne Suriyakumar 2013 Irrevocable Trust (collectively, the "Acquisition Group").

If the Merger is completed, at the effective time of the Merger, each share of ARC's common stock, \$0.001 per share ("ARC Common Stock"), issued and outstanding immediately prior to the effective time of the Merger, other than shares of ARC Common Stock held by the Acquisition Group (such shares "Rollover Shares") and certain other excluded shares pursuant to the terms of the Merger Agreement, shall be cancelled and extinguished and automatically converted into and shall thereafter represent the right to receive an amount in cash equal to \$3.40 per share of ARC Common Stock ("Merger Consideration"), payable to the holder thereof, without interest, subject to and in accordance with the terms and conditions of the Merger Agreement. The members of the Acquisition Group, as a condition to the willingness of Parent and Merger Sub to enter into the Merger Agreement, agreed pursuant to the terms of that certain rollover agreement, dated as of August 27, 2024 (and subsequently amended on September 10, 2024), to immediately prior to the effective time of the Merger, (i) contribute their Rollover Shares to Parent in exchange for common units of Parent ("Parent Units") and (ii) with respect to those members of the Acquisition Group who hold equity awards ("Rollover Equity Awards") granted under ARC's 2021 Incentive Plan, 2014 Stock Incentive Plan or 2005 Stock Plan, contribute the shares of ARC Common Stock received with respect to such Rollover Equity Awards pursuant to the Merger Agreement to Parent in exchange for Parent Units.

Upon termination of the Merger Agreement, under certain circumstances, ARC would be required to pay Parent a termination fee of \$5,277,367. Upon completion of the transaction, ARC will become a private company and ARC will no longer be required to file periodic and other reports with the United States Securities and Exchange Commission with respect to ARC Common Stock. The transactions contemplated by the Merger Agreement are expected to close in the fourth quarter of 2024.

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, 2024 are not necessarily indicative of the results that may be expected for the year ending 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, 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Service Sales				
Digital Printing	\$ 46,636	\$ 43,537	\$ 136,127	\$ 129,134
MPS ⁽¹⁾	18,315	18,582	55,627	56,556
Scanning and Digital Imaging	5,354	4,991	16,676	14,845
Total services sales	\$ 70,305	\$ 67,110	\$ 208,430	\$ 200,535
Equipment and Supplies Sales	4,143	3,947	11,924	11,790
Total net sales	\$ 74,448	\$ 71,057	\$ 220,354	\$ 212,325

⁽¹⁾ MPS includes \$16.8 million of rental income and \$1.5 million of service income for the three months ended September 30, 2024 and \$51.0 million of rental income and \$4.6 million of service income for the nine months ended September 30, 2024. 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.

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. Certain MPS arrangements 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.

Recent Accounting Pronouncements Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 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 is effective for financial statements issued for annual periods beginning after December 15, 2024, with early adoption permitted. The ASU can be adopted on a 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, 2023, and interim periods within fiscal years beginning after December 15, 2024. Retrospective adoption is required for all prior periods presented in the financial statements. The Company is evaluating the disclosure requirements related to the new standard but does not expect it to have a material impact on its consolidated financials or disclosures.

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, 2024, 4.3 million and 4.8 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, 2023, 4.0 million and 4.2 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, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Weighted average common shares outstanding during the period—basic	42,529	42,554	42,355	42,634
Effect of dilutive stock awards	911	962	837	990
Weighted average common shares outstanding during the period—diluted	43,440	43,516	43,192	43,624

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, 2024, 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.

There can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment analysis in 2024 will prove to be accurate predictions of the future. If the Company's assumptions, including forecasted EBITDA of certain reporting units, are not achieved, 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 2025, 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, 2023 through September 30, 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, 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, 2024 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, 2024 and December 31, 2023 which continue to be amortized:

	September 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	\$ 99,179	\$ 99,176	\$ 3	\$ 99,185	\$ 99,178	\$ 7
Trade names and trademarks	20,269	20,138	131	20,262	20,107	155
	<u>\$ 119,448</u>	<u>\$ 119,314</u>	<u>\$ 134</u>	<u>\$ 119,447</u>	<u>\$ 119,285</u>	<u>\$ 162</u>

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

2024 (excluding the nine months ended September 30, 2024)	\$	10
2025		35
2026		34
2027		34
2028		21
	<u>\$</u>	<u>134</u>

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 \$1.3 million and \$4.0 million, respectively in relation to pretax income of \$1.2 million and \$9.4 million, respectively, for the three and nine months ended September 30, 2024, which resulted in an effective income tax rate of 108.6% and 42.4%, respectively, primarily impacted by state taxes, non-deductible compensation, certain stock-based compensation, certain non-deductible costs incurred with the transaction contemplated by the Merger Agreement and other non-deductible expenses, and U.S. taxes on foreign income. The Company recorded an income tax provision of \$1.4 million and \$4.3 million, respectively in relation to pretax income of \$4.5 million and \$13.2 million, respectively, for the three and nine months ended September 30, 2023, which resulted in an effective income tax rate of 30.5% and 32.3%, 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 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; 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, could have a material effect on its financial condition and results of operations. The Company has a \$1.2 million valuation allowance against certain deferred tax assets as of September 30, 2024.

Based on the Company's current assessment, the remaining net deferred tax assets as of September 30, 2024 are considered more likely than not to be realized. The valuation allowance of \$1.2 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, 2024	December 31, 2023
Revolving Loans; 6.3% and 6.8% interest rate at September 30, 2024 and December 31, 2023, respectively	\$ 40,000	\$ 40,000
Various finance leases; weighted average interest rate of 5.9% and 5.5% at September 30, 2024 and December 31, 2023, respectively; principal and interest payable monthly through November 2029	19,148	22,236
	59,148	62,236
Less current portion	(6,976)	(8,870)
	\$ 52,172	\$ 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, 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, 2024, one month Term SOFR loans borrowed under the 2021 Credit Agreement accrued interest at 6.3%.

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 the covenants under the 2021 Credit Agreement as of September 30, 2024.

The 2021 Credit Agreement allows for payment of dividends. In July 2024, the Company's board of directors declared a quarterly cash dividend of \$0.05 per share that is payable on November 29, 2024 to stockholders of record as of October 31, 2024. Accordingly, the Company recorded a dividend payable of \$2.1 million within accrued expenses as of September 30, 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).

As part of the transactions contemplated by the Merger Agreement, the Company is obligated to obtain and facilitate the negotiation of a payoff letter the 2021 Credit Agreement pursuant to which lenders under the 2021 Credit Agreement acknowledged that upon receipt of the payoff amount, (1) all obligations of the Company with respect to any indebtedness outstanding under the 2021 Credit Agreement shall be paid in full and (2) with respect to the 2021 Credit Agreement, all liens securing such indebtedness shall be released and (B) with respect to the 2021 Credit Agreement, covenanted to file, or shall have granted to Company, Parent or their representatives or designees the right to file, releases or discharges of liens securing such indebtedness under the 2021 Credit Agreement, simultaneously with or following the closing of the transactions contemplated by the Merger Agreement and after repayment of such indebtedness.

The Company has also agreed to assist Parent in obtaining at or prior to the closing of the Merger, an incremental term loan facility of \$185.0 million, consisting of a \$60.0 million revolving credit facility (\$35.0 million of which is permitted to be drawn at closing), and a \$125.0 million term loan facility (all of which may be used in connection with the Merger), subject to certain customary conditions.

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, 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, 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.

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 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 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. The Company 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 \$4.3 million and \$4.5 million as of September 30, 2024 and December 31, 2023, respectively of which \$2.0 million and \$2.2 million, respectively, is classified as a current liability. As of September 30, 2024, the liability represents the Company's estimate of the probable cleanup, investigation, and remediation costs based on available information. The Company anticipates that most of this liability will be 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 difficulty of 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 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 no assurance that the Company will not incur significant additional environmental compliance costs in the 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, 2024, 4.2 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 months ended September 30, 2024, the Company granted options to acquire a total of 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 ten years after the date of grant. During the nine months ended September 30, 2024, the Company granted 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. In addition, the Company granted approximately 36 thousand shares of restricted stock awards to each of the Company's four non-employee members of its board advisors or board of directors, with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. These restricted stock vests on the one-year anniversary of the grant date.

Stock-based compensation expense was \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2024, respectively, compared to stock-based compensation expense of \$0.6 million and \$1.6 million for the three and nine months ended September 30, 2023, respectively.

As of September 30, 2024, total unrecognized compensation cost related to unvested stock-based payments totaled \$3.0 million and is expected to be recognized over a weighted-average period of approximately 1.9 years.

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, 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. There were no cash equivalents reported in the Company's interim Condensed Consolidated Balance Sheet as of September 30, 2024. Cash equivalents reported in the Company's interim Condensed Consolidated Balance Sheet were \$1.2 million as of December 31, 2023 and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Short- and long-term debt and finance leases: The carrying amount of the Company's finance leases reported in the Condensed Consolidated Balance Sheet as of September 30, 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, 2024 for borrowings under its 2021 Credit Agreement is \$40.0 million. The Company has determined, that borrowings under its 2021 Credit Agreement of \$40.0 million as of September 30, 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, 2023 and this Quarterly Report on Form 10-Q for the quarter ended September 30, 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 10,300 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 derived approximately 29% of our total revenue from the products and services delivered in California during the nine months ended September 30, 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 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.

Our labor costs have increased moderately as we sought to retain valuable employees and competed for new hires in 2023 and in 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 initiatives have allowed us to mitigate their impact to date.

Historically, our capital expenditure requirements have varied based on our need for printing equipment in our MPS locations and service centers. Over the past several years, the pandemic has reduced the number of employees in our customers' locations, which has, in turn, reduced the need for equipment. We believe this equipment trend has become permanent and, as a result, we think the past three years of capital expenditures are more indicative of our future capital needs than our 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. With the rising cost of capital, we have adjusted our historical procurement strategy and use more of our available cash to acquire equipment in order to reduce the impact of interest expense on our 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.

The COVID-19 pandemic adversely impacted our financial performance from 2020 to 2022, but we expect that its acute impact is behind us. We believe, however, that the reduced in office presence of employees brought on by the COVID-19 pandemic 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 and 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 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.

Merger Agreement

As previously disclosed, on August 27, 2024, we entered into an Agreement and Plan of Merger with TechPrint Holdings, LLC ("Parent") and TechPrint Merger Sub, Inc. ("Merger Sub") pursuant to which Merger Sub will merge with and into us with us surviving the merger as the surviving corporation (the "Surviving Corporation") and a subsidiary of Parent (the "Merger"). Parent and Merger Sub are affiliates of Kumarakulasingam Suriyakumar, our Chairman and Chief Executive Officer, Dilantha Wijesuriya, our President and Chief Operating Officer, Jorge Avalos, our Chief Financial Officer, Rahul Roy, our Chief Technology Officer, Sujeewa Sean Pathiratne, a private stockholder, the Suriyakumar Family Trust, the Shiyulli Suriyakumar 2013 Irrevocable Trust and the Seiyonne Suriyakumar 2013 Irrevocable Trust (collectively, the "Acquisition Group").

If the Merger is completed, at the effective time of the Merger, each share of our common stock, \$0.001 per share (“ARC Common Stock”), issued and outstanding immediately prior to the effective time of the Merger, other than shares of ARC Common Stock held by the Acquisition Group (such shares “Rollover Shares”) and certain other excluded shares pursuant to the terms of the Merger Agreement, shall be cancelled and extinguished and automatically converted into and shall thereafter represent the right to receive an amount in cash equal to \$3.40 per share of ARC Common Stock (“Merger Consideration”), payable to the holder thereof, without interest, subject to and in accordance with the terms and conditions of the Merger Agreement. The members of the Acquisition Group, as a condition to the willingness of Parent and Merger Sub to enter into the Merger Agreement, agreed pursuant to the terms of that certain rollover agreement, dated as of August 27, 2024 (and subsequently amended on September 10, 2024), to immediately prior to the effective time of the Merger, (i) contribute their Rollover Shares to Parent in exchange for common units of Parent (“Parent Units”) and (ii) with respect to those members of the Acquisition Group who hold equity awards (“Rollover Equity Awards”) granted under our 2021 Incentive Plan, 2014 Stock Incentive Plan or 2005 Stock Plan, contribute the shares of ARC Common Stock received with respect to such Rollover Equity Awards pursuant to the Merger Agreement to Parent in exchange for Parent Units.

Upon termination of the Merger Agreement, under certain circumstances, we would be required to pay Parent a termination fee of \$5,277,367. Upon completion of the transaction, we will become a private company and will no longer be required to file periodic and other reports with the United States Securities and Exchange Commission with respect to ARC Common Stock. The transactions contemplated by the Merger Agreement are expected to close in the fourth quarter of 2024.

Results of Operations

(In millions, except percentages)	Three Months Ended September 30,		Increase (decrease)		Nine Months Ended September 30,		Increase (decrease)	
	2024 ⁽¹⁾	2023 ⁽¹⁾	\$	%	2024 ⁽¹⁾	2023 ⁽¹⁾	\$	%
Digital Printing	\$ 46.6	\$ 43.5	\$ 3.1	7.1 %	\$ 136.1	\$ 129.1	\$ 7.0	5.4 %
MPS	18.3	18.6	(0.3)	(1.4)%	55.6	56.6	(0.9)	(1.6)%
Scanning and Digital Imaging	5.4	5.0	0.4	7.3 %	16.7	14.8	1.8	12.3 %
Equipment and Supplies sales	4.1	3.9	0.2	5.0 %	11.9	11.8	0.1	1.1 %
Total net sales	\$ 74.4	\$ 71.1	\$ 3.4	4.8 %	\$ 220.4	\$ 212.3	\$ 8.0	3.8 %
Gross profit	\$ 24.8	\$ 24.1	\$ 0.6	2.5 %	\$ 74.0	\$ 72.3	\$ 1.7	2.4 %
Selling, general and administrative expenses	\$ 23.3	\$ 19.3	\$ 4.0	20.8 %	\$ 63.7	\$ 57.8	\$ 5.9	10.2 %
Interest expense, net	\$ 0.3	\$ 0.4	\$ (0.1)	(17.6)%	\$ 1.0	\$ 1.3	\$ (0.3)	(25.5)%
Income tax provision	\$ 1.3	\$ 1.4	\$ (0.1)	(6.5)%	\$ 4.0	\$ 4.3	\$ (0.3)	(6.8)%
Net (loss) income attributable to ARC	\$ (0.1)	\$ 3.2	\$ (3.2)	(102.1)%	\$ 5.5	\$ 9.1	\$ (3.6)	(39.2)%
<i>Non-GAAP</i> ⁽²⁾								
Adjusted net income attributable to ARC ⁽²⁾	\$ —	\$ 3.2	\$ (3.2)	(99.4)%	\$ 5.9	\$ 9.4	\$ (3.5)	(37.3)%
EBITDA ⁽²⁾	\$ 5.6	\$ 9.4	\$ (3.8)	(40.8)%	\$ 22.5	\$ 28.2	\$ (5.7)	(20.1)%
Adjusted EBITDA ⁽²⁾	\$ 6.2	\$ 10.0	\$ (3.9)	(38.4)%	\$ 24.5	\$ 29.8	\$ (5.4)	(18.0)%

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,	
	2024	2023	2024 ⁽¹⁾	2023
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	66.7	66.0	66.4	66.0
Gross profit	33.3	34.0	33.6	34.0
Selling, general and administrative expenses	31.3	27.1	28.9	27.2
Income from operations	2.0	6.9	4.6	6.8
Interest expense, net	0.4	0.6	0.4	0.6
Income before income tax provision	1.6	6.3	4.3	6.2
Income tax provision	1.7	1.9	1.8	2.0
Net (loss) income	(0.1)	4.4	2.4	4.2
Loss attributable to the noncontrolling interest	—	0.1	0.1	0.1
Net (loss) income attributable to ARC	(0.1)%	4.5 %	2.5 %	4.3 %
<i>Non-GAAP</i> ⁽²⁾				
EBITDA ⁽²⁾	7.5 %	13.3 %	10.2 %	13.3 %
Adjusted EBITDA ⁽²⁾	8.3 %	14.1 %	11.1 %	14.1 %

(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, 2024 Compared to Three and Nine Months Ended September 30, 2023

Net Sales

Net sales for the three and nine months ended September 30, 2024, increased 4.8% and 3.8%, respectively, compared to the same period in 2023. The increase in net sales for the three and nine months ended September 30, 2024 compared to the same period in 2023 was primarily driven by the year-over-year growth of sales in Digital Printing and Scanning and Digital Imaging services. Growth for the period was partially offset by a small decline in MPS sales.

Digital Printing. Year-over-year sales of Digital Printing services increased \$3.1 million, or 7.1%, for the three months ended September 30, 2024. Year-over-year sales of Digital Printing services increased \$7.0 million, or 5.4%, for the nine months ended September 30, 2024. Year-over-year sales saw continuing healthy increases in digital color graphic printing from new and existing customers. This growth was offset by a decrease in digital plan printing sales which we continue to attribute to less construction activity and subsequent lower spending due to high interest rates. Digital Printing services represented 63% and 62%, respectively, of total net sales for the three and nine months ended September 30, 2024, and 61% for both the three and nine months ended September 30, 2023.

MPS. Year-over-year sales of MPS services for the three months ended September 30, 2024, decreased \$0.3 million, or 1.4%. Year-over-year sales of MPS services for the nine months ended September 30, 2024 decreased \$0.9 million, or 1.6%.

MPS sales represented approximately 25%, of total net sales for both the three and nine months ended September 30, 2024, compared to 26% and 27%, respectively, for the three and nine months ended September 30, 2023, respectively.

MPS sales have remained in a narrow band between \$18 million to \$19 million per quarter for more than two years, strongly implying fewer employees in the workplace will continue to constrain onsite print volumes relative to historical averages.

The number of MPS locations we serve declined slightly to approximately 10,300 as of September 30, 2024, representing a net decrease of approximately 200 locations compared to September 30, 2023.

Scanning and Digital Imaging. Year-over-year sales of Scanning and Digital Imaging services increased \$0.4 million, or 7.3%, for the three months ended September 30, 2024, and increased \$1.8 million or 12.3% for the nine months ended September 30, 2024. The increase in sales of our Scanning and Digital Imaging services continued to be driven by growing demand for paper-to-digital document conversions and digital archives to replace long-term warehoused paper document storage. Targeting building owners and facility managers who require on-demand access to their legacy documents to operate their assets efficiently continues to be a key audience and plays to our strengths in the broader construction industry. We believe that demand for 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 increased \$0.2 million, or 5.0%, for the three months ended September 30, 2024 and increased \$0.1 million, or 1.1%, for the nine months ended September 30, 2024. Equipment and Supplies sales remained relatively flat year-over-year, as buying habits have stabilized now that customers have adjusted to a higher interest rate environment.

Gross Profit

During the three months ended September 30, 2024, gross profit was \$24.8 million, or 33.3%, compared to \$24.1 million, or 34.0% during the three months ended September 30, 2023.

During the nine months ended September 30, 2024, gross profit was \$74.0 million, or 33.6%, compared to \$72.3 million, or 34.0% during the nine months ended September 30, 2023.

The decrease in gross margin for the three and nine months ended September 30, 2024 was driven primarily by increased labor and material costs due to inflation pressures and increased hiring as we increased and adjusted the capacity of our digital color graphic printing services and Scanning and Digital Imaging Services. The increase in labor and material costs were partially offset by the decrease in depreciation of \$0.5 million and \$1.6 million, respectively during the three and nine months ended September 30, 2024 as compared to the three and nine months ended September 30, 2023.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$23.3 million for the three months ended September 30, 2024, an increase of \$4.0 million, or 20.8%, compared to the three months ended September 30, 2023. Selling, general and administrative expenses were \$63.7 million for the nine months ended September 30, 2024, an increase of \$5.9 million, or 10.2%, compared to the nine months ended September 30, 2023. Selling, general and administrative expenses for the three and nine months ended

September 30, 2024 include \$3.2 million and \$4.1 million, respectively, of costs related to the previously disclosed take-private transaction described in the "Merger Agreement" section above under "Part I - Item 2." Also contributing to the increase in selling, general and administrative expenses were greater commissions based on a higher level of sales, as well as continued investments in sales staff and marketing initiatives.

Amortization of Intangibles

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

Interest Expense, Net

Net interest expense of \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2024, respectively, declined \$0.1 million and \$0.3 million, respectively, compared to the same period in 2023 due to the continued pay-down of our debt, partially offset by the increase in interest rates under 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 interest expense. Our 2021 Credit Agreement (as defined below), will be paid off as part of the transactions contemplated by the Merger Agreement.

Income Taxes

We recorded an income tax provision of \$1.3 million in relation to pretax income of \$1.2 million for the three months ended September 30, 2024. We recorded an income tax provision of \$4.0 million in relation to pretax income of \$9.4 million for the nine months ended September 30, 2024. This resulted in an effective income tax rate for the three and nine months ended September 30, 2024, of 108.6% and 42.4%, respectively.

Our effective income tax rate for the three and nine months ended September 30, 2024, was primarily affected by state taxes, non-deductible compensation, certain stock-based compensation, certain non-deductible costs incurred in connection with the transactions contemplated by the Merger Agreement and other non-deductible expenses and U.S. taxes on foreign income. Excluding the impact of certain stock-based compensation, an increase in certain valuation allowances, other discrete items and U.S. taxes on foreign income, our effective income tax rate for the consolidated company would have been 101.0% and 38.3% for the three and nine months ended September 30, 2024, respectively, and our effective income tax rate attributable to ARC Document Solutions, Inc. would have been 98.4% and 37.9% for the three and nine months ended September 30, 2024, respectively. The increase in the effective tax rate was primarily due to the non-deductible costs incurred in connection with the transactions contemplated by the Merger Agreement which were \$3.2 million and \$4.1 million, respectively for the three and nine months ended September 30, 2024.

By comparison, we recorded an income tax provision of \$1.4 million in relation to pretax income of \$4.5 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. This resulted in an effective income tax rate for the three and nine months ended September 30, 2023, of 30.5% and 32.3%, respectively.

Our effective income tax rate for the three and nine months ended September 30, 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, an increase in certain valuation allowances, and other discrete items, our effective income tax rate for the consolidated company would have been 29.9% and 29.9%, respectively, and our effective income tax rate attributable to ARC Document Solutions, Inc. would have been 29.4% and 29.6%, respectively, for the three and nine months ended September 30, 2023.

We have a \$1.2 million valuation allowance against certain deferred tax assets as of September 30, 2024.

Noncontrolling Interest

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

Net Loss / Income Attributable to ARC

Net loss attributable to ARC was \$0.1 million during the three months ended September 30, 2024, as compared to net income attributable to ARC was \$3.2 million for the three months ended September 30, 2023. The decrease was driven primarily by higher selling, general and administrative expenses, as described above.

Net income attributable to ARC was \$5.5 million during the nine months ended September 30, 2024, as compared to \$9.1 million during the nine months ended September 30, 2023. The decrease in net income attributable to ARC was primarily driven by the increase in selling, general and administrative expense during the nine months ended September 30, 2024, as noted 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 7.5% for the three months ended September 30, 2024, compared to 13.3% for the same period in 2023. Excluding the effect of stock-based compensation, Adjusted EBITDA margin was 8.3% during the three months ended September 30, 2024, as compared to 14.1% for the same period in 2023. EBITDA margin decreased for the three months ended September 30, 2024, due to the increase in selling, general and administrative expenses, as described above.

EBITDA margin was 10.2% for the nine months ended September 30, 2024, down from 13.3% for the same period in 2023. Excluding the effect of stock-based compensation, Adjusted EBITDA margin was 11.1% during the nine months ended September 30, 2024, as compared to 14.1% for the same period in 2023. EBITDA margin decreased for the nine months ended September 30, 2024, due to the increase in selling, general and administrative expenses, as described above.

Impact of Inflation

Rising costs for raw materials, such as paper, inks and toners and increase in labor are partly being passed on to customers via price increases during the ordinary course of business, moderating the impact of inflation on our financial 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, 2024 and 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, 2024 against the corresponding periods in 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, 2024 and 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:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cash flows provided by operating activities	\$ 9,116	\$ 8,704	\$ 19,209	\$ 22,857
Changes in operating assets and liabilities	(3,646)	610	3,121	5,028
Non-cash expenses, including depreciation and amortization	(5,571)	(6,193)	(16,932)	(18,950)
Income tax provision	1,279	1,368	3,972	4,262
Interest expense, net	327	397	968	1,300
Loss attributable to the noncontrolling interest	36	44	149	188
Depreciation and amortization	4,041	4,498	12,055	13,534
EBITDA	\$ 5,582	\$ 9,428	\$ 22,542	\$ 28,219

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net (loss) income attributable to ARC Document Solutions, Inc.	\$ (65)	\$ 3,165	\$ 5,547	\$ 9,123
Interest expense, net	327	397	968	1,300
Income tax provision	1,279	1,368	3,972	4,262
Depreciation and amortization	4,041	4,498	12,055	13,534
EBITDA	5,582	9,428	22,542	28,219
Stock-based compensation	593	599	1,935	1,622
Adjusted EBITDA	\$ 6,175	\$ 10,027	\$ 24,477	\$ 29,841

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024 ⁽¹⁾	2023	2024 ⁽¹⁾	2023 ⁽¹⁾
Net (loss) income margin attributable to ARC Document Solutions, Inc.	(0.1)%	4.5 %	2.5 %	4.3 %
Interest expense, net	0.4	0.6	0.4	0.6
Income tax provision	1.7	1.9	1.8	2.0
Depreciation and amortization	5.4	6.3	5.5	6.4
EBITDA margin	7.5	13.3	10.2	13.3
Stock-based compensation	0.8	0.8	0.9	0.8
Adjusted EBITDA margin	8.3 %	14.1 %	11.1 %	14.1 %

(1) Column does not foot due to rounding.

The following is a reconciliation of net (loss) 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(In thousands, except per share amounts)				
Net (loss) income attributable to ARC Document Solutions, Inc.	\$ (65)	\$ 3,165	\$ 5,547	\$ 9,123
Deferred tax valuation allowance and other discrete tax items	84	30	361	297
Adjusted net income attributable to ARC Document Solutions, Inc.	\$ 19	\$ 3,195	\$ 5,908	\$ 9,420
Actual:				
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:				
Basic	\$ —	\$ 0.07	\$ 0.13	\$ 0.21
Diluted	\$ —	\$ 0.07	\$ 0.13	\$ 0.21
Weighted average common shares outstanding:				
Basic	42,529	42,554	42,355	42,634
Diluted	43,440	43,516	43,192	43,624
Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. stockholders:				
Basic	\$ —	\$ 0.08	\$ 0.14	\$ 0.22
Diluted	\$ —	\$ 0.07	\$ 0.14	\$ 0.22
Weighted average common shares outstanding:				
Basic	42,529	42,554	42,355	42,634
Diluted	43,440	43,516	43,192	43,624

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, 2024 was \$51.3 million. Of this amount, \$4.5 million was held in foreign countries, with \$1.9 million held in China. Repatriation of some of our cash and cash equivalents in foreign countries could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result, 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.

<u>(In thousands)</u>	Nine Months Ended September 30,	
	2024	2023
Net cash provided by operating activities	\$ 19,209	\$ 22,857
Net cash used in investing activities	\$ (10,456)	\$ (7,461)
Net cash used in financing activities	\$ (13,616)	\$ (17,206)

Operating Activities

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

The decrease in cash flows from operations during the nine months ended September 30, 2024, compared to the same period in 2023, was primarily due to the timing of receivable collections due to higher sales this year compared to prior year and the payment of \$1.6 million in costs incurred in connection with the transactions contemplated by the Merger Agreement. Closely managing our cash collections resulted in days sales outstanding, or DSO, of 51 days as of September 30, 2024, and September 30, 2023.

DSO is calculated by taking the respective years September 30, 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 \$10.9 million and \$7.7 million for the nine months ended September 30, 2024, and 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 2024 due to increasing interest rates. The overall equipment acquired, capital expenditure and new leases incurred, increased in 2024 as compared to the prior year as we continue to invest in equipment to grow our color printing and scanning service lines.

Financing Activities

Net cash of \$13.6 million used in financing activities during the nine months ended September 30, 2024, primarily relates to payments on our finance leases and dividends. Other than the quarterly cash dividend of \$0.05 per share declared on July 31, 2024, we are restricted from declaring and paying any dividends during the period between the execution of the Merger Agreement and the closing of the transactions contemplated by the Merger Agreement without Parent's approval.

Our cash position, working capital, and debt obligations as of September 30, 2024 and 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.

<u>(In thousands)</u>	September 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 51,291	\$ 56,093
Working capital	\$ 36,825	\$ 37,495
Borrowings from revolving credit facility	\$ 40,000	\$ 40,000
Other debt obligations	19,148	22,236
Total debt obligations	<u>\$ 59,148</u>	<u>\$ 62,236</u>

The decrease of \$0.7 million in working capital was primarily driven by the decrease in cash of \$4.8 million and increase in accounts payable and accrued expenses of \$2.9 million, partially offset by the increase in accounts receivable of \$6.2 million. 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 \$51.3 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 products 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, but will consider acquisitions that we feel add value to the 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, 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, 2024, one month Term SOFR loans borrowed under the 2021 Credit Agreement accrued interest at 6.3%. 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, 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).

As part of the transactions contemplated by the Merger Agreement, we are obligated to obtain and facilitate the negotiation of a payoff letter the 2021 Credit Agreement pursuant to which lenders under the 2021 Credit Agreement acknowledged that upon receipt of the payoff amount, (1) all of our obligations with respect to any indebtedness outstanding under the 2021 Credit Agreement shall be paid in full and (2) with respect to the 2021 Credit Agreement, all liens securing such indebtedness shall be released and (B) with respect to the 2021 Credit Agreement, covenanted to file, or shall have granted to us, Parent or their representatives or designees the right to file, releases or discharges of liens securing such indebtedness under the 2021 Credit Agreement, simultaneously with or following the closing of the transactions contemplated by the Merger Agreement and after repayment of such indebtedness.

We have also agreed to assist Parent in obtaining at or prior to the closing of the Merger, an incremental term loan facility of \$185.0 million, consisting of a \$60.0 million revolving credit facility (\$35.0 million of which is permitted to be drawn at closing), and a \$125.0 million term loan facility (all of which may be used in connection with the Merger), subject to certain customary conditions.

Finance Leases

As of September 30, 2024, we had \$19.1 million of finance lease obligations outstanding, with a weighted average interest rate of 5.9% and maturities between 2024 and 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, 2023, for the schedule on maturities of finance lease liabilities, as there have been no material changes to report as of September 30, 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, 2023, for the schedule on maturities of operating lease liabilities as there were no material changes as of September 30, 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, 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.

Site Remediation Obligation. 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 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, 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 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 the CDEH.

Our Condensed Consolidated Balance Sheets include a liability on an undiscounted basis for the site remediation of \$4.3 million and \$4.5 million as of September 30, 2024 and December 31, 2023, respectively of which \$2.0 million and \$2.2 million, respectively is classified as a current liability. As of September 30, 2024, the liability represents our estimate of the probable cleanup, investigation, and remediation costs based on available information. We anticipate that most of this liability will be 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 difficulty of 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 stricter or different interpretations of existing statutory and regulatory standards, may require additional expenditures, which may be material. Accordingly, there can be no assurance that we will not incur significant additional environmental compliance costs in the 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, 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, 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, 2024, the Company performed its assessment and determined that goodwill was not impaired.

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

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

We determine the fair value of our reporting units using an income approach. Under the income approach, we determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. 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, 2024, were as follows:

(Dollars in thousands)	Number of Reporting Units	Representing Goodwill of
No goodwill balance	6	\$ —
Fair value of reporting units exceeds their carrying values by more than 15%	1	121,051
	7	\$ 121,051

Based upon a sensitivity analysis, a reduction of approximately 50-basis points of projected EBITDA margin in 2024 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 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 2024 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 2025, 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 \$1.2 million valuation allowance against certain deferred tax assets as of September 30, 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, 2024. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 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, 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, 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

In addition to the other information set forth in this Quarterly Report on Form 10-Q, including the risk factor set forth below, you should carefully consider the risks and uncertainties set forth in "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on February 29, 2024.

The proposed transaction may not be completed on the terms or timeline currently contemplated, or at all, and failure to complete the proposed transaction may result in material adverse consequences to our business and operations.

The consummation of the Merger is subject to customary closing conditions, including: obtaining the approval of the Merger Agreement by our stockholders; expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended; the absence of a judgment, order, writ, injunction, decree or award of any governmental authority that enjoins or otherwise prohibits consummation of the Merger; and other customary conditions. If any one of these conditions is not satisfied or waived, the Merger may not be completed. There is no assurance that the transactions contemplated by the Merger Agreement will be completed on the terms or timeline currently contemplated, or at all.

If our stockholders do not adopt the Merger Agreement and approve the Merger or if the transaction contemplated by the Merger Agreement are not completed for any other reason, we would be subject to a number of risks, including the following:

- our stockholders will not receive the Merger Consideration;
- we may be required to pay the termination fee, which is \$5,277,367, if the Merger Agreement is terminated; and
- the trading price of our common stock may experience increased volatility to the extent that the current market prices reflect a market assumption that the transactions contemplated by the Merger Agreement will be completed.

The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations or the trading price of our common stock. We are also exposed to general competitive pressures and risks, which may be increased if the transactions contemplated by the Merger Agreement are not completed.

Our business will be subject to business uncertainties and contractual restrictions while the proposed transaction is pending that could adversely affect us.

Uncertainty about the effect of the proposed transaction on employees, customers and suppliers may have an adverse effect on us, regardless of whether the transactions contemplated by the merger agreement are eventually completed. These uncertainties may impair our ability to attract, retain and motivate key personnel until the transaction contemplated by the Merger Agreement are completed, or the Merger Agreement is terminated, and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change or discontinue existing business relationships with us.

Employee retention and recruitment may be particularly challenging for us during the pendency of the transactions contemplated by the Merger Agreement, as employees and prospective employees may experience uncertainty about their future roles with us. The departure of existing key employees or the failure of potential key employees to accept employment

with us, despite our retention and recruiting efforts, could have a material adverse impact on our business, financial condition and operating results, regardless of whether the transactions are eventually completed.

The pursuit of the transactions contemplated by the Merger Agreement have placed, and will continue to place, a significant burden on our management and internal resources. There is a significant degree of difficulty and management distraction inherent in the process of closing the transactions contemplated by the Merger Agreement, which could cause an interruption of, or loss of momentum in, the activities of our existing businesses, regardless of whether the transactions are eventually completed. One potential consequence of such distractions could be the failure of management to realize other opportunities that could be beneficial to us. If our senior management is not able to effectively manage the process leading up to and immediately following the closing of the transactions contemplated by the Merger Agreement, our business could suffer.

In addition, the Merger Agreement restricts us from taking specified actions without the consent of Parent until the transactions contemplated by the Merger Agreement are consummated or the Merger Agreement is terminated. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our businesses before completion of the transactions contemplated by the Merger Agreement or the termination of the Merger Agreement.

The Merger Agreement contains provisions that may discourage other companies from trying to acquire us.

The Merger Agreement contains provisions that may discourage third parties from submitting acquisition proposals to us that might result in greater value to our stockholders than the transactions contemplated by the Merger Agreement. The Merger Agreement generally prohibits us from soliciting any competing acquisition proposal. In addition, if the Merger Agreement is terminated by us or Parent in circumstances that obligate us to pay the termination fee provided for in the Merger Agreement, our financial condition may be adversely affected as a result of such payment, which might deter third parties from proposing alternative acquisition proposals.

We have incurred and will continue to incur transaction-related costs in connection with the transactions contemplated by the Merger Agreement.

We have incurred transaction-related costs in connection with the transactions contemplated by the Merger. Some of these costs and expenses will be incurred even if the transaction contemplated by the Merger Agreement are not consummated.

Some of our existing agreements may contain change in control, anti-assignment or early termination rights that may be implicated by the transactions contemplated by the Merger Agreement, and some of our customers may experience uncertainty associated with the proposed transaction, which may limit our business.

Parties with which we currently do business or may do business in the future, including customers and suppliers, may experience uncertainty associated with the transactions contemplated by the Merger Agreement, including with respect to current or future business relationships with us. As a result, our business relationships may be subject to disruptions if customers, suppliers, or others attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us. For example, certain customers, vendors and other counterparties may have contractual consent rights that are, and may have contractual termination rights that could be, triggered by a change of control. These disruptions could impact our relationships with existing customers and preclude us from attracting new customers, all of which could have a material adverse effect on our business, financial condition and results of operations, cash flows, or share price. The effect of such disruptions could be exacerbated by a delay in the consummation of the transactions contemplated by the Merger Agreement.

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

Issuer Purchases of Equity Securities

(In thousands, except for price per share)	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (\$)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (1)
Period				
July 1, 2024 - July 31, 2024	—	\$ —	—	\$ 8,013
August 1, 2024 - August 31, 2024	—	\$ —	—	\$ 8,013
September 1, 2024 - September 30, 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. We are restricted from repurchasing shares of common stock during the period between the execution of the Merger Agreement and the closing of the transactions contemplated by the Merger Agreement without Parent's approval.

Item 5. Other Information

During the third quarter of 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

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of August 27, 2024, by and among us, TechPrint Holdings, LLC and TechPrint Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on August 27, 2024).
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of September 10, 2024, by and among us, TechPrint Holdings, LLC and TechPrint Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on September 11, 2024)
3.1	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)
3.2	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)
10.1	Voting Agreement, dated as of August 27, 2024, by and among TechPrint Holdings, LLC, Kumarakulasingam Suriyakumar, Dilantha Wijesuriya, Jorge Avalos, Rahul Roy, Sujeewa Sean Pathiratne, Suriyakumar Family Trust, Shiyulli Suriyakumar 2013 Irrevocable Trust, and Seiyonne Suriyakumar 2013 Irrevocable Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 27, 2024).
10.2	Amendment No. 1 to Voting Agreement, dated as of September 10, 2024, by and among TechPrint Holdings, LLC, Kumarakulasingam Suriyakumar, Dilantha Wijesuriya, Jorge Avalos, Rahul Roy, Sujeewa Sean Pathiratne, Suriyakumar Family Trust, Shiyulli Suriyakumar 2013 Irrevocable Trust, and Seiyonne Suriyakumar 2013 Irrevocable Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 11, 2024).
10.3	Limited Guarantee, dated as of August 27, 2024, by and between ARC Document Solutions, Inc. and Kumarakulasingam Suriyakumar (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on August 27, 2024).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *
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 4, 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 4, 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 4, 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, Kumarakulasingam Suriyakumar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended September 30, 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 4, 2024

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam 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, 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 4, 2024

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)