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 June 30, 2021

or

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

For the transition period from __________ to __________

Commission File Number: 001-32407

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

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

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

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

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

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

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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 43,298,103 as of July 27, 2021.

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended June 30, 2021

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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 COVID-19 pandemic on our financial results and the effectiveness of the Company's responses to the pandemic, future cash flows, and capital requirements, 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 largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this 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, 2020. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as indicative of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- our financial condition and results of operations for fiscal 2021 and beyond have been and are expected to continue to be adversely affected by the recent novel coronavirus (or COVID-19) pandemic;
- we are highly dependent on the architectural, engineering, construction and building owner/operator (AEC/O) industry and any decline in that industry could adversely affect our future revenue and profitability;
- because a significant portion of our overall costs are fixed, our earnings are highly sensitive to changes in revenue;
- if we are unable to charge for our value-added services to offset declines in print volumes, our long-term revenue could decline;
- we derive a significant percentage of net sales from within the State of California and our business could be disproportionately harmed by an economic downturn or natural disaster affecting California;
- our growth strategy depends, in part, on our ability to successfully market and execute several different, but related, service offerings;
- we are dependent upon our vendors to continue to supply us equipment, parts, supplies, and services at comparable terms and price levels as the business grows;
- our failure to adequately protect the proprietary aspects of our technology, including SKYSITE, PlanWell, and Abacus may cause us to lose market share;
- our failure to protect our customers’ confidential information against security breaches could damage our reputation, harm our business and adversely affect our results of operations;
- our failure to comply with laws related to privacy and data security could adversely affect our financial condition;
- added risks are associated with our international operations;
- a large percentage of our cash and cash equivalents are held outside of the United States, and we could be subject to repatriation delays and costs which could reduce our financial flexibility;

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

- changes in tax laws and interpretations could adversely affect our business;

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

- if the interest rates on our borrowings increase, our access to capital and net income could be adversely affected; and

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

Except where otherwise indicated, the statements made in this 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. We undertake no obligation, and specifically disclaim any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we make in future filings of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments thereto, as well as our proxy statements.

TRADEMARKS AND TRADE NAMES

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

PART I—FINANCIAL INFORMATION

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

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

(In thousands, except per share data)	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 52,372**	$ 54,950
Accounts receivable, net of allowances for accounts receivable of **$2,246** and $2,357	**38,222**	36,279
Inventory	**9,287**	9,474
Prepaid expenses	**4,669**	4,065
Other current assets	**3,287**	3,979
Total current assets	**107,837**	108,747
Property and equipment, net of accumulated depreciation of **$226,453** and $219,834	**48,961**	57,830
Right-of-use assets from operating leases	**33,993**	37,859
Goodwill	**121,051**	121,051
Other intangible assets, net	**392**	515
Deferred income taxes	**15,749**	17,261
Other assets	**2,267**	2,175
Total assets	**$ 330,250**	$ 345,438
Liabilities and Equity		
Current liabilities:		
Accounts payable	**$ 20,057**	$ 18,661
Accrued payroll and payroll-related expenses	**12,160**	10,088
Accrued expenses	**16,288**	17,783
Current operating lease liability	**11,039**	12,158
Current portion of finance leases	**15,514**	17,557
Total current liabilities	**75,058**	76,247
Long-term operating lease liabilities	**29,694**	33,561
Long-term debt and finance leases	**68,132**	79,679
Other long-term liabilities	**1,571**	1,615
Total liabilities	**174,455**	191,102
Commitments and contingencies (Note 6)		
Shareholders’ equity:		
ARC Document Solutions, Inc. shareholders’ equity:		
Preferred stock, $0.001 par value, 25,000 shares authorized; **0** shares issued and outstanding	**—**	—
Common stock, $0.001 par value, 150,000 shares authorized; **50,403** and 49,422 shares issued and **43,298** and 42,792 shares outstanding	**50**	49
Additional paid-in capital	**128,524**	127,755
Retained earnings	**38,982**	37,308
Accumulated other comprehensive loss	**(2,535)**	(2,787)
	165,021	162,325
Less cost of common stock in treasury, **7,105** and 6,630 shares	**15,682**	14,657
Total ARC Document Solutions, Inc. shareholders’ equity	**149,339**	147,668
Noncontrolling interest	**6,456**	6,668
Total equity	**155,795**	154,336
Total liabilities and equity	**$ 330,250**	$ 345,438

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2021**	**2020**	**2021**	**2020**
Net sales	**$ 68,799**	$ 64,319	**$ 130,529**	$ 152,744
Cost of sales	**46,007**	43,874	**88,950**	104,702
Gross profit	**22,792**	20,445	**41,579**	48,042
Selling, general and administrative expenses	**18,549**	17,292	**35,544**	41,630
Amortization of intangible assets	**56**	471	**131**	1,068
Income from operations	**4,187**	2,682	**5,904**	5,344
Other income, net	**(12)**	(17)	**(23)**	(33)
Interest expense, net	**576**	1,131	**1,196**	2,240
Income before income tax provision	**3,623**	1,568	**4,731**	3,137
Income tax provision	**1,155**	148	**1,651**	1,255
Net income	**2,468**	1,420	**3,080**	1,882
Loss attributable to the noncontrolling interest	**106**	41	**283**	262
Net income attributable to ARC Document Solutions, Inc. shareholders	**$ 2,574**	$ 1,461	**$ 3,363**	$ 2,144
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.05
Diluted	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.05
Weighted average common shares outstanding:				
Basic	**42,304**	42,672	**42,284**	43,154
Diluted	**42,597**	42,767	**42,613**	43,277

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 June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income	**$ 2,468**	$ 1,420	**$ 3,080**	$ 1,882
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments, net of tax	**244**	385	**323**	(589)
Other comprehensive income (loss), net of tax	**244**	385	**323**	(589)
Comprehensive income	**2,712**	1,805	**3,403**	1,293
Comprehensive loss attributable to noncontrolling interest, net of tax	**(35)**	(6)	**(212)**	(360)
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	**$ 2,747**	$ 1,811	**$ 3,615**	$ 1,653

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

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

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss)/Income	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at March 31, 2020	49,517	$ 50	$ 126,641	$ 32,225	$ (4,198)	$ (13,842)	$ 6,318	$ 147,194
Stock-based compensation	343	—	416					416
Issuance of common stock under Employee Stock Purchase Plan	31		20					20
Comprehensive income (loss)				1,461	350		(6)	1,805
Balance at June 30, 2020	49,891	$ 50	$ 127,077	$ 33,686	$ (3,848)	$ (13,842)	$ 6,312	$ 149,435

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss)/Income	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at March 31, 2021	**49,433**	**$ 49**	**$ 128,108**	**$ 37,250**	**$ (2,708)**	**$ (14,813)**	**$ 6,491**	**$ 154,377**
Stock-based compensation	**963**	**1**	**404**					**405**
Issuance of common stock under Employee Stock Purchase Plan	**7**		**12**					**12**
Treasury shares						**(869)**		**(869)**
Cash dividends - common stock ($0.02 per share)				**(842)**				**(842)**
Comprehensive income (loss)				**2,574**	**173**		**(35)**	**2,712**
Balance at June 30, 2021	**50,403**	**$ 50**	**$ 128,524**	**$ 38,982**	**$ (2,535)**	**$ (15,682)**	**$ 6,456**	**$ 155,795**

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss)	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2019	49,189	$ 49	$ 126,117	$ 31,969	$ (3,357)	$ (11,410)	$ 6,672	$ 150,040
Stock-based compensation	643	1	920					921
Issuance of common stock under Employee Stock Purchase Plan	59		40					40
Treasury shares						(2,432)		(2,432)
Cash dividends - common stock ($0.01 per share)				(427)				(427)
Comprehensive income (loss)				2,144	(491)		(360)	1,293
Balance at June 30, 2020	49,891	$ 50	$ 127,077	$ 33,686	$ (3,848)	$ (13,842)	$ 6,312	$ 149,435

	ARC Document Solutions, Inc. Shareholders							
	Common Stock				Accumulated			
(In thousands, except per share data)	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss)/Income	Common Stock in Treasury	Noncontrolling Interest	Total
Balance at December 31, 2020	**49,422**	**$ 49**	**$ 127,755**	**$ 37,308**	**$ (2,787)**	**$ (14,657)**	**$ 6,668**	**$ 154,336**
Stock-based compensation	**963**	**1**	**743**					**744**
Issuance of common stock under Employee Stock Purchase Plan	**18**		**26**					**26**
Treasury shares						**(1,025)**		**(1,025)**
Cash dividends - common stock ($0.02 per share)				**(1,689)**				**(1,689)**
Comprehensive income (loss)				**3,363**	**252**		**(212)**	**3,403**
Balance at June 30, 2021	**50,403**	**$ 50**	**$ 128,524**	**$ 38,982**	**$ (2,535)**	**$ (15,682)**	**$ 6,456**	**$ 155,795**

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

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

	Six Months Ended June 30,	
(In thousands)	**2021**	**2020**
Cash flows from operating activities		
Net income	**$ 3,080**	$ 1,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for accounts receivable	**6**	517
Depreciation	**12,768**	14,464
Amortization of intangible assets	**131**	1,068
Amortization of deferred financing costs	**32**	32
Stock-based compensation	**743**	920
Deferred income taxes	**1,434**	1,244
Deferred tax valuation allowance	**103**	(28)
Other non-cash items, net	**(79)**	(32)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(1,859)**	8,166
Inventory	**214**	1,942
Prepaid expenses and other assets	**5,323**	7,011
Accounts payable and accrued expenses	**(5,007)**	(10,931)
Net cash provided by operating activities	**16,889**	26,255
Cash flows from investing activities		
Capital expenditures	**(1,554)**	(2,581)
Other	**220**	80
Net cash used in investing activities	**(1,334)**	(2,501)
Cash flows from financing activities		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	**26**	40
Share repurchases	**(1,025)**	(2,432)
Payments on finance leases	**(9,565)**	(6,300)
Borrowings under revolving credit facilities	**38,750**	40,000
Payments under revolving credit facilities	**(45,000)**	(25,000)
Payment of deferred financing costs	**(281)**	—
Dividends paid	**(1,269)**	(870)
Net cash (used in) provided by financing activities	**(18,364)**	5,438
Effect of foreign currency translation on cash balances	**231**	(186)
Net change in cash and cash equivalents	**(2,578)**	29,006
Cash and cash equivalents at beginning of period	**54,950**	29,425
Cash and cash equivalents at end of period	**$ 52,372**	$ 58,431
Supplemental disclosure of cash flow information		
Noncash investing and financing activities		
Finance lease obligations incurred	**$ 2,094**	$ 8,078
Operating lease obligations incurred	**$ 1,198**	$ 3,644

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

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

1. Description of Business and Basis of Presentation

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

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conformity with the requirements of the U.S. Securities and Exchange Commission ("SEC"). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management’s opinion, the accompanying interim Condensed Consolidated Financial Statements reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three and six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

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

These interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

Revenue Recognition

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
CDIM	**$ 43,089**	$ 41,070	**$ 80,523**	$ 90,230
MPS[1]	**18,005**	16,233	**35,340**	43,541
AIM	**3,286**	2,653	**6,310**	6,253
Equipment and supplies sales	**4,419**	4,363	**8,356**	12,720
Net sales	**$ 68,799**	$ 64,319	**$ 130,529**	$ 152,744

[1] MPS includes $16.5 million of rental income and $1.5 million of service income for the three months ended June 30, 2021 and $32.3 million of rental income and $3.0 million of service income for the six months ended June 30, 2021. MPS includes $14.7 million of rental income and $1.5 million of service income for the three months ended June 30, 2020 and $40.1 million of rental income and $3.4 million of service income for the six months ended June 30, 2020.

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted

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

Segment Reporting

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

Risk and Uncertainties

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

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

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of 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 six months ended June 30, 2021, 5.0 million shares of common stock were excluded from the calculation of diluted net income attributable to ARC per common share, because they were anti-dilutive. For the three and six months ended June 30, 2020, 5.2 million shares of common stock were excluded from the calculation of diluted net loss attributable to ARC per common share, because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's stock plan.

Basic and diluted weighted average common shares outstanding were calculated as follows for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Weighted average common shares outstanding during the period—basic	**42,304**	42,672	**42,284**	43,154
Effect of dilutive stock awards	**293**	95	**329**	123
Weighted average common shares outstanding during the period—diluted	**42,597**	42,767	**42,613**	43,277

3. Goodwill and Other Intangibles

Goodwill

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

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

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

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

Long-lived and Other Intangible Assets

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

Factors considered by the Company include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. When the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, the Company recognizes an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair value of the asset, based on the fair value if available, or discounted cash flows, if fair value is not available. The Company assessed potential impairments of its long lived assets as of September 30, 2020 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 June 30, 2021 and December 31, 2020 which continue to be amortized:

	June 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	**$ 99,539**	**$ 99,413**	**$ 126**	$ 99,425	$ 99,191	$ 234
Trade names and trademarks	**20,335**	**20,069**	**266**	20,325	20,044	281
	$ 119,874	**$ 119,482**	**$ 392**	$ 119,750	$ 119,235	$ 515

Estimated future amortization expense of other intangible assets for the remainder of the 2021 fiscal year, and each of the subsequent four fiscal years and thereafter, are as follows:

2021 (excluding the six months ended June 30, 2021)	**$ 67**
2022	**103**
2023	**44**
2024	**42**
2025	**38**
Thereafter	**98**
	$ 392

4. Income Taxes

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

The Company recorded an income tax provision of $1.2 million and $1.7 million in relation to pretax income of $3.6 million and $4.7 million for the three and six months ended June 30, 2021, respectively, which resulted in an effective income tax rate of 31.9% and 34.9%, respectively, primarily impacted by certain stock-based compensation, change in valuation allowances against certain deferred tax assets and non-deductible expenses. The Company recorded an income tax provision of $0.1 million and $1.3 million in relation to pretax income of $1.6 million and $3.1 million for the three and six months ended June 30, 2020, respectively, which resulted in an effective income tax rate of 9.4% and 40.0%, respectively, primarily due to certain stock-based compensation, a change in valuations allowances against certain deferred tax assets, and non-deductible expenses.

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

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

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

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

The Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative income/losses in recent years, as adjusted for permanent differences. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's current estimates, due to unanticipated events, such as the ultimate financial impact of and recovery from the COVID-19 pandemic or otherwise, could have a material effect on its financial condition and results of operations. The Company has a $2.2 million valuation allowance against certain deferred tax assets as of June 30, 2021.

Based on the Company’s current assessment, the remaining net deferred tax assets as of June 30, 2021 are considered more likely than not to be realized. The valuation allowance of $2.2 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:

	June 30, 2021	December 31, 2020
Revolving Loans; **1.6%** and 2.2% interest rate at June 30, 2021 and December 31, 2020	**$ 48,750**	$ 55,000
Various finance leases; weighted average interest rate of **4.9%** at June 30, 2021 and December 31, 2020; principal and interest payable monthly through December 2026	**34,896**	42,236
	83,646	97,236
Less current portion	**(15,514)**	(17,557)
	$ 68,132	$ 79,679

Credit Agreement

On April 22, 2021, the Company entered into a Credit Agreement with U.S. Bank National Association, as administrative agent and the lender party thereto (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 2021 Credit Agreement features terms similar to the 2014 Credit Agreement, including the ability to use excess cash of up to $15 million per year for restricted payments such as share repurchases and dividends. The obligation under the 2021 Credit Agreement matures on April 22, 2026.

As of June 30, 2021, the Company's borrowing availability of revolving loans under the revolving loan commitment was $19.1 million, after deducting outstanding letters of credit of $2.2 million and outstanding revolving loans of $48.8 million.

Loans borrowed under the 2021 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to the applicable LIBOR (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 LIBOR loans bear interest at a per annum rate (which rate shall not be less than zero) equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by U.S. Bank National Association as its “prime rate,” plus (ii) a margin ranging from 0.25% to 0.75%, based on the Company’s Total Leverage Ratio.

The Company pays certain recurring fees with respect to the 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. We were in compliance with our covenants as of June 30, 2021.

The 2021 Credit Agreement also includes certain tests the Company is required to meet in order to pay dividends, repurchase stock and make other restricted payments. In order to make such payments which are permitted subject to certain customary conditions set forth in the 2021 Credit Agreement, the amount of all such payments will be limited to $15 million during any twelve-month period. When calculating the fixed charge coverage ratio, the Company may exclude up to $10 million of such restricted payments that would otherwise constitute fixed charges in any twelve-month period.

The 2021 Credit Agreement allows for payment of dividends. In April 2021, the Company's board of directors declared a quarterly cash dividend of $0.02 per share that is payable on August 31, 2021 to shareholders of record as of July 30, 2021. Accordingly, the Company recorded a dividend payable of $842 thousand within accrued expenses as of June 30, 2021.

The 2021 Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; material inaccuracy of a representation or warranty when made; cross-default to other material indebtedness; bankruptcy, insolvency and dissolution events; inability to pay debts; monetary judgment defaults; actual or asserted invalidity or impairment of any definitive loan documentation, repudiation of guaranties or subordination terms; certain ERISA related events; or a change of control.

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

6. Commitments and Contingencies

Operating Leases. The Company leases machinery, equipment, and office and operational facilities under non-cancelable operating lease agreements used in the ordinary course of business. Certain lease agreements for the Company's facilities generally contain renewal options and provide for annual increases in rent based on the local Consumer Price Index. Refer to Note 7, *Leasing,* on our Annual Report on Form 10-K for the year ended December 31, 2020 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 our business, including commercial and employment-related lawsuits. Some of these lawsuits purport or may be determined to be class actions and seek substantial damages, and some may remain unresolved for several years. The Company establishes accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's evaluation of whether a loss is reasonably probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. As of June 30, 2021, 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.

7. Stock-Based Compensation

On April 29, 2021, the Company's shareholders 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. The Company is authorized to issue up to 3.5 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 June 30, 2021, 2.6 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 six months ended June 30, 2021, the Company granted options to acquire a total of 0.7 million shares of the Company's common stock to certain key employees with an exercise price equal to the fair market value of the Company’s common stock on the date of grant. During the six months ended June 30, 2021, the Company granted 0.9 million shares of restricted stock awards to certain key employees with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. These stock options and restricted stock awards vest annually over three years from the grant date. In addition, the Company granted approximately 28 thousand shares of restricted stock awards to each of the Company's four non-employee members of its board of directors with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted.

Stock-based compensation expense was $0.4 million and $0.7 million for the three and six months ended June 30, 2021, respectively compared to stock-based compensation expense of $0.4 million and $0.9 million for the three and six months ended June 30, 2020, respectively.

As of June 30, 2021, total unrecognized compensation cost related to unvested stock-based payments totaled $3.2 million and is expected to be recognized over a weighted-average period of approximately 2.4 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 June 30, 2021, the Company's assets and liabilities that are measured at fair value were not material.

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

Cash equivalents: Cash equivalents are time deposits with maturity of three months or less when purchased, which are highly liquid and readily convertible to cash. Cash equivalents reported in the Company’s interim Condensed Consolidated Balance Sheet were $13.5 million as of June 30, 2021 and $13.2 million as of December 31, 2020 and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Short and long-term debt: The carrying amount of the Company’s finance leases reported in the interim Condensed Consolidated Balance Sheets approximates fair value based on the Company’s current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount reported in the Company’s interim Condensed Consolidated Balance Sheet as of June 30, 2021 for borrowings under its 2021 Credit Agreement is $48.8 million. The Company has determined, utilizing observable market quotes, that the fair value of borrowings under its 2021 Credit Agreement is $48.8 million as of June 30, 2021.

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, 2020 and this Quarterly Report on Form 10-Q for the quarter ended June 30, 2021.

Business Summary

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

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

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

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

Managed Print Services (MPS), which consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a "per-use" basis. MPS is supported by our proprietary technology, Abacus, which allows our customers to capture, control, manage, print, and account for their documents. MPS sales represent recurring, contracted revenue in which we are paid a single cost per unit of material used, often referred to as a "click charge." MPS sales are driven by the ongoing print needs of our customers at their facilities. Because the recent pandemic has forced a large number of our clients to direct their employees to work from home, MPS volume and sales have declined over the past year.

Archiving and Information Management (AIM), which consists of software and professional services to facilitate the capture, management, access and retrieval of documents and information that have been produced in the past. AIM includes our SKYSITE software application to organize, search and retrieve documents, as well as the provision of services that include the capture and conversion of hardcopy and electronic documents, and their cloud-based storage and maintenance. A growing portion of our sales are being driven by our ability to handle protected health information (PHI) as our regional scanning centers are HIPAA-compliant. AIM sales are driven by the need to leverage past intellectual property for present or future use, facilitate cost savings and efficiency improvements over current hardcopy and digital storage methods, as well as comply with regulatory and records retention requirements. Remote access to digital documents driven by work-from-home conditions created by the recent pandemic have also contributed to recent sales in this area of our business.

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

We have expanded our business beyond the services we traditionally provided to the architectural, engineering, construction, and building owner/operator (AEC/O) industry in the past and are currently focused on growing MPS, AIM and CDIM, as we believe the mix of services demanded by the AEC/O industry continues to shift toward document management at customer locations and in the cloud, and away from its historical emphasis on large-format construction drawings produced "offsite" in our service centers.

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

Based on our analysis of our operating results, we estimate that sales to the AEC/O industry accounted for approximately 67% of our net sales for the six months ended June 30, 2021, with the remaining 33% consisting of sales to businesses outside of the AEC/O industry.

Costs and Expenses

Our cost of sales consists primarily of materials (paper, toner, and other consumables), labor, and indirect costs, which consist primarily of equipment expenses related to our MPS contracts and our service center facilities. Facilities and equipment expenses include maintenance, repairs, rental payments, insurance, and depreciation. Paper is the largest component of our material cost; however, paper pricing typically does not significantly affect our operating margins due, in part, to our efforts to pass increased costs on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

We maintain low levels of inventory. Historically, our capital expenditure requirements have varied due to the cost and availability of finance lease lines of credit. Our relationships with credit providers have provided attractive lease rates over the recent years, and as a result, we chose to lease rather than purchase equipment in a significant portion of our engagements.

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

COVID-19 Pandemic

The global spread of the novel coronavirus (COVID-19) has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The impact of this pandemic has created significant prolonged uncertainty in the global economy and has negatively affected our business, employees, suppliers, and customers. While our sales during the second quarter of 2021 increased as the negative effects of the recent pandemic began to subside with increasing economic activity compared to the same period in 2020, there is still uncertainty regarding COVID-19 variants, including but not limited to the Delta variant. The duration of these trends and the magnitude of such impacts cannot be precisely estimated at this time, as they are affected by a number of factors, many of which are outside management's control, including those presented in "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020.

To adapt to the uncertainty and shifting demands brought on by the COVID-19 pandemic, we transformed our business during the second quarter of 2020 into a smaller but stronger company, offering a range of products beyond the construction vertical and our historical print segments, and reconfiguring our operations and cost structure to fit the needs of our customers in the current market. We have repositioned the Company based on the belief that there is potential for new growth and similar, if not better margins, barring any unforeseen changes that may arise due to the COVID-19 pandemic or otherwise.

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

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

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

We are the largest document services provider to industries that build and maintain our country's infrastructure and thus considered an essential business. We also serve the housing, healthcare, and technology industries, and have been able to keep almost all of our service centers open during the pandemic, though at reduced volumes, in order to fulfill our customers' needs. However, there is uncertainty around the extent and duration of interruptions to our business related to the COVID-19 pandemic, as well as the pandemic's overall impact on the U.S. economy, on our clients' ongoing business operations, and on our results of operations and financial condition. While our management team is actively monitoring the impacts of the COVID-19 pandemic, and may take further actions altering our business operations that we determine are in the best interests of our employees and clients or as required by federal, state, or local authorities, the full impact of the COVID-19 pandemic on the results of our operations, financial condition, or liquidity for the remainder of fiscal year 2021 and beyond cannot be estimated at this point. The following discussions are subject to the future effects of the COVID-19 pandemic on our ongoing business operations.

Results of Operations

(In millions, except percentages)	Three Months Ended June 30,				Increase (decrease)		Six Months Ended June 30,				Increase (decrease)		
	2021[1]		2020[1]		$	%	2021[1]		2020[1]		$		%
CDIM	**$**	**43.1**	$	41.1	$ 2.0	4.9 %	**$**	**80.5**	$	90.2	$	(9.7)	(10.8)%
MPS		**18.0**		16.2	1.8	10.9 %		**35.3**		43.5		(8.2)	(18.8)%
AIM		**3.3**		2.7	0.6	23.9 %		**6.3**		6.3		0.1	0.9 %
Equipment and supplies sales		**4.4**		4.4	0.1	1.3 %		**8.4**		12.7		(4.4)	(34.3)%
Total net sales	**$**	**68.8**	$	64.3	$ 4.5	7.0 %	**$**	**130.5**	$	152.7	$	(22.2)	(14.5)%
Gross profit	**$**	**22.8**	$	20.4	$ 2.3	11.5 %	**$**	**41.6**	$	48.0	$	(6.5)	(13.5)%
Selling, general and administrative expenses	**$**	**18.5**	$	17.3	$ 1.3	7.3 %	**$**	**35.5**	$	41.6	$	(6.1)	(14.6)%
Amortization of intangible assets	**$**	**0.1**	$	0.5	$ (0.4)	(88.1) %	**$**	**0.1**	$	1.1	$	(0.9)	(87.7)%
Interest expense, net	**$**	**0.6**	$	1.1	$ (0.6)	(49.1) %	**$**	**1.2**	$	2.2	$	(1.0)	(46.6)%
Income tax provision	**$**	**1.2**	$	0.1	$ 1.0	680.4 %	**$**	**1.7**	$	1.3	$	0.4	31.6 %
Net income attributable to ARC	**$**	**2.6**	$	1.5	$ 1.1	76.2 %	**$**	**3.4**	$	2.1	$	1.2	56.9 %
Non-GAAP [2]													
Adjusted net income attributable to ARC [2]	**$**	**2.6**	$	1.2	$ 1.4	116.4 %	**$**	**3.6**	$	2.4	$	1.2	48.2 %
EBITDA [2]	**$**	**10.7**	$	10.3	$ 0.4	4.0 %	**$**	**19.1**	$	21.2	$	(2.1)	(9.7)%
Adjusted EBITDA [2]	**$**	**11.1**	$	10.7	$ 0.4	3.7 %	**$**	**19.9**	$	22.1	$	(2.2)	(10.1)%

(1) Column does not foot due to rounding.
(2) See "Non-GAAP Financial Measures" on pg. 25 for additional information.

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

	As Percentage of Net Sales Three Months Ended June 30,		As Percentage of Net Sales Six Months Ended June 30,	
	2021 [1]	2020	2021 [1]	2020[1]
Net sales	**100.0 %**	100.0 %	**100.0 %**	100.0 %
Cost of sales	**66.9**	68.2	**68.1**	68.5
Gross profit	**33.1**	31.8	**31.9**	31.5
Selling, general and administrative expenses	**27.0**	26.9	**27.2**	27.3
Amortization of intangible assets	**0.1**	0.7	**0.1**	0.7
Income from operations	**6.1**	4.2	**4.5**	3.5
Interest expense, net	**0.8**	1.8	**0.9**	1.5
Income before income tax provision	**5.3**	2.4	**3.6**	2.1
Income tax provision	**1.7**	0.2	**1.3**	0.8
Net income	**3.6**	2.2	**2.4**	1.2
Loss attributable to the noncontrolling interest	**0.2**	0.1	**0.2**	0.2
Net income attributable to ARC	**3.7 %**	2.3 %	**2.6 %**	1.4 %
Non-GAAP [2]				
EBITDA [2]	**15.5 %**	16.0 %	**14.6 %**	13.9 %
Adjusted EBITDA [2]	**16.1 %**	16.6 %	**15.2 %**	14.5 %

(1) Column does not foot due to rounding.
(2) See "Non-GAAP Financial Measures" on pg. 25 for additional information.

Three and Six Months Ended June 30, 2021 Compared to Three and Six Months Ended June 30, 2020

Net Sales

Net sales for the three months ended June 30, 2021 increased 7.0% compared to the same period in 2020. The increase in net sales in the second quarter of 2021 is primarily due to increasing year-over-year economic activity as the negative effects of the COVID-19 pandemic began to subside. Sales in the second quarter also benefited from targeted marketing of services to address the changing graphic printing and scanning needs of customers.

Net sales for the six months ended June 30, 2021 decreased 14.5% compared to the same period in 2020. The decrease in net sales is primarily due to stronger pre-pandemic results during the three months ended March 31, 2020, which are included in the comparative period.

CDIM. Year-over-year sales of CDIM services increased $2.0 million, or 4.9% for the three months ended June 30, 2021 compared to the same period in 2020. Year-over-year sales of CDIM services decreased $9.7 million or 10.8% for the six months ended June 30, 2021 compared to the same period in 2020. CDIM services represented 63% and 62% of total net sales for the three and six months ended June 30, 2021, respectively, compared to 64% and 59% for the three and six months ended June 30, 2020, respectively. The impact of the COVID-19 pandemic on sales from CDIM was not as pronounced as it was on other parts of our business due to the changes we made in 2019 and 2020 to expand our products and services beyond the construction vertical ("Expanded Offerrings") and to reconfigure our sales and marketing functions. During the second quarter of 2021, sales increases were due to increased sales of our Expanded Offerings, as well as increased demand from businesses re-openings, and the increase in general economic activity for the period.

MPS. Year-over-year sales of MPS services for the three months ended June 30, 2021 increased $1.8 million, or 10.9%. MPS sales increased as work from home directives ended for some of our customers, which in turn, lead to increased demand for our services performed on site.

Year-over year sales of MPS services for the six months ended June 30, 2021 decreased $8.2 million or 18.8%. The decline during the six months ended June 30, 2021, was primarily caused by employer work-from-home directives issued in 2020 that significantly reduced the volume of printing done in our customers' offices. MPS engagements on construction job sites continued to operate, and many customers have required minimums that helped mitigate the drop in print volumes.

MPS sales represented approximately 26% and 27% of total net sales for the three and six months ended June 30, 2021, respectively, compared to 25% and 29% for the three and six months ended June 30, 2020.

The number of MPS locations have declined slightly year over year to approximately 10,780 as of June 30, 2021, representing a net decrease of approximately 165 locations compared to June 30, 2020.

AIM. Year-over-year sales of AIM services increased $0.6 million, or 23.9%, and $0.1 million or 0.9% for the three and six months ended June 30, 2021, respectively. The increase in sales of our AIM services was primarily attributable to the end of work from home directives for some of our customers resulting in greater demand for scanning services. We continue to drive an expansion of our addressable market for AIM services by targeting building owners and facility managers that require on-demand access to their legacy documents to operate their assets efficiently. We believe that, with the expansion of our addressable market and the desire of our customers to have digital access to documents, our AIM services will grow in the future.

Equipment and Supplies Sales. Year-over-year sales of Equipment and Supplies increased $0.1 million, or 1.3% for the three months ended June 30, 2021 compared to the same period in 2020. The increase is a reflection of the more favorable economic conditions in 2021 when compared to the second quarter of 2020, especially in the U.S.

Year-over-year sales of Equipment and Supplies decreased $4.4 million or 34.3%, for the six months ended June 30, 2021. The decline in Equipment and Supplies sales for the six months ended June 30, 2021 was primarily driven by the economic slowdown in China related to the COVID-19 pandemic, which decreased sales from UNIS Document Solutions Co. Ltd (“UDS”), our Chinese joint venture. Equipment and Supplies sales at UDS were $0.8 million and $1.6 million for the three and six months ended June 30, 2021, respectively, compared to $1.4 million and $4.8 million for the three and six months ended June 30, 2020.

We generally do not anticipate growth in Equipment and Supplies sales as we continue to place more focus on growing MPS sales and converting sales contracts to MPS agreements.

Gross Profit

During the three months ended June 30, 2021, gross profit and gross margin increased to $22.8 million, or 33.1%, compared to $20.4 million, or 31.8% during the three months ended June 30, 2020, on a sales increase of $4.5 million.

During the six months ended June 30, 2021, gross profit decreased to $41.6 million and gross margin increased to 31.9%, compared to $48.0 million, or 31.5% during the six months ended June 30, 2020, on a sales decline of $22.2 million.

During the three months ended Jun 30, 2020, we began to reconfigure our operating structure and costs to serve new customer needs and to reflect the reduction in our revenues as a result of the COVID-19 pandemic. The leverage provided by the new cost structure drove a year-over-year gross margin increase of 130 basis points on higher sales for the three months ended June 30, 2021. The benefits of the new cost structure also increased year-over-year gross margin in the first six-months of 2021 by 40 basis points, despite lower sales compared to the same period in 2020.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $1.3 million, or 7.3%, for the three months ended June 30, 2021, compared to the three months ended June 30, 2020, primarily driven by an increase in commissions and bonus payments as a result of improved sales and profitability for the period. Additionally, in 2021 we eliminated the temporary wage reductions for most employees that were put in place at the beginning of the pandemic.

Selling, general and administrative expenses decreased $6.1 million, or 14.6% for the six months ended June 30, 2021, compared to the six months ended June 30, 2020. The reduction was due to cost savings initiated in response to the current COVID-19 pandemic that included headcount reductions, suspension of business travel, reduced consulting expenses, reduced bonuses and commissions, and the elimination of discretionary spending.

Amortization of Intangibles

Amortization of intangibles of $0.1 million for the three and six months ended June 30, 2021, decreased by $0.4 million and $0.9 million compared to the three and six months ended June 30, 2020, respectively, due to the completed amortization of certain customer relationship intangibles related to historical acquisitions.

Interest Expense, Net

Net interest expense of $0.6 million and $1.2 million for the three and six months ended June 30, 2021, respectively, decreased by $0.6 million and $1.0 million compared to the three and six months ended June 30, 2020, respectively, due to the continued pay-down of our long-term debt, decrease in LIBOR, and a decrease in the bank debt interest spread due to an improvement in our leverage ratio.

Income Taxes

We recorded an income tax provision of $1.2 million and $1.7 million and in relation to pretax income of $3.6 million and $4.7 million for the three and six months ended June 30, 2021, respectively, which resulted in an effective income tax rate of 31.9% and 34.9%. Our effective income tax rate for the three and six months ended June 30, 2021, was primarily affected by certain stock-based compensation, a change in valuation allowances against certain deferred tax assets, and non-deductible expenses. Excluding the impact of the change in valuation allowances, certain nondeductible stock-based compensation, and other discrete tax items, our effective income tax rate would have been 29.9% and 29.7%, respectively, for the three and six months ended June 30, 2021.

By comparison, we recorded an income tax provision of $0.1 million and $1.3 million in relation to pretax income of $1.6 million and $3.1 million for the three and six months ended June 30, 2020, respectively, which resulted in an effective income tax rate of 9.4% and 40.0%. The increase in our effective income tax rate for the three and six months ended June 30, 2020, was primarily affected by certain stock-based compensation, a change in valuation allowances against certain deferred tax assets, and non-deductible expenses. Excluding the impact of the change in valuation allowances, certain nondeductible stock-based compensation, and other discrete tax items, our effective income tax rate would have been 24.9% and 29.1% for the three and six months ended June 30, 2020.

We have a $2.2 million valuation allowance against certain deferred tax assets as of June 30, 2021.

Noncontrolling Interest

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

Net Income Attributable to ARC

Net income attributable to ARC increased to $2.6 million and $3.4 million during the three and six months ended June 30, 2021, respectively. The increase in net income attributable to ARC compared to the prior year period for the three and six months ending June 30, 2020 was driven primarily by improved gross margin, reduction in amortization expense, and significantly lower net interest expense as a result of debt pay-downs and a decrease in LIBOR.

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 decreased to 15.5% for the three months ended June 30, 2021, from 16.0% for the same period in 2020. Excluding the effect of stock-based compensation, adjusted EBITDA margin decreased to 16.1% during the three months ended June 30, 2021, as compared to 16.6% for the same period in 2020. The decrease in adjusted EBITDA margin for the three months ended June 30, 2021, was primarily due to the increase in selling, general and administrative expenses, as noted above.

EBITDA margin increased to 14.6% for the six months ended June 30, 2021, from 13.9% for the same period in 2020. Excluding the effect of stock-based compensation, adjusted EBITDA margin increased to 15.2% during the six months ended June 30, 2021, as compared to 14.5% for the same period in 2020. The increase in adjusted EBITDA margin for the six months ended June 30, 2021, was primarily due to the increase in gross margins, as noted above.

Impact of Inflation

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and six months ended June 30, 2021 and 2020 to reflect the exclusion of changes in the valuation allowances related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and six months ended June 30, 2021 and 2020. We believe these charges were the result of items which are not indicative of our actual operating performance.

We have presented adjusted EBITDA for the three and six months ended June 30, 2021 and 2020 to exclude stock-based compensation expense. The adjustment to exclude stock-based compensation expense to 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.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Cash flows provided by operating activities	**$ 11,514**	$ 23,481	**$ 16,889**	$ 26,255
Changes in operating assets and liabilities	**(1,165)**	(13,689)	**1,329**	(6,188)
Non-cash expenses, including depreciation and amortization	**(7,881)**	(8,372)	**(15,138)**	(18,185)
Income tax provision	**1,155**	148	**1,651**	1,255
Interest expense, net	**576**	1,131	**1,196**	2,240
Loss attributable to the noncontrolling interest	**106**	41	**283**	262
Depreciation and amortization	**6,375**	7,528	**12,899**	15,532
EBITDA	**$ 10,680**	$ 10,268	**$ 19,109**	$ 21,171

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Net income attributable to ARC Document Solutions, Inc.	**$ 2,574**	$ 1,461	**$ 3,363**	$ 2,144
Interest expense, net	**576**	1,131	**1,196**	2,240
Income tax provision	**1,155**	148	**1,651**	1,255
Depreciation and amortization	**6,375**	7,528	**12,899**	15,532
EBITDA	**10,680**	10,268	**19,109**	21,171
Stock-based compensation	**404**	416	**743**	920
Adjusted EBITDA	**$ 11,084**	$ 10,684	**$ 19,852**	$ 22,091

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021(1)	2020
Net income margin attributable to ARC Document Solutions, Inc.	**3.7 %**	2.3 %	**2.6 %**	1.4 %
Interest expense, net	**0.8**	1.8	**0.9**	1.5
Income tax provision	**1.7**	0.2	**1.3**	0.8
Depreciation and amortization	**9.3**	11.7	**9.9**	10.2
EBITDA margin	**15.5**	16.0	**14.6**	13.9
Stock-based compensation	**0.6**	0.6	**0.6**	0.6
Adjusted EBITDA margin	**16.1 %**	16.6 %	**15.2 %**	14.5 %

(1) Column does not foot due to rounding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Net income attributable to ARC Document Solutions, Inc.	**$ 2,574**	$ 1,461	**$ 3,363**	$ 2,144
Deferred tax valuation allowance and other discrete tax items	**68**	(240)	**199**	259
Adjusted net income attributable to ARC Document Solutions, Inc.	**$ 2,642**	$ 1,221	**$ 3,562**	$ 2,403
Actual:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.05
Diluted	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.05
Weighted average common shares outstanding:				
Basic	**42,304**	42,672	**42,284**	43,154
Diluted	**42,597**	42,767	**42,613**	43,277
Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.06
Diluted	**$ 0.06**	$ 0.03	**$ 0.08**	$ 0.06
Weighted average common shares outstanding:				
Basic	**42,304**	42,672	**42,284**	43,154
Diluted	**42,597**	42,767	**42,613**	43,277

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 June 30, 2021 was $52.4 million. Of this amount, $16.0 million was held in foreign countries, with $14.6 million held in China. Repatriation of some of our cash and cash equivalents in foreign countries could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result of holding cash and cash equivalents outside of the U.S., our financial flexibility may be reduced.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Net cash provided by operating activities	**$ 11,514**	$ 23,481	**$ 16,889**	$ 26,255
Net cash used in investing activities	**$ (897)**	$ (1,453)	**$ (1,334)**	$ (2,501)
Net cash (used in) provided by financing activities	**$ (7,983)**	$ (2,105)	**$ (18,364)**	$ 5,438

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 three and six months ended June 30, 2021, compared to the same period in 2020, reflect normalized levels of cash generation and collectibles for the period, compared to the same period in 2020 when aggressive measures were implemented to manage working capital and preserve cash in response to the COVID-19 pandemic. Days sales outstanding ("DSO") was 50 days as of June 30, 2021 and 59 as of June 30, 2020. We are closely managing cash collections which have remained relatively consistent since the outbreak of the COVID-19 pandemic.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling $1.6 million and $2.6 million for the six months ended June 30, 2021 and 2020, respectively. The decrease in capital expenditures is driven primarily by a concerted effort to reduce and closely manage capital expenditures during the COVID-19 pandemic.

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

Financing Activities

Net cash of $18.4 million used in financing activities during the six months ended June 30, 2021, primarily relates to payments on our revolver debt agreement, finance leases, dividends and share repurchases.

Our cash position, working capital, and debt obligations as of June 30, 2021 and December 31, 2020 are shown below and should be read in conjunction with our interim Condensed Consolidated Balance Sheets and related notes contained elsewhere in this report.

(In thousands)	**June 30, 2021**	**December 31, 2020**
Cash and cash equivalents	**$ 52,372**	$ 54,950
Working capital	**$ 32,779**	$ 32,500
Borrowings from revolving credit facility	**$ 48,750**	$ 55,000
Other debt obligations	**34,896**	42,236
Total debt obligations	**$ 83,646**	$ 97,236

The increase of $0.3 million in working capital was primarily driven by the increase in accounts receivable and decrease in the current portion of operating and finance lease liabilities, as we entered into fewer leases since the beginning of the COVID-19 pandemic. 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 $52.4 million, combined with availability under our revolving credit facility, availability under our equipment lease lines, and cash flows provided by operations should be sufficient to cover the next twelve months working capital needs, leasing requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. An extended period of global supply chain and economic disruption could materially affect our business, results of operations, ability to meet debt covenants, access to sources of liquidity and financial condition. Given the economic uncertainty as a result of the COVID-19 pandemic, we have taken actions to improve our current liquidity position by reducing working capital, reducing capital expenditures, reducing operating costs, initiating workforce reductions, and substantially reducing discretionary spending. See "Debt Obligations" section for further information related to our revolving credit facility.

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

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

Debt Obligations

Credit Agreement

On April 22, 2021, we entered into a Credit Agreement with U.S. Bank National Association, as administrative agent and the lender party thereto (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 2014 Credit Agreement dated as of November 20, 2014, as amended (the "2014 Credit Agreement"). The 2021 Credit Agreement features terms similar to the 2014 Credit Agreement, including the ability to use excess cash of up to $15 million per year for restricted payments such as share repurchases and dividends. The obligation under the 2021 Credit Agreement matures on April 22, 2026.

The 2021 Credit Agreement also includes certain tests we are required to meet in order to pay dividends, repurchase stock and make other restricted payments. In order to make such payments which are permitted subject to certain customary conditions set forth in the 2021 Credit Agreement, the amount of all such payments will be limited to $15 million during any twelve-month period. When calculating the fixed charge coverage ratio, we may exclude up to $10 million of such restricted payments that would otherwise constitute fixed charges in any twelve-month period.

As of June 30, 2021, our borrowing availability under the revolving loan commitment was $19.1 million, after deducting outstanding letters of credit of $2.2 million and outstanding revolving loans of $48.8 million.

Loans borrowed under the 2021 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to the applicable LIBOR (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 LIBOR loans bear interest at a per annum rate (which rate shall not be less than zero) equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by U.S. Bank National Association as its "prime rate," plus (ii) a margin ranging from 0.25% to 0.75%, based on our Total Leverage Ratio. We pay certain recurring fees with respect to the 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) of us and our subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of us or our subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend our organizational documents; or enter into certain restrictive agreements. In addition, the 2021 Credit Agreement contains financial covenants which requires us to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 2.75 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the 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 as of June 30, 2021. After considering a variety of potential effects the COVID-19 pandemic could have on our consolidated sales, as well as the actions we have already taken and other options available to us, we currently believe we will be in compliance with our covenants for the remainder of the term of the 2021 Credit Agreement. The impact of the COVID-19 pandemic, however, and the speed of economic recovery in the markets we serve is highly uncertain. If conditions change in the future due to the ongoing COVID-19 pandemic or for other reasons and we expect to be out of compliance as a result, we will likely seek waivers from the lenders prior to any covenant violation. Any covenant waiver may lead to increased costs, increased interest rates, additional restrictive covenants and other available lender protections that would be applicable. There can be no assurance that we would be able to obtain any such waivers in a timely manner, or on acceptable terms, or at all. If we were not able to obtain covenant violation waivers or repay our debt facilities, this would lead to an event of default and potential acceleration of amounts due under all of our outstanding debt. As a result, the failure to obtain covenant violation waivers or repay our debt obligations when they become due would have a material adverse effect on us. Refer to "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, for more information.

The 2021 Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; material inaccuracy of a representation or warranty when made; cross-default to other material indebtedness; bankruptcy, insolvency and dissolution events; inability to pay debts; monetary judgment defaults; actual or asserted invalidity or impairment of any definitive loan documentation, repudiation of guaranties or subordination terms; certain ERISA related events; or a change of control.

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

Finance Leases

As of June 30, 2021, we had $34.9 million of finance lease obligations outstanding, with a weighted average interest rate of 4.9% and maturities between 2021 and 2026. Refer to Note 7, *Leasing,* as previously disclosed on our Annual Form 10-K for the fiscal year ended for December 31, 2020 for the schedule on maturities of finance lease liabilities, as there have been no material changes to report as of June 30, 2021.

Off-Balance Sheet Arrangements

As of June 30, 2021, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations and Other Commitments

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business. Refer to Note 7, *Leasing*, as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended for December 31, 2020 for the schedule on maturities of operating lease liabilities as there were no material changes as of June 30, 2021.

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 June 30, 2021 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.

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our Annual Report on Form 10-K for the year ended December 31, 2020 includes a description of certain critical accounting policies, including those with respect to goodwill, revenue recognition, and income taxes. There have been no material changes to our critical accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2020.

Goodwill Impairment

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

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

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

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

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

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

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

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

Income Taxes

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

When establishing a valuation allowance, we consider future sources of taxable income such as future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards and tax planning strategies. A tax planning strategy is an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets. In the event we determine that our deferred tax assets, more likely than not, will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination. We have a $2.2 million valuation allowance against certain deferred tax assets as of June 30, 2021.

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

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

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

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

Recent Accounting Pronouncements

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

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

Not applicable.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2021. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of June 30, 2021, 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 six months ended June 30, 2021, 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 June 30, 2021, we have accrued for the potential impact of loss contingencies that are probable and reasonably estimable. We do not currently believe that the ultimate resolution of any of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition, or cash flows.

Item 1A. *Risk Factors*

Information concerning certain risks and uncertainties are set forth in "Part I - Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 24, 2021.

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

Issuer Purchases of Equity Securities

(In thousands, except for price per share)	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share ($)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (1)
Period				
January 1, 2021 - January 31, 2021	—		—	$ 9,901
February 1, 2021 - February 28, 2021	—		—	$ 9,901
March 1, 2021 - March 31, 2021	29	$ 2.02	29	$ 9,842
April 1, 2021 - April 30, 2021	—		—	$ 9,842
May 1, 2021 - May 31, 2021	264	$ 2.07	264	$ 9,295
June 1, 2021 - June 30, 2021	115	$ 2.22	115	$ 9,039
Total	408		408	

(1) The Company's Board of Directors approved a stock repurchase program that authorizes the Company to purchase up to $15.0 million of the Company's outstanding common stock through March 31, 2023.

Item 6. ***Exhibits***

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

* Filed herewith

SIGNATURES

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

Date: August 3, 2021

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer

Exhibit 31.1

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

I, Kumarakulasingam Suriyakumar, certify that:

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

Date: August 3, 2021

/s/ KUMARAKULASINGAM SURIYAKUMAR

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

Exhibit 31.2

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

I, Jorge Avalos, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2021

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, Kumarakulasingam Suriyakumar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2021 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: August 3, 2021

/s/ KUMARAKULASINGAM SURIYAKUMAR

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

Exhibit 32.2

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

I, Jorge Avalos, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 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: August 3, 2021

/s/ JORGE AVALOS

Jorge Avalos
Chief Financial Officer
(Principal Financial Officer)