

ARC DOCUMENT SOLUTIONS, INC.

FORM 10-Q (Quarterly Report)

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Address	1981 N. BROADWAY, SUITE 385 WALNUT CREEK, CA 94596
Telephone	925 949-5100
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-32407

ARC DOCUMENT SOLUTIONS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-1700361

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

**1981 N. Broadway, Suite 385
Walnut Creek, California 94596
(925) 949-5100**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 30, 2014, there were 46,684,453 shares of the issuer's common stock outstanding.

ARC DOCUMENT SOLUTIONS, INC.

Form 10-Q

For the Quarter Ended March 31, 2014

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FORWARD-LOOKING STATEMENTS

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

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

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

<u>(In thousands, except per share data)</u>	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,993	\$ 27,362
Accounts receivable, net of allowances for accounts receivable of \$2,512 and \$2,517	59,493	56,328
Inventories, net	16,066	14,047
Deferred income taxes	353	356
Prepaid expenses	4,590	4,324
Other current assets	4,155	4,013
Total current assets	<u>108,650</u>	<u>106,430</u>
Property and equipment, net of accumulated depreciation of \$209,649 and \$206,636	56,574	56,181
Goodwill	212,608	212,608
Other intangible assets, net	26,316	27,856
Deferred financing fees, net	3,083	3,242
Deferred income taxes	1,222	1,186
Other assets	2,323	2,419
Total assets	<u>\$ 410,776</u>	<u>\$ 409,922</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 22,652	\$ 23,363
Accrued payroll and payroll-related expenses	11,059	11,497
Accrued expenses	23,230	21,365
Current portion of long-term debt and capital leases	19,188	21,500
Total current liabilities	<u>76,129</u>	<u>77,725</u>
Long-term debt and capital leases	197,197	198,228
Deferred income taxes	32,339	31,667
Other long-term liabilities	3,186	3,163
Total liabilities	<u>308,851</u>	<u>310,783</u>
Commitments and contingencies (Note 7)		
Stockholders' equity:		
ARC Document Solutions, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value, 25,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value, 150,000 shares authorized; 46,684 and 46,365 shares issued and 46,639 and 46,320 shares outstanding	46	46
Additional paid-in capital	107,599	105,806
Retained deficit	(13,232)	(14,628)
Accumulated other comprehensive income	396	634
Total ARC Document Solutions, Inc. stockholders' equity	<u>94,809</u>	<u>91,858</u>
Less cost of common stock in treasury, 45 shares	168	168
Total ARC Document Solutions, Inc. stockholders' equity	<u>94,641</u>	<u>91,690</u>
Noncontrolling interest	7,284	7,449
Total equity	<u>101,925</u>	<u>99,139</u>
Total liabilities and equity	<u>\$ 410,776</u>	<u>\$ 409,922</u>

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

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

<u>(In thousands, except per share data)</u>	Three Months Ended March 31,	
	2014	2013
Service sales	\$ 88,931	\$ 87,800
Equipment and supplies sales	11,442	12,236
Total net sales	100,373	100,036
Cost of sales	66,439	67,657
Gross profit	33,934	32,379
Selling, general and administrative expenses	26,106	23,773
Amortization of intangible assets	1,498	1,747
Restructuring expense	483	472
Income from operations	5,847	6,387
Other income	(26)	(26)
Interest expense, net	3,913	6,041
Income before income tax provision (benefit)	1,960	372
Income tax provision (benefit)	664	(311)
Net income	1,296	683
Loss (income) attributable to noncontrolling interest	100	(268)
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 1,396	\$ 415
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	\$ 0.03	\$ 0.01
Diluted	\$ 0.03	\$ 0.01
Weighted average common shares outstanding:		
Basic	45,990	45,762
Diluted	46,782	45,791

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

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

<u>(In thousands)</u>	Three Months Ended March 31,	
	2014	2013
Net income	\$ 1,296	\$ 683
Other comprehensive loss, net of tax		
Foreign currency translation adjustments	(303)	(153)
Other comprehensive loss, net of tax	(303)	(153)
Comprehensive income	993	530
Comprehensive (loss) income attributable to noncontrolling interest	(165)	309
Comprehensive income attributable to ARC Document Solutions, Inc. shareholders	\$ 1,158	\$ 221

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

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

ARC Document Solutions, Inc. Shareholders									
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value			Other Comprehensive Income (loss)	Total			
Balance at December 31, 2012	46,274	\$ 46	\$ 102,510	\$ 695	\$ 689	\$ (44)	\$ 6,941	\$ 110,837	
Stock-based compensation	(10)	—	592	—	—	—	—	592	
Comprehensive income:									
Net income	—	—	—	415	—	—	268	683	
Foreign currency translation adjustments	—	—	—	—	(194)	—	41	(153)	
Comprehensive income								530	
Balance at March 31, 2013	46,264	\$ 46	\$ 103,102	\$ 1,110	\$ 495	\$ (44)	\$ 7,250	\$ 111,959	

ARC Document Solutions, Inc. Shareholders									
(In thousands, except per share data)	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated		Common Stock in Treasury	Noncontrolling Interest	Total
	Shares	Par Value			Other Comprehensive Income (loss)	Total			
Balance at December 31, 2013	46,365	\$ 46	\$ 105,806	\$ (14,628)	\$ 634	\$ (168)	\$ 7,449	\$ 99,139	
Stock-based compensation	142	—	781	—	—	—	—	781	
Issuance of common stock under Employee Stock Purchase Plan	3	—	21	—	—	—	—	21	
Stock options exercised	174	—	991	—	—	—	—	991	
Comprehensive income:									
Net income (loss)	—	—	—	1,396	—	—	(100)	1,296	
Foreign currency translation adjustments	—	—	—	—	(238)	—	(65)	(303)	
Comprehensive income								993	
Balance at March 31, 2014	46,684	\$ 46	\$ 107,599	\$ (13,232)	\$ 396	\$ (168)	\$ 7,284	\$ 101,925	

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

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

(In thousands)	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 1,296	\$ 683
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for accounts receivable	147	145
Depreciation	6,995	6,955
Amortization of intangible assets	1,498	1,747
Amortization of deferred financing costs	183	283
Amortization of bond discount	225	165
Stock-based compensation	781	592
Deferred income taxes	1,893	(409)
Deferred tax valuation allowance	(1,289)	20
Restructuring expense, non-cash portion	384	58
Other non-cash items, net	(170)	(114)
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable	(3,435)	(9,183)
Inventory	(2,014)	46
Prepaid expenses and other assets	222	3,709
Accounts payable and accrued expenses	998	7,184
Net cash provided by operating activities	7,714	11,881
Cash flows from investing activities		
Capital expenditures	(3,565)	(5,612)
Other	164	357
Net cash used in investing activities	(3,401)	(5,255)
Cash flows from financing activities		
Proceeds from stock option exercises	441	—
Proceeds from issuance of common stock under Employee Stock Purchase Plan	21	—
Payments on long-term debt agreements and capital leases	(7,963)	(3,332)
Net borrowings (repayments) under revolving credit facilities	402	(1,139)
Payment of deferred financing costs	(457)	—
Net cash used in financing activities	(7,556)	(4,471)
Effect of foreign currency translation on cash balances	(126)	43
Net change in cash and cash equivalents	(3,369)	2,198
Cash and cash equivalents at beginning of period	27,362	28,021
Cash and cash equivalents at end of period	\$ 23,993	\$ 30,219
Supplemental disclosure of cash flow information		
Noncash financing activities		
Capital lease obligations incurred	\$ 4,088	\$ 1,254
Stock options exercised - unsettled	\$ 550	\$ —

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 the nation's leading document solutions provider for the architectural, engineering and construction (“AEC”) industry while also providing document solutions to businesses of all types. ARC offers a variety of services including: Onsite Services, Digital Services, Color Services, and Traditional Reprographics Services. In addition, ARC also sells Equipment and Supplies. The Company conducts its operations through its wholly-owned operating subsidiary, American Reprographics Company, L.L.C., a California limited liability company, and its subsidiaries.

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 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 presented reflect all adjustments of a normal and recurring nature that are necessary to fairly present the interim Condensed Consolidated Financial Statements. All material intercompany accounts and transactions have been eliminated in consolidation. The operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 .

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 2013 Form 10-K.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-05. The new guidance covers the accounting for a cumulative translation adjustment on the parent entity upon de-recognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The adoption of ASU 2013-05 had no impact to the Company’s Condensed Consolidated Financial Statements.

Segment Reporting

The provisions of Accounting Standards Codification (“ASC”) 280, *Disclosures about Segments of an Enterprise and Related Information* , 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, whose operating results are reviewed by the Company's Chief Executive Officer and Chief Operating Officer, who, acting jointly, are deemed to be the chief operating decision makers. Because its operating segments have similar products and services, classes of customers, production processes and economic characteristics, the Company is deemed to operate as a single reportable segment.

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

	Three Months Ended March 31,	
	2014	2013
Service Sales		
Traditional reprographics	\$ 28,325	\$ 29,558
Color	21,165	20,905
Digital	8,059	8,361
Subtotal	57,549	58,824
Onsite services ⁽¹⁾	31,382	28,976
Total services sales	88,931	87,800
Equipment and supplies sales	11,442	12,236
Total net sales	\$ 100,373	\$ 100,036

(1) Represents work done at the Company's customer sites which includes Facilities Management ("FM") and Managed Print Services ("MPS").

Risk and Uncertainties

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

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

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if common shares subject to outstanding options and acquisition rights had been issued and if the additional common shares were dilutive. Common stock equivalents are excluded from the computation if their effect is anti-dilutive. For the three months ended March 31, 2014, stock options for 1.2 million common shares, respectively, were excluded from the calculation of diluted net income attributable to ARC per common share because they were anti-dilutive. For the three months ended March 31, 2013, stock options for 3.8 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share because they were anti-dilutive.

Basic and diluted earnings per share for the three months ended March 31, 2014 and 2013 were calculated using the following common shares:

	Three Months Ended March 31,	
	2014	2013
Weighted average common shares outstanding—basic	45,990	45,762
Effect of dilutive impact on equity-based compensation awards	792	29
Weighted average common shares outstanding—diluted	46,782	45,791

3. Restructuring Expenses

To ensure that the Company's costs and resources were in line with demand for its current portfolio of services and products, management initiated a restructuring plan in the fourth quarter of 2012. Restructuring activities associated with the plan concluded in the fourth quarter of 2013. Through December 31, 2013, the restructuring plan included the closure or downsizing of 56 of the Company's service centers, which represented more than 25% of its total number of service center locations. In addition, as part of the restructuring plan, the Company reduced headcount and middle management associated with its service center locations, streamlined the senior operational management team, and allocated more resources into growing sales categories such as Onsite services. The reduction in headcount totaled approximately 300 full-time employees, which represented approximately 10% of the Company's total workforce. To date, the Company has incurred \$6.3 million of expense related to its restructuring plan.

Restructuring expenses include employee termination costs, estimated lease termination and obligation costs, and other restructuring expenses. Restructuring expenses for the three months ended March 31, 2014 primarily consisted of revised estimated lease termination and obligation costs resulting from facilities closed in 2013.

The following table summarizes restructuring expenses incurred in the three months ended March 31, 2014 and 2013 :

	Three Months Ended March 31,	
	2014	2013
Employee termination costs	\$ —	\$ 11
Estimated lease termination and obligation costs	367	407
Other restructuring expenses	116	54
Total restructuring expenses	\$ 483	\$ 472

The changes in the restructuring liability from December 31, 2013 through March 31, 2014 are summarized as follows:

	Three Months Ended March 31, 2014
Balance, December 31, 2013	\$ 539
Restructuring expenses	483
Payments	(303)
Balance, March 31, 2014	\$ 719

4. Goodwill and Other Intangibles Resulting from Business Acquisitions

Goodwill

In connection with acquisitions, the Company applies the provisions of ASC 805, *Business Combinations*, using the acquisition method of accounting. The excess purchase price over the assessed fair value of net tangible assets and identifiable intangible assets acquired is recorded as 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, 2013, the Company assessed goodwill for impairment and determined that goodwill was not impaired.

Based upon its assessment, the Company concluded that no goodwill impairment triggering events have occurred during the first quarter of 2014 that would require an additional impairment test.

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.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of the reporting units to its carrying amount. If the carrying amount of a reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as

determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

The Company determines the fair value of its reporting units using an income approach. Under the income approach, the Company determined fair value based on estimated discounted future cash flows of each reporting unit. The cash flows are discounted by an estimated weighted-average cost of capital, which is intended to reflect the overall level of inherent risk of a 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 Company considered market information in assessing the reasonableness of the fair value under the income approach outlined above.

Given the current economic environment, the changing document and printing needs of the Company's customers, and the uncertainties regarding the related impact on the Company's business, there can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment testing in 2013 will prove to be accurate predictions of the future. If the Company's assumptions, including forecasted EBITDA of certain reporting units, are not achieved, the Company may be required to record additional goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing in the third quarter of 2014, 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 to the carrying amount of goodwill from January 1, 2013 through March 31, 2014.

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 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 divisional level.

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

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

The following table sets forth the Company's other intangible assets resulting from business acquisitions as of March 31, 2014 and December 31, 2013 which continue to be amortized:

	March 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	\$ 97,690	\$ 71,934	\$ 25,756	\$ 97,775	\$ 70,495	\$ 27,280
Trade names and trademarks	20,368	19,808	560	20,375	19,799	576
	<u>\$ 118,058</u>	<u>\$ 91,742</u>	<u>\$ 26,316</u>	<u>\$ 118,150</u>	<u>\$ 90,294</u>	<u>\$ 27,856</u>

Based on current information, estimated future amortization expense of amortizable intangible assets for the remainder of the 2014 fiscal year, each of the subsequent four fiscal years and thereafter are as follows:

2014 (excluding the three months ended March 31, 2014)	\$	4,238
2015		5,208
2016		4,509
2017		3,994
2018		3,628
Thereafter		4,739
	\$	<u>26,316</u>

5. Income Taxes

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

The Company recorded an income tax provision of \$0.7 million in relation to pretax income of \$2.0 million for the three months ended March 31, 2014 . The income tax provision was primarily due to the impact of amortization of tax basis goodwill in a deferred tax liability position.

In accordance with ASC 740-10, *Income Taxes* , the Company evaluates its deferred tax assets to determine if a valuation allowance is required based on the consideration of all available evidence using a “more likely than not” standard, with significant weight being given to evidence that can be objectively verified. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability; the length of statutory carryover periods for operating losses and tax credit carryovers; and available tax planning alternatives. As of June 30, 2011, the Company determined that cumulative losses for the preceding twelve quarters constituted sufficient objective evidence (as defined by ASC 740-10) that a valuation allowance on certain deferred assets was needed. As of March 31, 2014 , the Company has a \$84.3 million valuation allowance against certain of its deferred tax assets.

Based on the Company’s assessment, the remaining net deferred tax assets of \$1.6 million as of March 31, 2014 , which relate to foreign entities, are considered more likely than not to be realized. The valuation allowance of \$84.3 million may be increased or decreased as conditions change or if the Company is unable to implement certain available tax planning strategies. The realization of the Company’s net deferred tax assets ultimately depend on future taxable income, reversals of existing taxable temporary differences or through a loss carry back. The Company has income tax receivables of \$0.2 million as of March 31, 2014 included in other current assets in its condensed consolidated balance sheet primarily related to income tax refunds for prior years.

6. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2014	December 31, 2013
Term loan credit agreement maturing 2018, net of original issue discount of \$3,775 and \$4,000 ; 6.25% interest rate at March 31, 2014 and December 31, 2013, respectively.	\$ 191,225	\$ 196,000
Various capital leases; weighted average interest rate of 7.3% and 7.5% at March 31, 2014 and December 31, 2013, respectively; principal and interest payable monthly through November 2019	22,623	21,516
Borrowings from foreign revolving credit facilities; 0.6% interest rate at March 31, 2014 and December 31, 2013	2,194	1,811
Various other notes payable with a weighted average interest rate of 6.4% at March 31, 2014 and December 31, 2013; principal and interest payable monthly through June 2016	343	401
	<u>216,385</u>	<u>219,728</u>
Less current portion	(19,188)	(21,500)
	<u>\$ 197,197</u>	<u>\$ 198,228</u>

Term Loan Credit Agreement

On December 20, 2013, the Company entered into a Term Loan Credit Agreement (the “Term Loan Credit Agreement”) among the Company, as borrower, JPMorgan Chase Bank., N.A, as administrative agent and as collateral agent, and the lenders party thereto.

The credit facility provided under the Term Loan Credit Agreement consists of an initial term loan facility of \$200.0 million , the entirety of which was disbursed in order to pay for the purchase of the Company's then outstanding 10.5% senior unsecured notes due 2016 (the “Notes”) that were accepted under a cash tender offer and the subsequent redemption of the remaining outstanding Notes and to pay associated fees and expenses in connection with the cash tender offer and redemption. The Company has the right to request increases to the aggregate amount of term loans by an amount not to exceed \$50.0 million in the aggregate.

By refinancing the Notes with this Term Loan Credit Agreement, the Company was able to reduce the effective interest rate on its long-term debt from 10.5% (or \$21.0 million of interest per year on \$200.0 million of principal) to 6.25% (or \$12.5 million of interest per year on \$200.0 million of principal). In addition, it moved the principal portion of the Company's long-term debt into a structure that is efficiently pre-payable without a premium. This allows the Company to use its cash flow to efficiently deliver value to the Company's stockholders.

The Term Loan Credit Agreement maturity date, with respect to the initial \$200.0 million term loan, is December 20, 2018. Under the Term Loan Credit Agreement, the Company is required to make regularly scheduled principal payments of \$2.5 million each quarter, with all remaining unpaid principal due at maturity. During the three months ended March 31, 2014, the Company made its scheduled principal payment of \$2.5 million and voluntarily prepaid its \$2.5 million scheduled principal payment due June 30, 2014.

The term loan extended under the Term Loan Credit Agreement can be maintained in different tranches consisting of Eurodollar loans or as base rate loans. It is expected that the borrowings under the Term Loan Credit Agreement will be maintained in Eurodollars and therefore will bear interest, for any interest period, at a rate per annum equal to (i) the higher of (A) the LIBOR rate for U.S. dollar deposits for a period equal to the applicable interest period as determined by the administrative agent in accordance with the Term Loan Credit Agreement and (B) with respect to the initial term loans only, 1.00% , plus (ii) an applicable margin of 5.25 %

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

In accordance with the Term Loan Credit Agreement, the Company is required to maintain an Interest Expense Coverage Ratio (as defined in the Term Loan Credit Agreement) greater than or equal to 2.00 :1.00 as of the end of each fiscal quarter. In addition, the Company is required to maintain a Total Leverage Ratio less than or equal to (i) 4.50 :1.00 for any fiscal quarter ending through December 31, 2014; (ii) 4.25 :1.00 for any fiscal quarter ending between March 31, 2015 and December 31, 2015; (iii) 4.00 :1.00 for any fiscal quarter ending between March 31, 2016 and December 31, 2016; (iv) 3.75 :1.00 for any fiscal quarter ending between March 31, 2017 and December 31, 2017; and (v) 3.50 :1.00 for any fiscal quarter ending March 31, 2018 and thereafter. The Company was in compliance with the Term Loan Credit Agreement covenants as of March 31, 2014 .

Subject to certain exceptions, the term loan extended under the Term Loan Credit Agreement is subject to customary mandatory prepayment provisions with respect to: the net cash proceeds from certain asset sales; the net cash proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Term Loan Credit Agreement); a portion (with stepdowns based upon the achievement of a financial covenant linked to the total leverage ratio) of annual excess cash flow of the Company and certain of its subsidiaries, and with such required prepayment amount to be reduced dollar-for-dollar by the amount of voluntary prepayments of term loans made with internally generated funds; and, the net cash proceeds in excess of a certain amount from insurance recovery (other than business interruption insurance) and condemnation events of the Company and certain of its subsidiaries, subject to certain reinvestment rights.

The Term Loan 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 certain of its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; engage in mergers or other fundamental changes; sell certain property or assets; pay dividends of other distributions; consummate acquisitions; make investments, loans and advances; prepay certain indebtedness; change the nature of their business; engage in certain transactions with affiliates; and, incur restrictions on the ability of the Company's subsidiaries to make distributions, advances and asset transfers. In addition, under the Term Loan Credit Agreement the Company will be required to comply with a specific leverage ratio and a minimum interest coverage ratio.

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

The obligations of the Company under the Term Loan Credit Agreement are guaranteed by each United States domestic subsidiary of the Company. The Term Loan Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the Senior Secured Credit Facilities or any affiliate of such a lender are secured on a first priority basis by a perfected security interest in substantially all of the Company's and each guarantor's assets (subject to certain exceptions), except that such lien is second priority in the case of inventory, receivables and related assets that are subject to a first priority security interest under the 2012 Credit Agreement (as defined below).

2012 Credit Agreement

On January 27, 2012, the Company entered into a Credit Agreement (the "2012 Credit Agreement"). The 2012 Credit Agreement was amended on December 20, 2013 in connection with the Company's entry into the Term Loan Credit Agreement for the principal purpose of making the 2012 Credit Agreement consistent with the Term Loan Credit Agreement. The 2012 Credit Agreement, as amended, provides revolving loans in an aggregate principal amount not to exceed \$40.0 million with a Canadian sublimit of \$5.0 million, based on inventory and accounts receivable of the Company's subsidiaries organized in the US ("United States Domestic Subsidiaries") and Canada ("Canadian Domestic Subsidiaries") that meet certain eligibility criteria. The 2012 Credit Agreement has a maturity date of January 27, 2017.

Amounts borrowed in US dollars under the 2012 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to LIBOR plus the LIBOR Rate Margin (as defined in the 2012 Credit Agreement), which may range from 1.75% to 2.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). All other amounts borrowed in US dollars that are not LIBOR loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds rate plus 0.5%, (B) the LIBOR (calculated based upon an interest period of three months and determined on a daily basis), plus 1.0% per annum, and (C) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its "prime rate," plus (ii) the Base Rate Margin (as defined in the 2012 Credit Agreement), which may range from 0.75% to 1.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). Amounts borrowed in Canadian dollars bear interest at a per annum rate equal to the Canadian Base Rate (as defined in the 2012 Credit Agreement) plus the LIBOR Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability.

The 2012 Credit Agreement contains various loan covenants that restrict the Company's ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of the Company's business. In addition, at any time when Excess Availability (as defined in the 2012 Credit Agreement) is less than \$8.0 million, the Company is required to maintain a Fixed Charge Coverage Ratio (as defined in the 2012 Credit Agreement) of at least 1.0. The Company's obligations under the 2012 Credit Agreement are secured by substantially all of the Company's and its United States Domestic Subsidiaries' assets. The Company's United States Domestic Subsidiaries have also guaranteed all of the Company's obligations under the 2012 Credit Agreement. The obligations of the Company's Canadian Domestic Subsidiaries which are borrowers under the 2012 Credit Agreement are secured by substantially all of the assets of the Company's Canadian Domestic Subsidiaries.

As of and during the three months ended March 31, 2014, the Company did not have any outstanding debt under the 2012 Credit Agreement, other than contingent reimbursement obligations for undrawn standby letters of credit described below that were issued under the 2012 Credit Agreement.

As of March 31, 2014, based on inventory and accounts receivable of the Company's subsidiaries organized in the US and Canada, the Company's borrowing availability under the 2012 Credit Agreement was \$40.0 million. Standby letters of credit totaling \$2.5 million reduced the Company's borrowing availability under the 2012 Credit Agreement to \$37.5 million as of March 31, 2014.

Foreign Credit Agreement

In the third quarter of 2013, in conjunction with its Chinese operations, UNIS Document Solutions Co. Ltd. ("UDS"), the Company's Chinese business venture with Beijing-based Unisplendour, entered into a revolving credit facility with a term of 18 months. The facility provides for a maximum credit amount of 20.0 million Chinese Yuan Renminbi, which translates to U.S. \$3.2 million as of March 31, 2014. Draws on the facility are limited to 30 day periods and incur a fee of 0.05% of the amount drawn and no additional interest is charged.

Other Notes Payable

Includes notes payable collateralized by equipment previously purchased and subordinated seller notes payable related to prior acquisitions.

7. Commitments and Contingencies

Operating Leases. The Company has entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business.

Contingent Transaction Consideration. The Company is subject to earnout obligations entered into in connection with prior acquisitions. If the acquired businesses generate sales and/or operating profits in excess of predetermined targets, the Company is obligated to make additional cash payments in accordance with the terms of such earnout obligations. As of March 31, 2014, the Company has potential future earnout obligations for acquisitions consummated before the adoption of ASC 805, *Business Combinations*, of approximately \$1.8 million through 2014 if predetermined financial targets are met or exceeded. Earnout payments prior to the adoption of ASC 805 are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable.

Legal Proceedings. On October 21, 2010, a former employee, individually and on behalf of a purported class consisting of all non-exempt employees who work or worked for American Reprographics Company, L.L.C. and American Reprographics Company in the State of California at any time from October 21, 2006 through the present, filed an action against the Company in the Superior Court of California for the County of Orange. The complaint alleges, among other things, that the Company violated the California Labor Code by failing to (i) provide meal and rest periods, or compensation in lieu thereof, (ii) timely pay wages due at termination, and (iii) that those practices also violate the California Business and Professions Code. The relief sought includes damages, restitution, penalties, interest, costs, and attorneys' fees and such other relief as the court deems proper. On March 15, 2013, the Company participated in a private mediation session with claimants' counsel which did not result in resolution of the claim. Subsequent to the mediation session, the mediator issued a proposal that was accepted by both parties. The Company awaits court approval of the settlement. The Company recorded a liability of \$0.9 million as of March 31, 2014 related to the claim, which represents management's best estimate of the probable outcome based on information available. The case remains unresolved as of March 31, 2014. As such, the ultimate resolution of the claim could result in a loss different than the estimated loss recorded.

In addition to the matter described above, the Company is involved in various additional legal proceedings and other legal matters from time to time in the normal course of business. The Company does not believe that the outcome of any of these matters will have a material effect on its consolidated financial position, results of operations or cash flows.

8. Stock-Based Compensation

The Company's 2005 Stock Plan (the "Stock Plan") provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock purchase awards, restricted stock awards, and restricted stock units to employees, directors and consultants of the Company. The Stock Plan authorizes the Company to issue up to 5.0 million shares of common stock. This amount automatically increased annually on the first day of the Company's fiscal year, from 2006 through and including 2010, by the lesser of (i) 1.0% of the Company's outstanding shares on the date of the increase; (ii) 0.3 million shares; or (iii) such smaller number of shares determined by the Company's board of directors. As of March 31, 2014, 0.8 million shares remain available for issuance under the Stock Plan.

Stock options granted under the 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 two to five years from date of award, except that options granted to non-employee directors may vest over a shorter time period. The exercise price of options must be equal to at least 100% (110% in the case of an incentive stock option granted to a 10% stockholder) 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 three months ended March 31, 2014, the Company granted options to acquire a total of 48 thousand shares of the Company's common stock to its Chief Operating Officer with an exercise price equal to the fair market value of the Company's common stock on the date of grant. These stock options will vest annually over four years and expire 10 years after the date of grant. In addition, the Company granted 144 thousand shares of restricted stock to the Company's Chief Executive Officer at a price per share equal to the closing price of the Company's common stock on the respective date the restricted stock was granted. The restricted stock vests annually over four years after the date of grant.

The impact of stock-based compensation before income taxes on the interim Condensed Consolidated Statements of Operations was \$0.8 million and \$0.6 million for the three months ended March 31, 2014 and 2013, respectively.

As of March 31, 2014 , total unrecognized compensation cost related to unvested stock-based payments totaled \$4.2 million and is expected to be recognized over a weighted-average period of 2.0 years.

9. Fair Value Measurements

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 Condensed Consolidated Balance Sheets were \$11.1 million and \$12.9 million as of March 31, 2014 and December 31, 2013 , respectively, and are carried at cost and approximate fair value due to the relatively short period to maturity of these instruments.

Short- and long-term debt: The carrying amount of the Company's capital leases reported in the 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 Condensed Consolidated Balance Sheet as of March 31, 2014 for borrowings under its Term Loan Credit Agreement and other notes payable is \$195.0 million and \$0.3 million , respectively. The Company has determined, utilizing observable market quotes, that the fair value of its Term Loan Credit Agreement and other notes payable is \$197.7 million and \$0.3 million , respectively, as of March 31, 2014 .

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 2013 Form 10-K and this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

Business Summary

ARC Document Solutions, Inc. ("ARC Document Solutions," "ARC," "we," "us," or "our") is the nation's leading document solutions provider for the architectural, engineering and construction ("AEC") industry while also providing document solutions to businesses of all types.

We help our customers reduce their costs and improve productivity of their documents, improve their access and control over documents, and offer a wide variety of ways to print, produce, distribute, collaborate on, and store documents.

We have categorized our service and product offerings to report distinct sales recognized from our Onsite Services, Color Services, Digital Services, Traditional Reprographics Services, and Equipment and Supplies Sales.

Onsite Services consists of placement, management, and optimization of print and imaging equipment in our customer's facilities, relieving them of the burden of owning and managing print devices and print networks, and shifting their costs to a "per-use" basis. Onsite Services sales are driven by the ongoing print needs of our customers, and are less exposed to the episodic large-format printing needs associated with construction projects.

Color Services consists of specialized color printing and finishing services to marketing departments, regional and national retailers, and our traditional AEC customer base. This includes services provided under our Riot Creative Imaging brand.

Digital Services consists of digital document management services of all kinds, including archiving and information management ("AIM"), "digital shipping" and managed file transfer, software licensing, and technology consulting services.

Traditional Reprographics consists of the management, distribution, and print-on-demand of black and white construction drawings (frequently referred to as "blueprints") and specification books. It derives a majority of its revenue from large-format black and white printing.

Equipment and Supplies consists of reselling printing, imaging, and related equipment to customers primarily in the AEC industry.

We are expanding our business beyond the services we have traditionally provided to the AEC industry and are currently focused on growing managed print services, technology-based document management services, and digital color imaging, as we believe the mix of services demanded by the AEC industry continues to shift toward document management at customer locations (represented primarily by our Onsite Services revenue line), and away from its historical emphasis on printing of large-format black and white construction drawings "offsite" in our service centers (represented primarily by our Traditional Reprographics revenue line). This belief is supported by the fact that our Onsite Services in the first quarter of 2014 are 31% of our total sales as compared to 28% for Traditional Reprographics. Onsite Services is now our largest service offering and continues to grow at a rate of more than 8% on a year-over-year basis. In comparison, our revenue mix for the first quarter of 2013 consisted of 30% of our sales coming from Traditional Reprographics, and 29% of our sales coming from Onsite Services.

We deliver our services 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.

Acquisition activity during the last three years has been minimal and did not materially affect our overall business.

We believe we offer a distinct portfolio of services within the AEC industry that include our legacy reprographics business as well as our newer offerings in Onsite Services, Color Services, and Digital Services. Our customer base for these services, however, is still primarily the AEC industry. Based on our analysis of our operating results, we estimate that sales to the AEC industry accounted for approximately 77% of our net sales for the three months ended March 31, 2014, with the remaining 23% consisting of sales to non-AEC industries.

We identify operating segments based on the various business activities that earn revenue and incur expense. Since operating segments have similar products and services, classes of customers, production processes and economic characteristics, we are

deemed to operate as a single reportable segment. See Note 1 “Description of Business and Basis of Presentation” for further information.

Costs and Expenses

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

We maintain low levels of inventory. Historically, our capital expenditure requirements have varied due to the cost and availability of capital lease lines of credit. During most of 2013, we were more frequently electing to purchase equipment for our facilities and onsite service installations rather than lease equipment due to the availability of cash to fund capital expenditures and the interest savings thereby. As we continue to foster our relationships with credit providers and obtain attractive lease rates, we are increasingly choosing to lease rather than purchase equipment.

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

We believe customers are increasingly (1) adopting technology and digital document management practices, and (2) changing their workflow patterns and thereby their document and printing needs. While there were some indications that the non-residential construction market strengthened in 2012, we believe that there was a growing body of evidence by the third quarter of 2012 that demonstrated Traditional Reprographics sales would not likely recover at the same pace due to these factors. To ensure that the Company’s costs and resources were in line with demand for our current portfolio of services and products, management initiated a restructuring plan in October of 2012 that was completed by the fourth quarter of 2013. The restructuring plan included the closure or downsizing of 33 of the Company’s service centers in 2012, which represented more than 10% of our total number of service center locations, and an additional 23 service centers in 2013. In addition, as part of the restructuring plan, we reduced headcount and middle management associated with our service center locations, streamlined the senior operational management team, and allocated more resources into growing sales categories such as Onsite Services and Digital Services. The reduction in headcount totaled approximately 300 full-time employees, which represented approximately 10% of our total workforce.

In the three months of 2014, our gross margins improved by 140 basis points compared to the same period in 2013, which we attribute primarily to our restructuring efforts initiated in October 2012, and suggests continuing year-over-year margin expansion in future periods.

Non-GAAP Financial Measures

EBIT, 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.

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

We present EBIT, 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 EBIT and 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. As a result, we believe EBIT is the best measure of operating segment profitability and the most useful metric by which to measure and compare the performance of our operating segments. We also use EBIT to measure performance for determining operating segment-level compensation and we use EBITDA to measure performance for determining consolidated-level compensation. In addition, we use EBIT and EBITDA to evaluate potential acquisitions and potential capital expenditures.

EBIT, 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, EBIT, 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 EBIT, 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 months ended March 31, 2014 and 2013 to reflect the exclusion of restructuring expense and 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 months ended March 31, 2014 and 2013. We believe these charges were the result of the current macroeconomic environment, our capital restructuring, or other items which are not indicative of our actual operating performance.

We presented adjusted EBITDA in three months ended March 31, 2014 and 2013 to exclude stock-based compensation expense and restructuring expense. The adjustment of EBITDA for non-cash adjustments is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

The following is a reconciliation of cash flows provided by operating activities to EBIT, EBITDA, and net income attributable to ARC Document Solutions, Inc. shareholders:

<u>(In thousands)</u>	Three Months Ended March 31,	
	2014	2013
Cash flows provided by operating activities	\$ 7,714	\$ 11,881
Changes in operating assets and liabilities, net of effect of business acquisitions	4,229	(1,756)
Non-cash expenses, including depreciation, amortization and restructuring	(10,647)	(9,442)
Income tax provision (benefit)	664	(311)
Interest expense, net	3,913	6,041
Income attributable to the noncontrolling interest	100	(268)
EBIT	5,973	6,145
Depreciation and amortization	8,493	8,702
EBITDA	14,466	14,847
Interest expense, net	(3,913)	(6,041)
Income tax (provision) benefit	(664)	311
Depreciation and amortization	(8,493)	(8,702)
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 1,396	\$ 415

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

<u>(In thousands)</u>	Three Months Ended March 31,	
	2014	2013
Net income attributable to ARC Document Solutions, Inc. shareholders	\$ 1,396	\$ 415
Interest expense, net	3,913	6,041
Income tax provision (benefit)	664	(311)
EBIT	5,973	6,145
Depreciation and amortization	8,493	8,702
EBITDA	14,466	14,847
Restructuring expense	483	472
Stock-based compensation	781	592
Adjusted EBITDA	\$ 15,730	\$ 15,911

The following is a reconciliation of net income margin attributable to ARC to EBIT margin, EBITDA margin and adjusted EBITDA margin:

	Three Months Ended March 31,	
	2014 (1)	2013
Net income margin attributable to ARC	1.4%	0.4 %
Interest expense, net	3.9	6.0
Income tax provision (benefit)	0.7	(0.3)
EBIT margin	6.0	6.1
Depreciation and amortization	8.5	8.7
EBITDA margin	14.4	14.8
Restructuring expense	0.5	0.5
Stock-based compensation	0.8	0.6
Adjusted EBITDA margin	15.7%	15.9 %

(1) Column does not foot due to rounding

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

<u>(In thousands, except per share amounts)</u>	Three Months Ended March 31,	
	2014	2013
Net income attributable to ARC Document Solutions, Inc.	\$ 1,396	\$ 415
Restructuring expense	483	472
Income tax benefit related to above items	(188)	(179)
Deferred tax valuation allowance and other discrete tax items	(157)	(154)
Unaudited adjusted net income attributable to ARC Document Solutions, Inc.	<u>\$ 1,534</u>	<u>\$ 554</u>
Actual:		
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	\$ 0.03	\$ 0.01
Diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding:		
Basic	45,990	45,762
Diluted	46,782	45,791
Adjusted:		
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:		
Basic	\$ 0.03	\$ 0.01
Diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding:		
Basic	45,990	45,762
Diluted	46,782	45,791

Free Cash Flows

Free Cash Flows (“FCF”) is defined as cash flows from operating activities less capital expenditures. FCF is a useful measure in determining our ability to generate excess cash flows for reinvestment in the business in a variety of ways including acquisition opportunities, the potential return of value to shareholders through stock repurchases or the purchase of our own debt instruments. As such, we believe this measure provides relevant and useful information to our current and potential investors.

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

<u>(In thousands)</u>	Three Months Ended March 31,	
	2014	2013
Cash flows provided by operating activities ⁽¹⁾	\$ 7,714	\$ 11,881
Capital expenditures	(3,565)	(5,612)
Free Cash Flows	<u>\$ 4,149</u>	<u>\$ 6,269</u>

- (1) Cash flows provided by operating activities for the three months ended March 31, 2013 includes an income tax refund of \$3.8 million received in 2013 related to our 2009 consolidated federal income tax return.

Results of Operations

<u>(In millions, except percentages)</u>	Three Months Ended March 31,		Increase (decrease)	
	2014 (1)	2013	\$(1)	%
Traditional reprographics	\$ 28.3	\$ 29.6	\$ (1.2)	(4.2)%
Color	21.2	20.9	0.3	1.2 %
Digital	8.1	8.4	(0.3)	(3.6)%
Subtotal	\$ 57.5	\$ 58.8	\$ (1.3)	(2.2)%
Onsite services (2)	31.4	29.0	2.4	8.3 %
Equipment and supplies sales	11.4	12.2	(0.8)	(6.5)%
Total net sales	\$ 100.4	\$ 100.0	\$ 0.3	0.3 %
Gross profit	\$ 33.9	\$ 32.4	\$ 1.6	4.8 %
Selling, general and administrative expenses	\$ 26.1	\$ 23.8	\$ 2.3	9.8 %
Amortization of intangibles	\$ 1.5	\$ 1.7	\$ (0.2)	(14.3)%
Restructuring expense	\$ 0.5	\$ 0.5	\$ —	2.3 %
Interest expense, net	\$ 3.9	\$ 6.0	\$ (2.1)	(35.2)%
Income tax provision (benefit)	\$ 0.7	\$ (0.3)	\$ 1.0	(313.5)%
Net income attributable to ARC	\$ 1.4	\$ 0.4	\$ 1.0	236.4 %
Adjusted net income attributable to ARC	\$ 1.5	\$ 0.6	\$ 1.0	176.9 %
EBITDA	\$ 14.5	\$ 14.8	\$ (0.4)	(2.6)%
Adjusted EBITDA	\$ 15.7	\$ 15.9	\$ (0.2)	(1.1)%

(1) Column does not foot due to rounding

(2) Represents services provided at our customers' sites, which includes both Managed Print Services (MPS) and Facilities Management (FM).

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 March 31,	
	2014 (1)	2013
Net Sales	100.0%	100.0 %
Cost of sales	66.2	67.6
Gross profit	33.8	32.4
Selling, general and administrative expenses	26.0	23.8
Amortization of intangibles	1.5	1.7
Restructuring expense	0.5	0.5
Income from operations	5.8	6.4
Interest expense, net	3.9	6.0
Income before income tax provision (benefit)	2.0	0.4
Income tax provision (benefit)	0.7	(0.3)
Net income	1.3	0.7
Loss (income) attributable to the noncontrolling interest	0.1	(0.3)
Net income attributable to ARC	1.4%	0.4 %
EBITDA	14.4%	14.8 %
Adjusted EBITDA	15.7%	15.9 %

(1) Column does not foot due to rounding

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net Sales

Net sales for the three months ended March 31, 2014 increase d by 0.3% , compared to the same period in 2013 . The increase for the three months ended March 31, 2014 was primarily due to the higher sales activity for Onsite Services, which was significantly offset by lower sales activity in our Traditional Reprographics Services offering and Equipment and Supplies Sales. The overall net sales for the three months ended March 31, 2014 were also negatively impacted by the inclement weather conditions through much of the United States. While actual service center closings were few, customer activity (both at our service centers as well as at customer locations) dropped considerably during the weeks when large parts of the country were affected by below freezing temperatures and heavy snows. We estimate related sales decreases for the period to be in the range of \$1.0 million and \$1.5 million. The decreases were experienced in all business lines, including Onsite Services, where entire office buildings were closed due to the weather.

In the first quarter of 2014, Onsite Services generated the largest percentage of net sales, and it experienced the highest percentage change from the prior year at 8.3%. Declines in Traditional Reprographics sales remain influenced by the continuing trend of a greater use of digital processes for document workflow and less reliance on print.

Onsite Services . Year-over-year sales of Onsite Services increase d by \$2.4 million , or 8.3% , for the three months ended March 31, 2014 . Revenues from Onsite Services sales represented approximately 31% of total net sales for the three months ended March 31, 2014 , compared to approximately 29% for the same period in 2013 . Onsite Services revenue is derived from two sources: 1) an engagement with the customer to place primarily large-format equipment that we own or lease at a construction site or in our customers' offices, typically referred to as a facilities management engagement or "traditional FM," and 2) an arrangement by which our customers outsource their entire printing network to us, including all office printing, copying, and reprographics printing, typically referred to as managed print services, or "MPS." In both cases we are paid a single cost per unit of material used, often referred to as a "click charge."

The number of Onsite Services accounts has grown to approximately 7,900 as of March 31, 2014 , an increase of approximately 800 locations compared to March 31, 2013 , due primarily to growth in new MPS placements. We believe Onsite Services is a high growth area for us as demonstrated by the adoption of our MPS services by large, multi-national firms in the AEC space over the past several years. We intend to continue the expansion of our Onsite Service offering through our regional sales force and through Global Solutions, our national accounts group. Our Global Solutions sales force has established long-term contract relationships with 19 of the largest 50 AEC firms. As our Onsite Services, and more specifically MPS services, become a larger percentage of our sales, our overall sales will be less exposed to the seasonality associated with construction projects. MPS services are driven primarily by the number of customer employees at an office and largely by non-construction project related work such as office printing and copying.

Traditional Reprographics . Year-over-year sales of Traditional Reprographics Services decrease d \$1.2 million , or 4.2% , during the three months ended March 31, 2014 . Revenues from Traditional Reprographics represented approximately 28% of total net sales for the three months ended March 31, 2014 , as compared to approximately 30% during to the same period in 2013 . Overall Traditional Reprographics Services sales nationwide were negatively affected by poor weather conditions over much of the US during the early part of the first quarter, as well as the lower volume of construction drawings produced through large-format black and white printing driven by the effect of technology adoption referenced above, and increased production of documents on customer sites as opposed to documents being produced at our service centers.

Color Services . Year-over-year sales of Color Services increase d \$0.3 million or 1.2% , for the three months ended March 31, 2014 . We attribute this increase to our continued focus on the expansion and enhancement of our Color Services offerings through our Riot Creative Imaging brand and to our AEC industry customer base.

Digital Services . Year-over-year sales of Digital Services decrease d by \$0.3 million or 3.6% , for the three months ended March 31, 2014 . Revenues from Digital Services sales remained consistent at 8% of total net sales for the three months ended March 31, 2014 , as compared to the same period in 2013 . We attribute this decrease in Digital Services to a decline in those services related to project-based work performed at our service centers, offset in part by sales of our AIM services which were introduced into the market in 2013. Currently, the revenue generating activities included in Digital Services consist of both construction project and non-construction project related services, but do not include revenues generated by Abacus, our onsite services technology, which is sold as part of our overall MPS offering.

Equipment and Supplies Sales . Year-over-year sales of Equipment and Supplies decrease d by \$0.8 million or 6.5% , for the three months ended March 31, 2014 . The decrease was primarily due to a decrease in equipment sales in our operations in the United States. Revenues from Equipment and Supplies Sales represented approximately 11% of total net sales for the three months ended March 31, 2014 , compared to approximately 12% for the same periods in 2013 . The decrease in Equipment and Supplies Sales in the United States was driven primarily by several large non-recurring equipment orders in 2013. Chinese operations had sales

of equipment and supplies of \$3.9 million for the three months ended March 31, 2014 , as compared to \$4.0 million for the three months ended March 31, 2013 . To date, the Chinese market has shown a preference for owning print and imaging related equipment as opposed to using equipment through an onsite services arrangement. We do not anticipate growth in Equipment and Supplies Sales in the United States, as we are placing more focus on growth in our Onsite Services and converting sales contracts to Onsite Services agreements.

Gross Profit

During the three months ended March 31, 2014 , gross profit and gross margin increased to \$33.9 million , and 33.8% , compared to \$32.4 million , and 32.4% , during the same period in 2013 , on a sales increase of \$0.3 million .

We were able to achieve expansion of our gross margins of 140 basis points for the three months ended March 31, 2014 due primarily to a combination of: (1) the full year impact of the closure or merging of underperforming service centers resulting from our restructuring plan initiated in the fourth quarter of 2012 and completed in the fourth quarter of 2013, and (2) ongoing margin expansion initiatives. Specifically, overhead costs as a percentage of sales decreased by 40 basis points primarily due to savings from facility closures and related cost reductions in response to the declining sales in our service centers. We believe the savings from the restructuring plan are sustainable, and we believe the effect of these measures should result in continued margin expansion in 2014, though at an abated level from 2013.

A shift in our business mix also contributed to the year-over-year increase in gross margins for the three months ended March 31, 2014 . Due to a decline in lower-margin equipment and supplies sales and ongoing margin expansion initiatives, material costs as a percentage of consolidated sales for the three months ended March 31, 2014 were 130 basis points lower as compared to the same period in 2013 .

Selling, General and Administrative Expenses

Selling, marketing, general and administrative expenses increased \$2.3 million , during the three months ended March 31, 2014 , compared to the same period in 2013 .

Sales and marketing expenses increased \$1.2 million , driven by our continued investment in sales which included: (1) the hiring of new sales and sales administrative personnel, (2) expanded training of new and existing sales personnel to implement specific sales initiatives, such as color sales, and our Onsite offering, and (3) expanded incentive programs geared towards organic sales growth.

General and administrative expenses for the three months ended March 31, 2014 increased \$1.1 million or 8.1% , compared to the same period in 2013 . The rise in expenses was primarily due to an increase in accrued incentive bonuses due to an improvement in the Company's financial performance in 2014, as well as incurred litigation costs to defend our position as plaintiff in an ongoing litigation matter.

Amortization of Intangibles

Amortization of intangibles of \$1.5 million for the three months ended March 31, 2014 , decreased by \$0.2 million or 14.3% , compared to the same period in 2013 , primarily due to the complete amortization of certain customer lists related to historical acquisitions.

Restructuring expense

Restructuring expenses for the three months ended March 31, 2014 totaled \$0.5 million , and primarily consisted of revised estimated lease termination and obligation costs resulting from facilities closed in 2013.

For further information, please see Note 3 "Restructuring Expenses" to our Condensed Consolidated Financial Statements.

Interest Expense, Net

Net interest expense was \$3.9 million during the three months ended March 31, 2014 , compared to \$6.0 million , in the same period in 2013 . The decrease in interest expense for the three months ended March 31, 2014 , compared to the same period in 2013 , was primarily due to the purchase and redemption of all our outstanding 10.5% senior notes in 2013 and replacing them with a Term Loan Credit Agreement. By refinancing the 10.5% senior notes with the Term Loan Credit Agreement in December of 2013, we were able to reduce our effective interest rate on our long-term debt from 10.5% (or \$21.0 million of interest per year on \$200 million of principal) to 6.25% (or \$12.5 million of interest per year on \$200 million of principal).

Income Taxes

We recorded an income tax provision of \$0.7 million in relation to pretax income of \$2.0 million for the three months ended March 31, 2014 .

For the three months ended March 31, 2014 , our income tax provision was primarily due to the impact of amortization of tax basis goodwill in a deferred tax liability position. Our gross deferred tax assets remain available to us for use in future years until they fully expire. As of March 31, 2014 , we had approximately \$91.0 million of consolidated federal and approximately \$94.0 million of consolidated state net operating loss carryforwards available to offset future taxable income. The federal net operating loss carryforward will begin to expire in varying amounts between 2031 and 2033. The state net operating loss carryforwards expire in varying amounts between 2015 and 2033.

Noncontrolling Interest

Net income attributable to noncontrolling interest represents 35% of the income of UDS and its subsidiaries, which together comprise our Chinese operations, which commenced operations on August 1, 2008.

Net Income Attributable to ARC

Net income attributable to ARC was \$1.4 million during the three months ended March 31, 2014 , as compared to net income attributable to ARC of \$0.4 million , in the same period in 2013 . The increase in net income attributable to ARC in 2014 versus prior year period is primarily due to the increase in gross margins and a reduction in interest expense in 2014 . This increase was partially offset by the increase in selling, general and administrative expenses, as noted above.

EBITDA

EBITDA margin decrease d to 14.4% during the three months ended March 31, 2014 , as compared to 14.8% during the same period in 2013 . Excluding the effect of stock-based compensation and restructuring expense, adjusted EBITDA margin decreased to 15.7% during the three months ended March 31, 2014 , as compared to 15.9% during the same period in 2013 . The decreases in EBITDA and adjusted EBITDA were due primarily to the increase in selling, general and administrative expenses, as noted above, partially offset by an increase in gross profits, as noted above.

Impact of Inflation

We believe inflation has not 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.

Liquidity and Capital Resources

Our principal sources of cash have been 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, and capital expenditures. During the third and fourth quarters of 2013, we repurchased \$12.3 million in aggregate principal amount of our 10.5% senior unsecured notes due December 15, 2016 in the open market using available cash. In December 2013, we entered into a \$200.0 million Term Loan Credit Agreement, and the related proceeds were used to repurchase and redeem all of our remaining outstanding 10.5% senior unsecured notes. Total cash as of March 31, 2014 was \$24.0 million . Of this amount, \$14.6 million was held in foreign countries, with \$13.7 million held in China.

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

<u>(In thousands)</u>	Three Months Ended March 31,	
	2014	2013
Net cash provided by operating activities	\$ 7,714	\$ 11,881
Net cash used in investing activities	\$ (3,401)	\$ (5,255)
Net cash used in financing activities	\$ (7,556)	\$ (4,471)

Operating Activities

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

The overall decrease in cash flows from operations during the three months ended March 31, 2014 over the same period in 2013 was primarily due to an income tax refund of \$3.8 million received in 2013 related to our 2009 consolidated federal income tax return, as well as a decline in accrued interest expense resulting from the repurchases of our 10.5% senior unsecured notes in 2013 which had interest due semi-annually versus quarterly on our new Term Loan Credit Agreement. These declines were offset, in part, by a decrease in accounts receivable. Days sales outstanding (“DSO”) decreased to 53 days as of March 31, 2014 compared to 55 as of March 31, 2013 reflecting our continued focus on accounts receivable collections.

Investing Activities

Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling \$3.6 million and \$5.6 million for the three months ended March 31, 2014 and 2013, respectively. As we continue to foster our relationships with credit providers and obtain attractive lease rates, we increasingly choose to lease rather than purchase equipment to meet the demand driven by the growth in Onsite Services.

Financing Activities

Net cash of \$7.6 million used in financing activities during the three months ended March 31, 2014 primarily relates to payments on our debt agreements and capital leases. In March 2014, we paid \$5.0 million in aggregate principal amount of our \$200.0 million Term Loan Credit Agreement, which was \$2.5 million above our mandatory payment amount.

Our cash position, working capital, and debt obligations as of March 31, 2014, and December 31, 2013, are shown below and should be read in conjunction with our Condensed Consolidated Balance Sheets and notes thereto contained elsewhere in this report.

<u>(In thousands)</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Cash and cash equivalents	\$ 23,993	\$ 27,362
Working capital	\$ 32,521	\$ 28,705
Borrowings from term loan facility and senior secured credit facility (1)	\$ 191,225	\$ 196,000
Other debt obligations	25,160	23,728
Total debt obligations	<u>\$ 216,385</u>	<u>\$ 219,728</u>

(1) Net of original issue discount of \$ 3,775 and \$ 4,000 at March 31, 2014 and December 31, 2013, respectively.

The increase of \$3.8 million in working capital in 2014 was primarily due to an increase in accounts receivable of \$ 3.2 million, a decrease in the current portion of long-term debt and capital leases of \$2.3 million, and an increase in inventory of \$2.0 million. These variances were partially offset by a decrease in cash of \$3.4 million. The increases in accounts receivable and inventory were driven by the timing of large customer purchase orders and cash receipts. The decrease in the current portion of long-term debt and cash was primarily due to the \$5.0 million principal payment towards our \$200.0 million Term Loan Credit Agreement. To manage our working capital, we chiefly focus on our number of days sales outstanding 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 balance of \$24.0 million, availability under our revolving credit facility, availability under our equipment lease lines, and additional cash flows provided by operations should be adequate to cover the next twelve months of working capital needs, debt service requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. In addition, we may elect to finance certain of our capital expenditure requirements through borrowings under our senior secured revolving credit facility, which had no debt outstanding as of March 31, 2014, other than contingent reimbursement obligations for undrawn standby letters of credit described below. See “Debt Obligations” section for further information related to our current credit facility.

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

While we have not been actively seeking growth through acquisition during the last three years, the executive team continues to selectively evaluate potential acquisitions.

Debt Obligations

Term Loan Credit Agreement

On December 20, 2013, we entered into a Term Loan Credit Agreement (the "Term Loan Credit Agreement") among ARC, as borrower, JPMorgan Chase Bank, N.A, as administrative agent and as collateral agent, and the lenders party thereto.

The credit facility provided under the Term Loan Credit Agreement consists of an initial term loan facility of \$200.0 million, the entirety of which was disbursed in order to pay for the purchase of the our then outstanding 10.5% senior unsecured notes due 2016 (the "Notes") that were accepted under a cash tender offer and the subsequent redemption of the remaining outstanding Notes and to pay associated fees and expenses in connection with the cash tender offer and redemption. We have the right to request increases to the aggregate amount of term loans by an amount not to exceed \$50.0 million in the aggregate.

By refinancing the Notes with this Term Loan Credit Agreement, we were able to reduce the effective interest rate on our long-term debt from 10.5% (or \$21.0 million of interest per year on \$200.0 million of principal) to 6.25% (or \$12.5 million of interest per year on \$200.0 million of principal). In addition, it moved the principal portion of our long-term debt into a structure that is efficiently pre-payable without a premium. This allows us to use our cash flow to efficiently deliver value to the our stockholders.

The Term Loan Credit Agreement maturity date, with respect to the initial \$200.0 million term loan, is December 2018. Under the Term Loan Credit Agreement, we are required to make regularly scheduled principal payments of \$2.5 million each quarter, with all remaining unpaid principal due at maturity.

The term loan extended under the Term Loan Credit Agreement can be maintained in different tranches consisting of Eurodollar loans or as base rate loans. It is expected that the term loan will be maintained in Eurodollars and therefore will bear interest, for any interest period, at a rate per annum equal to (i) the higher of (A) the LIBOR rate for U.S. dollar deposits for a period equal to the applicable interest period as determined by the administrative agent in accordance with the Term Loan Credit Agreement and (B) with respect to initial term loans only, 1.00%, plus (ii) an applicable margin of 5.25%.

We will pay certain recurring fees with respect to the credit facility, including administration fees to the administrative agent.

In accordance with the term loan facility agreement, we are required to maintain an Interest Expense Coverage Ratio (as defined in the Term Loan Credit Agreement) greater than or equal to 2.00:1.00 as of the end of each fiscal quarter. In addition, we are required to maintain a Total Leverage Ratio less than or equal to (i) 4.50:1.00 for any fiscal quarter ending through December 31, 2014; (ii) 4.25:1.00 for any fiscal quarter ending between March 31, 2015 and December 31, 2015; (iii) 4.00:1.00 for any fiscal quarter ending between March 31, 2016 and December 31, 2016; (iv) 3.75:1.00 for any fiscal quarter ending between March 31, 2017 and December 31, 2017; and (v) 3.50:1.00 for any fiscal quarter ending March 31, 2018 and thereafter. As of March 31, 2014, our Interest Expense Coverage Ratio was 2.79, and our Total Leverage Ratio was 3.18. We were in compliance with the Term Loan Credit Agreement covenants as of March 31, 2014.

Subject to certain exceptions, the term loan extended under the Term Loan Credit Agreement is subject to customary mandatory prepayments provisions with respect to: the net cash proceeds from certain asset sales; the net cash proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Term Loan Credit Agreement); a portion (with stepdowns based upon the achievement of a financial covenant linked to the total leverage ratio) of annual excess cash flow of the Company and certain of its subsidiaries, and with such required prepayment amount to be reduced dollar-for-dollar by the amount of voluntary prepayments of term loans made with internally generated funds; and, the net cash proceeds in excess of a certain amount from insurance recovery (other than business interruption insurance) and condemnation events of the Company and certain of its subsidiaries, subject to certain reinvestment rights.

The Term Loan Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting our ability (subject to various exceptions) and certain of our subsidiaries' ability to: incur additional indebtedness (including guarantee obligations); incur liens; engage in mergers or other fundamental changes; sell certain property or assets; pay dividends or other distributions; consummate acquisitions; make investments, loans and advances; prepay certain indebtedness; change the nature of their business; engage in certain transactions with affiliates; and, incur restrictions on the ability of our subsidiaries to make distributions, advances and asset transfers. In addition, under the Term Loan Credit Agreement we will be required to comply with a specific leverage ratio and a minimum interest coverage ratio.

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

Our obligations under the Term Loan Credit Agreement are guaranteed by each of our United States domestic subsidiaries. The Term Loan Credit Agreement and any interest rate protection and other hedging arrangements provided by any lender party to the Senior Secured Credit Facilities 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 of our guarantor's assets (subject to certain exceptions), except that such lien is second priority in the case of inventory, receivables and related assets that are subject to a first priority security interest under the 2012 Credit Agreement (as defined below).

2012 Credit Agreement

On January 27, 2012, we entered into a Credit Agreement (the "2012 Credit Agreement"). The 2012 Credit Agreement was amended on December 20, 2013 in connection with our entry into the Term Loan Credit Agreement for the principal purpose of making the 2012 Credit Agreement consistent with the Term Loan Credit Agreement. The 2012 Credit Agreement, as amended, provides revolving loans in an aggregate principal amount not to exceed \$40.0 million, with a Canadian sublimit of \$5.0 million, based on inventory and accounts receivable of our subsidiaries organized in the US ("United States Domestic Subsidiaries") and Canada ("Canadian Domestic Subsidiaries") that meet certain eligibility criteria. The 2012 Credit Agreement has a maturity date of January 27, 2017.

Amounts borrowed in US dollars under the 2012 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to LIBOR plus the LIBOR Rate Margin (as defined in the 2012 Credit Agreement), which may range from 1.75% to 2.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). All other amounts borrowed in US dollars that are not LIBOR loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds rate plus 0.5%, (B) the LIBOR rate (calculated based upon an interest period of three months and determined on a daily basis), plus 1.0% per annum, and (C) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its "prime rate," plus (ii) the Base Rate Margin (as defined in the 2012 Credit Agreement), which may range from 0.75% to 1.25% percent, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). Amounts borrowed in Canadian dollars bear interest at a per annum rate equal to the Canadian Base Rate (as defined in the 2012 Credit Agreement) plus the LIBOR Rate Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability.

The 2012 Credit Agreement contains various loan covenants that restrict our ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of our business. In addition, at any time when Excess Availability (as defined in the 2012 Credit Agreement) is less than \$8.0 million we are required to maintain a Fixed Charge Coverage Ratio (as defined in the 2012 Credit Agreement) of at least 1.0. Our obligations under the 2012 Credit Agreement are secured by substantially all of the Company's and its United States Domestic Subsidiaries' assets. Our United States Domestic Subsidiaries have also guaranteed all of the Company's obligations under the 2012 Credit Agreement. The obligations of the Company's Canadian Domestic Subsidiaries which are borrowers under the 2012 Credit Agreement are secured by substantially all of the assets of the Company's Canadian Domestic Subsidiaries.

As of and during the three months ended March 31, 2014, we did not have any outstanding debt under the 2012 Credit Agreement, other than contingent reimbursement obligations for undrawn standby letters of credit described below that were issued under the 2012 Credit Agreement.

As of March 31, 2014, based on inventory and accounts receivable of our subsidiaries organized in the US and Canada, our borrowing availability under the 2012 Credit Agreement was \$40.0 million; however, outstanding standby letters of credit issued under the 2012 Credit Agreement totaling \$2.5 million further reduced our borrowing availability under the 2012 Credit Agreement to \$37.5 million as of March 31, 2014.

Foreign Credit Agreement

In the third quarter of 2013, UDS, ARC's Chinese operations, entered into a revolving credit facility with a term of 18 months. The facility provides for a maximum credit amount of \$20.0 million Chinese Yuan Renminbi, which translates to U.S. \$3.2 million as of March 31, 2014. Draws on the facility are limited to 30 day periods and incur a fee of 0.05% of the amount drawn and no additional interest is charged. As of March 31, 2014, there was \$2.2 million in outstanding debt drawn on our foreign credit facility.

Capital Leases

As of March 31, 2014 , we had \$22.6 million of capital lease obligations outstanding, with a weighted average interest rate of 7.3% and maturities between 2014 and 2019.

Other Notes Payable

As of March 31, 2014 , we had \$0.3 million of notes payable outstanding, with an interest rate of 6.5% and maturities in 2016. These notes are collateralized by equipment previously purchased.

As of March 31, 2014 , we had a \$47.0 thousand seller notes outstanding, with a weighted average interest rate of 6.0% and maturity in 2014. These notes were issued in connection with prior acquisitions.

Off-Balance Sheet Arrangements

As of March 31, 2014 , 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.

Contingent Transaction Consideration. We have entered into earnout obligations in connection with prior acquisitions. If the acquired businesses generate sales and/or operating profits in excess of predetermined targets, we are obligated to make additional cash payments in accordance with the terms of such earnout obligations. As of March 31, 2014 , we have potential future earnout obligations for acquisitions consummated before the adoption of ASC 805, *Business Combinations*, of approximately \$1.8 million through 2014 if predetermined financial targets are met or exceeded. Earnout payments prior to the adoption of ASC 805 are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable.

Legal Proceedings. On October 21, 2010, a former employee—individually and on behalf of a purported class consisting of all non-exempt employees who work or worked for American Reprographics Company, LLC and American Reprographics Company in the State of California at any time from October 21, 2006 through the present—filed an action against us in the Superior Court of California for the County of Orange. The complaint alleges, among other things, that the Company violated the California Labor Code by failing to (i) provide meal and rest periods, or compensation in lieu thereof, (ii) timely pay wages due at termination, and (iii) that those practices also violate the California Business and Professions Code. The relief sought includes damages, restitution, penalties, interest, costs, and attorneys' fees and such other relief as the court deems proper. On March 15, 2013, we participated in a private mediation session with claimants' counsel which did not result in resolution of the claim. Subsequent to the mediation session, the mediator issued a proposal that was accepted by both parties. We await court approval of the settlement. We recorded a liability of \$0.9 million as of March 31, 2014 related to the claim, which represents management's best estimate of the probable outcome based on information available. The case remains unresolved as of March 31, 2014 . As such, the ultimate resolution of the claim could result in a loss different than the estimated loss recorded.

In addition to the matter described above, we are involved in various additional legal proceedings and other legal matters from time to time in the normal course of business. We do not believe that the outcome of any of these matters will have a material effect on our consolidated financial position, results of operations or cash flows.

Critical Accounting Policies

Critical accounting policies are those accounting policies that we believe are important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our 2013 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to impairment of long-lived assets, goodwill, revenue recognition, income taxes, allowance for doubtful accounts, and stock-based compensation. There have been no material changes to our critical accounting policies described in our 2013 Annual Report on Form 10-K.

Goodwill Impairment

In connection with acquisitions, we apply the provisions of ASC 805, *Business Combinations* , using the acquisition method of accounting. The excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired is recorded as goodwill.

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.

Based upon our assessment, we concluded that no goodwill impairment triggering events have occurred during the first quarter of 2014 that would require an additional impairment test.

At September 30, 2013, we assessed goodwill for impairment 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.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of our reporting units to their carrying amount. If the carrying amount of a reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

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.

Our projections are driven, in part, by industry data gathered from third parties, including projected growth rates of the AEC industry by segment (i.e. residential and non-residential) and anticipated GDP growth rates, as well as company-specific data such as estimated composition of our customer base (i.e. non-AEC vs. AEC, residential vs. non-residential), historical revenue trends, and EBITDA margin performance of our reporting units. Our revenue projections for each of ARC's reporting units include the estimated respective customer composition for each reporting unit, year-to-date revenue at the time of the goodwill impairment analysis, and projected growth rates for the related customer types. Although we rely on a variety of internal and external sources in projecting revenue, our relative reliance on each source or trend changes from year to year. In 2012 and into 2013, we noted a continued divergence between our historic revenue growth rates and AEC non-residential construction growth rates, as well as the "dilution" of traditional reprographics as the Company's dominant business line. Therefore, we increased our reliance upon internal sources for our short-term and long-term revenue forecasts. Once the forecasted revenue was established for each of the reporting units based on the process noted above, using the current year EBITDA margin as a base line, we forecasted future EBITDA margins. In general, our EBITDA margins are significantly affected by (1) revenue trends and (2) cost management initiatives. Revenue trends impact our EBITDA margins because a significant portion of our cost of sales are considered relatively fixed therefore an increase in forecasted revenue (particularly when combined with any cost management or productivity enhancement initiatives) would result in meaningful gross margin expansion. Similarly, a significant portion of our selling, general, and administrative expenses are considered fixed. Hence, in forecasting EBITDA margins, significant reliance was placed on the historical impact of revenue trends on EBITDA margin.

The estimated fair value of our reporting units were based upon a projected EBITDA margin, which was anticipated to increase approximately 100 basis points from 2013 to 2014, followed by year-over-year increases of approximately 100 to 200 basis points in 2015 through 2017, with stabilization expected in 2017. These cash flows were discounted using a weighted average cost of capital ranging from 13% to 15%, depending upon the size and risk profile of the reporting unit. We considered market information in assessing the reasonableness of the fair value under the income approach described above.

The results of step one of the goodwill impairment test, as of September 30, 2013, were as follows:

<u>(Dollars in thousands)</u>	Number of Reporting Units	Representing Goodwill of
No goodwill balance	9	\$ —
Reporting units failing step one that continue to carry a goodwill balance	—	—
Fair value of reporting unit exceeds its carrying value by 1%—20%	2	14,297
Fair value of reporting unit exceeds its carrying value by 20%—40%	4	58,285
Fair value of reporting unit exceeds its carrying value by more than 40%	10	140,026
	25	\$ 212,608

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2013 and beyond, assuming all other assumptions remain constant, one reporting unit would proceed to step two of the analysis, although the change would result in no goodwill impairment.

Based upon a separate sensitivity analysis, a 50 basis point increase to the weighted average cost of capital would result in one reporting unit proceeding to step two of the analysis, although the change would result in no goodwill impairment.

Given the current economic environment 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 2013 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, we may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 2014, 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 the 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.

As of June 30, 2011, we determined that cumulative losses for the preceding twelve quarters constituted sufficient objective evidence (as defined by ASC 740-10, *Income Taxes*) that a valuation allowance was needed. As of March 31, 2014, the valuation allowance against certain deferred tax assets was \$84.3 million.

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 partial or full valuation allowance is still required. Should we generate sufficient taxable income, however, we may reverse a portion or all of the then current valuation allowance.

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. Our 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 our 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.

For further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our interim Condensed Consolidated Financial Statements see our 2013 Annual Report on Form 10-K.

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.

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

Our primary exposure to market risk is interest rate risk associated with our debt instruments. We use both fixed and variable rate debt as sources of financing. In 2013, we entered into a \$200.0 million Term Loan Credit Agreement. Borrowings under the Term Loan Credit Agreement bear interest at a rate equal to an applicable margin plus a variable rate (subject to a fixed floor of 1.00%. As such, our Term Loan Credit Agreement exposes us to market risk for changes in interest rates.

As of March 31, 2014, we had \$216.4 million of total debt, net of discount, and capital lease obligations, of which approximately 12% % was at a fixed rate, with the remainder at variable rates. Given our debt position at March 31, 2014 and the 1.00% LIBOR floor on our Term Loan Credit Agreement, the effect of a 100 basis point increase in LIBOR on our interest expense would be approximately \$0.3 million annually.

As of March 31, 2014, we were not party to any derivative or hedging transactions; however, we have entered into derivative instruments in the past to manage our exposure to changes in interest rates. These instruments allowed us to raise funds at floating rates and effectively swap them into fixed rates, without the exchange of the underlying principal amount. We have not, and do not plan to, enter into any derivative financial instruments for trading or speculative purposes.

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not significant to our financial condition or results of operations.

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 Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2014. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of March 31, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to internal control over financial reporting during the three months ended March 31, 2014, 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*

This information is included under the caption “Legal Proceedings” in Note 7 to our Condensed Consolidated Financial Statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. *Risk Factors*

Information concerning certain risks and uncertainties appears in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 . You should carefully consider those risks and uncertainties, which could materially affect our business, financial condition and results of operations. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013 .

Item 6. *Exhibits*

<u>Exhibit Number</u>	<u>Description</u>
10.1	Executive Employment Agreement, dated May 1,2014, by and between ARC Document Solutions, Inc. and John Toth. *^
10.2	Executive Employment Agreement, dated May 1,2014, by and between ARC Document Solutions, Inc. and Rahul K. Roy. *^
10.3	Executive Employment Agreement, dated May 1,2014, by and between ARC Document Solutions, Inc. and Dilantha Wijesuriya. *^
10.4	Executive Employment Agreement, dated May 1,2014, by and between ARC Document Solutions, Inc. and Jorge Avalos. *^
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

^ Indicates management contract or compensatory plan or agreement

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: May 7, 2014

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar

Chairman, President and Chief Executive Officer

/s/ JOHN E.D. TOTH

John E.D. Toth

Chief Financial Officer

EXHIBIT INDEX

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* Filed herewith

^ Indicates management contract or compensatory plan or agreement

EXECUTIVE EMPLOYMENT AGREEMENT

ARC DOCUMENT SOLUTIONS, INC. (“ ARC ”) and JOHN TOTH (“ Executive ”) agree to enter into this EMPLOYMENT AGREEMENT dated as of May 1, 2014 as follows:

1. EMPLOYMENT.

ARC hereby agrees to employ Executive, and Executive hereby agrees to be employed by ARC, upon the terms and subject to the conditions set forth in this Agreement.

2. TERM.

The period of Executive’s employment under this Agreement shall begin as of May 1, 2014 and shall continue until terminated in accordance with Section 7 below. As used in this Agreement, the phrase “ **Employment Term** ” refers to Executive’s period of employment from the date of this Agreement until the date his employment is terminated.

3. POSITION, DUTIES AND RESPONSIBILITIES.

- (a) During the Employment Term, Executive shall have the position, duties and responsibilities set forth in Appendix A to this Agreement.
 - (b) Executive agrees to faithfully serve ARC, devote his full working time, attention and energies to the business of ARC, its subsidiaries and affiliates, and perform the duties under this Agreement to the best of his abilities. Executive shall not engage in any other employment, occupation or consulting activity for any direct or indirect remuneration. This obligation shall not preclude Executive from: (i) serving in any volunteer capacity with any professional, community, industry, civic, educational or charitable organization; (ii) serving as a member of corporate boards of directors, provided that the Chief Executive Officer (“ CEO ”) of ARC has given written consent, and these activities or services do not materially interfere or conflict with Executive’s responsibilities or ability to perform his duties under this Agreement; or (iii) engaging in personal investment
-

activities for himself and his family which do not interfere with the performance of his duties and obligations hereunder.

- (c) Executive agrees (i) to comply with all applicable laws, rules and regulations; (ii) to comply with ARC's rules, procedures, policies, requirements, and directions; and (iii) not to engage in any other business or employment without the written consent of ARC except as otherwise specifically provided herein.

4. COMPENSATION AND BENEFITS.

During the Employment Term, Executive shall receive the compensation and benefits set forth in Appendix B to this Agreement.

5. RESTRICTIVE COVENANTS.

- (a) **Non-Competition; Non-Solicitation** . The parties hereto recognize that Executive's services are unique and the restrictive covenants set forth in this Section 5 are essential to protect the business (including trade secret and other confidential information disclosed by ARC to, learned by, or developed by, Executive during the course of employment by ARC) and the goodwill of ARC. For purposes of this Section 5, all references to "ARC" shall include ARC's predecessors, subsidiaries and affiliates. As part of the consideration for the compensation and benefits to be paid to Executive hereunder, during the term of this Agreement Executive shall not:

- (i) Engage in any business similar or related to or competitive with the business conducted by ARC described from time to time in ARC's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the "**Core Business of ARC**");

- (ii) Render advice or services to, or otherwise assist, any other person, association, corporation, or other entity that is engaged, directly or indirectly, in any business similar or related to, or competitive with, the Core Business of ARC;
- (iii) Transact any business in any manner with or pertaining to suppliers or customers of ARC which, in any manner, would have, or is likely to have, an adverse effect upon the Core Business of ARC; or
- (iv) Induce any employee of ARC to terminate his or her employment with ARC, or hire or assist in the hiring of any such employee by any person or entity not affiliated with ARC.

For purposes of this Agreement, “affiliate” shall mean any entity which owns or controls, is owned or controlled by, or is under common ownership or control, with ARC.

6. CONFIDENTIALITY

Executive acknowledges that it is the policy of ARC to maintain as secret and confidential all valuable and unique information heretofore or hereafter acquired, developed or used by ARC relating to the business, operations, employees and customers of ARC, which information gives ARC a competitive advantage in the industry, and which information includes technical knowledge, know-how or trade secrets and information concerning operations, sales, personnel, suppliers, customers, costs, profits, markets, pricing policies, and other confidential information and materials (the “**Confidential Information**”).

- (a) **Non-Disclosure.** Executive recognizes that the services to be performed by Executive are special and unique, and that by reason of his duties he will be given, acquire or learn Confidential Information. Executive recognizes that all such Confidential Information is the sole and exclusive property of ARC. Executive shall not, either during or after his employment by ARC, disclose the Confidential Information to anyone outside ARC or use the Confidential Information for any purpose whatsoever, other than for the

performance of his duties hereunder, except as authorized by ARC in connection with performance of such duties.

- (b) **Return of Confidential Information.** Executive shall deliver promptly upon termination of employment with ARC, or at any time requested by ARC, all memos, notes, records, reports, manuals, drawings, and any other documents, whether in electronic form or otherwise, containing any Confidential Information, including without limitation all copies of such materials in any format which Executive may then possess or have under his control.
- (c) **Ownership of Inventions; Assignment of Rights.** Executive agrees that all information, inventions, intellectual property, trade secrets, copyrights, trademarks, content, know-how, documents, reports, plans, proposals, marketing and sales plans, client lists, client files and materials made by him or by ARC (the “**Work Product**”) are the property of ARC and shall not be used by him in any way adverse to the interests of ARC. Executive assigns to ARC any and all rights of every nature which Executive may have in any such Work Product; provided, however, that such assignment does not apply to any right which qualifies fully under California Labor Code Section 2870. This section shall survive any termination of this Agreement and the employment relationship between Executive and ARC. Executive shall not deliver, reproduce or in any way allow such documents or things to be delivered or used by any third party without specific direction or consent of the Board of Directors. Likewise, Executive shall not disclose to ARC, use in ARC’s business, or cause ARC to use, any information or material that is a trade secret of others.

- (d) **Predecessors, Subsidiaries and Affiliates.** For purposes of this Section, references to ARC include its predecessors, subsidiaries and affiliates.

7. TERMINATION OF EMPLOYMENT.

Executive's employment under this Agreement may be terminated under any of the circumstances set forth in this Section 7. Upon termination, Executive (or his beneficiary or estate, as the case may be) shall be entitled to receive the compensation and benefits described in Section 8 below, and if applicable, Section 9 below.

- (a) **Death.** Upon Executive's death.
- (b) **Disability.** Upon Executive becoming "**Permanently Disabled**", which, for purposes of this Agreement, shall mean Executive's incapacity due to physical or mental illness or cause, which, in the written opinion of Executive's regular licensed physician, results in the Executive being unable to perform his duties on a full-time basis for six (6) months during a period of twelve (12) months.
- (c) **Termination by ARC for Cause.** Upon written notice to Executive, ARC may terminate this Agreement for "**Cause**," which, for purposes of this Agreement, shall mean termination by ARC in its reasonable discretion because of Executive's:
- (i) willful refusal without proper cause to perform (other than by reason of physical or mental disability or death) the duties set forth in this Agreement or delegated from time to time in writing by the Board of Directors or ARC's CEO, which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO; or
 - (ii) gross negligence, self-dealing or willful misconduct of Executive in connection with the performance of his duties hereunder, including, without limitation,

misappropriation of funds or property of ARC or its subsidiaries or affiliates, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of ARC or its subsidiaries or affiliates, or any willful act or gross negligence having the effect of injuring the reputation, business or business relationships of ARC or its subsidiaries or affiliates; or

- (iii) fraud, dishonesty or misappropriation of ARC business and assets that harms the business of ARC or its subsidiaries or affiliates; or
- (iv) habitual insobriety, abuse of alcohol, abuse of prescription drugs, or use of illegal drugs; or
- (v) engaging in any criminal activity involving moral turpitude; or
- (vi) indictment or being held for trial in connection with a misdemeanor involving moral turpitude or any felony; or
- (vii) conviction of a felony or entry into a guilty plea that negatively reflects on Executive's fitness to perform the duties or harms the reputation or business of ARC or its subsidiaries or affiliates; or
- (viii) any material breach of any covenants under this Agreement or other material policy of ARC, other than under clauses (i) through (vii) of this Section 7(c), which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO.

- (d) **Termination by ARC without Cause.** Upon written notice to Executive, ARC may terminate this Agreement at any time without any Cause or reason whatsoever.
- (e) **Termination by Executive with Good Reason.** Upon written notice to ARC of any of the following “**Good Reasons**,” and the failure of ARC to correct the reduction, change or breach within thirty (30) days after receipt of such notice, Executive may terminate this Agreement after the occurrence of:
- (i) a material change by ARC in the nature of Executive’s title, duties, authorities and responsibilities set forth in this Agreement without Executive’s express written consent; or
 - (ii) a reduction in the nature of Executive’s compensation as established under this Agreement, without Executive’s express written consent; or
 - (iii) a change in the officers (other than a change in the persons who occupy such positions) to whom Executive reports without Executive’s express consent; or
 - (iv) a material breach by ARC of any material sections of this Agreement, other than as set forth in clauses (i) through (iii) of this Section 7(e); or
 - (v) a Change of Control, as defined in Section 7(g), as a result of which Executive is not offered the same or comparable position in the surviving company, or is offered such position but within twelve (12) months after Executive accepts such position, Executive’s employment is terminated either without Cause or for a Good Reason described in subsections (i), (ii), (iii) of this Section 7(e) or in subsection (iv) as to the employment agreement then applicable to Executive.

- (f) **Termination by Executive without Good Reason.** Upon forty-five (45) days prior written notice to ARC, Executive may terminate this Agreement and resign from Executive's employment hereunder without any Good Reason.
- (g) **Change of Control.**
- (i) For purposes of this Agreement, "**Change of Control**" shall mean:
- (A) ARC merges or consolidates with any other corporation (other than one of ARC's subsidiaries), as a result of which ARC is not the surviving company, or the shares of ARC voting stock outstanding immediately after such transaction do not constitute, become exchanged for or converted into, more than fifty percent (50%) of the Voting Shares of the merged or consolidated company (as defined below);
 - (B) ARC sells or otherwise transfers or disposes of all or substantially all of its assets;
 - (C) Any third person or entity shall become the Beneficial Owner, as defined by Rule 13(d)-3 under the Securities Exchange Act of 1934, in one transaction or a series of related transactions within any twelve (12) month period, of at least fifty percent (50%) of the Voting Shares of ARC's then outstanding voting securities.
- (ii) For purposes of this Agreement, "**Voting Shares**" shall mean the combined voting securities entitled to vote in the election of directors of a corporation, including ARC, or the merged, consolidated or surviving company, if other than ARC.

8. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

Upon termination of Executive's employment under this Agreement, Executive (or his designated beneficiary or estate, as the case may be) shall be entitled to receive the following compensation:

- (a) **Earned but Unpaid Compensation.** Executive will be entitled to: (i) payment for all Base Salary and unused vacation accrued and prorated, but unpaid, as of the effective date of termination, provided that payment will be made no later than 30 days after the effective date of termination, (ii) payment, when due, of any vested but unpaid Incentive Bonus for the preceding fiscal year, (iii) any unreimbursed business expenses authorized by this Agreement, provided that such reimbursement will be paid to Executive no later than 30 days after the effective date of termination, (iv) continuation of any benefits under Section 5 of Appendix B as required by applicable law (e.g., COBRA), and (v) such rights as then exist with respect to then vested stock options, restricted stock or other rights under similar plans.
- (b) **Termination because of Death or Disability of Executive.** If Executive's employment hereunder is terminated under Sections 7(a) or (b) by reason of Executive's death or by reason of being Permanently Disabled, Executive or his family shall be entitled to continuation of coverage and premium payments by ARC under ARC's group insurance programs for Executive and his eligible family members under Section 6 for a period of twelve (12) months after the termination of employment.
- (c) **Termination by ARC for Cause or by Executive without Good Reason .** If Executive's employment hereunder is terminated by ARC for Cause pursuant to Section 7

(c), or by Executive without Good Reason pursuant to Section 7(f), Executive shall not be entitled to any additional payments or benefits hereunder.

- (d) **Other Compensation and Benefits.** Except as may be provided under Section 9 of this Agreement,
- (vi) any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Appendix B shall be determined and paid in accordance with the terms of such plans, policies and arrangements, and
 - (vii) Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

9. ADDITIONAL COMPENSATION PAYABLE FOLLOWING TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.

- (a) **Requirements for Additional Compensation.** In addition to the compensation set forth in Section 8 above, Executive will receive the additional compensation and benefits set forth in paragraph (b) below, if the following requirements are met:
- (ix) Executive's employment is terminated by ARC without Cause pursuant to Section 7(d) above or by Executive for Good Reason pursuant to Section 7(e) above; and
 - (x) On or after his date of termination, Executive executes a Release Agreement in the form attached as Appendix C to this Agreement (or such substantially similar form as may be provided by ARC) within the time frame specified by ARC.

- (b) **Additional Compensation.** ARC shall provide Executive with the following compensation and benefits:
- (i) ARC shall continue to pay Executive his Base Salary at the rate in effect immediately prior to his termination date as if he had continued in employment until the end of the twelve (12)-month period beginning on such termination date (the “ **Severance Pay Period** ”);
 - (ii) Continuation of coverage and premium payments by ARC under ARC’s group insurance programs for Executive and his eligible family members under Section 5 of Appendix B during the Severance Pay Period;
 - (iii) unvested stock options, restricted stock or similar rights granted to Executive shall accelerate and become vested and exercisable immediately as of the effective date of termination.
- (c) **Parachute Payments .** In the event that the severance, acceleration of stock options and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended or replaced (the " **Code** ") and (ii) but for this Section 9(c), would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), then Executive's benefits hereunder shall be either:
- (viii) provided to Executive in full; or
 - (ix) provided to Executive only as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the

foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless ARC and Executive otherwise agree in writing, any determination required under this Section 9(c) shall be made in writing in good faith by ARC's independent public accountants (the "**Accountants**"). For purposes of making the calculations required by this Section 11(e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code. ARC and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 9(c). ARC shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 9(c).

(d) **Special Section 409A Rules Applying to Payment Severance Compensation.**

- (i) This Section shall apply to all or any portion of any payment or benefit payable under the Agreement as a result of termination of the Executive's employment that is not exempted from Section 409A of the Code ("**409A Severance Compensation**").
- (ii) Notwithstanding anything in the Agreement to the contrary, the following rules shall apply to any 409A Severance Compensation in order to prevent any accelerated or additional tax under Section 409A of the Code:

(A) If the termination of the Executive's employment does not qualify as a "separation from service" within the meaning of Treasury Regulation section 1.409A-1(h) from the "Company's Controlled Group", then any 409A Severance Compensation will not commence until a "separation from service" occurs or, if earlier, the earliest other date as is permitted under Section 409A of the Code. For this purpose, the "Company's Controlled Group" means the Company (i) any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company.

(B) In any case where the date of Executive's termination of employment and the date by which Executive is required to deliver a Release Agreement that has become effective fall in two separate taxable years, any payments or benefits required to be made to Executive that are conditioned on the effectiveness of the Release Agreement and are treated as nonqualified deferred compensation for purposes of Section 409A of the Code shall be made in the later taxable year, with any payments or benefits deferred pursuant to this clause (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid or provided to Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the payment dates otherwise specified for them herein.

(C) If at the time of the Executive's separation from service, Executive is a "specified employee" as defined in Section 409A of the Code, then the Company will defer the commencement of any 409A Severance Compensation (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six (6) months following your separation from service or, if earlier, the earliest other date as is permitted under Section 409A.

10. ARBITRATION AND EQUITABLE RELIEF

- (a) **Arbitration.** In consideration of Executive's employment with ARC, its promise to arbitrate all employment-related disputes and Executive's receipt of the compensation paid to Executive by ARC, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including ARC and any employee, officer, director, shareholder or benefit plan of ARC in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's employment with ARC or the termination of that employment with ARC, including any provision of this Agreement, shall be subject to binding arbitration under the arbitration rules set forth in the California Code of Civil Procedure Sections 1280 through 1294.2, including section 1283.05 collectively (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and hereby agrees to waive any right to a trial by jury, include without limitation, any common law claims, statutory claims under Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act of 1990, the Age Discrimination In Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment And Housing Act, the California Labor Code (except for workers

compensation or unemployment insurance claims), or ERISA, claims of harassment, discrimination or wrongful termination and any other statutory claims under state or federal law.

- (b) **Procedure.** Any arbitration will be administered by JAMS and a neutral arbitrator will be selected in a manner consistent with its rules for the resolution of employment disputes. The arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. The arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. ARC will pay for any administrative or hearing fees charged by the arbitrator or JAMS except that Executive shall pay the first \$200.00 of any filing fees associated with any arbitration Executive initiates. The arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules. To the extent that the JAMS rules for the resolution of employment disputes conflict with the Rules, the Rules shall take precedence. The decision of the arbitrator shall be in writing.
- (c) **Remedy.** Except as provided by the Rules and this Agreement, arbitration shall be the sole, exclusive and final remedy for any dispute between ARC and Executive. Accordingly, except as provided for by the Rules and this Agreement, neither ARC nor Executive will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful ARC policy, and the arbitrator shall not order or require ARC to adopt a policy not otherwise required by law which ARC has not adopted.

- (d) **Availability of Injunctive Relief.** In addition to the right under the Rules to petition the court for provisional relief, ARC may also petition the court for injunctive relief, notwithstanding any provision in this Agreement requiring arbitration, where ARC alleges or claims a violation of this Agreement, or any separate agreement between Executive and ARC regarding trade secrets, confidential information or non-solicitation, or California Labor Code §2870. No bond shall be required of ARC. Executive understands and agrees that any breach or threatened breach of this Agreement or of any such separate agreement will cause irreparable injury to ARC or its subsidiaries or affiliates and that money damages will not provide an adequate remedy therefore, and Executive hereby consents to the issuance of an injunction. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorney fees related thereto.
- (e) **Administrative Relief.** This Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.
- (f) **Voluntary Nature of Agreement.** Executive acknowledges and agrees that he is executing this Agreement voluntarily and without any duress or undue influence by ARC or anyone else. Executive further acknowledges and agrees that he has carefully read this Agreement, that he has asked any questions needed for him to understand the terms, consequences and binding effect of this Agreement, and that he fully understands this

Agreement, including that he is waiving his right to a jury trial. Finally, Executive acknowledges that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

11. WITHHOLDING OF TAXES.

ARC shall withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

12. COMPLIANCE WITH SECTION 409A.

ARC and Executive agree to modify and administer the Agreement to the extent possible to comply with Section 409A of the Code and to avoid incurring any excise and other additional tax liability that might be imposed on Executive or ARC. To the extent a provision of this Agreement is contrary to or fails to address the minimum requirements of Section 409A of the Code and applicable guidance issued thereunder, ARC may, in its sole discretion, take such steps as it deems reasonable to provide the coverage or benefits provided under the Agreement so as to comply with Section 409A of the Code and the guidance issued thereunder; provided, however, that, any and all tax liability and penalties resulting from non-compliance with Section 409A of the Code shall remain the sole responsibility of Executive.

13. NO CLAIM AGAINST ASSETS.

Nothing in this Agreement shall be construed as giving Executive any claim against any specific assets of ARC or as imposing any trustee relationship upon ARC in respect of Executive. ARC shall not be required to establish a special or separate fund or to segregate any of its assets in order to provide for the satisfaction of its obligations under this Agreement. Executive's rights under this Agreement shall be limited to those of an unsecured general creditor of the ARC and its affiliates

14. GOVERNING LAW.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California without regard to California conflict of laws principles.

15. NOTICES.

Any notices or other communications desired or required under this Agreement shall be in writing, signed by the Party making the same, and shall be deemed delivered when personally delivered or on the second business day after the same is sent by certified or registered mail, postage prepaid, addressed as follows (or to such other address as may be designated by like written notice):

If to Executive: At the last residential address known by ARC

If to ARC: ARC Document Solutions, Inc.
1981 North Broadway, Suite 385

Walnut Creek, CA 94596
Attn.: Chief Executive Officer

16. SEVERABILITY.

In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

17. ASSIGNMENT.

Except as otherwise specifically provided herein, neither party shall assign this Agreement or any rights hereunder without the consent of the other party, and any attempted or purported assignment without such consent shall be void; provided that Executive's consent under this Agreement shall not be required hereby for any of the transactions involving a Change of Control. This Agreement shall otherwise bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, legatees, devisees, executors, administrators and legal representatives.

18. ENTIRE AGREEMENT; AMENDMENT.

This Agreement contains the entire agreement of the parties and supersedes all prior or contemporaneous negotiations, correspondence, understandings and agreements between the parties regarding the subject matter of this Agreement. Any prior employment agreement, bonus agreement or other compensation agreement between Executive and ARC or any predecessor, subsidiary or affiliate of ARC, is hereby amended and superseded as of the Effective Date. This Agreement may not be amended or modified except in writing signed by both parties.

19. MISCELLANEOUS.

- (a) **Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) **Separability.** If any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be

enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

- (c) **Headings.** Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) **Rules of Construction.** Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) **Counterparts.** This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first hereinabove set forth.

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __
Kumarakulasingam Suriyakumar

By: __
John Toth

Title: President and Chief Executive Officer

Address: __

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EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX A
POSITION, DUTIES AND RESPONSIBILITIES

During the Employment Term, Executive shall have the following position, duties and responsibilities:

1. ARC will employ Executive as its Chief Financial Officer (“ **CFO** ”).
2. Executive shall report to ARC’s Chief Executive Officer (“ **CEO** ”). Executive’s primary responsibilities shall be to keep or cause to be kept the books of account of ARC in a thorough and proper manner and shall render statements of the financial affairs of ARC in such form and as often as required by the Board of Directors or ARC’s CEO. Executive, in his capacity as CFO, subject to the order of the Board of Directors, shall have the custody of all funds and securities of ARC, and shall attest to financial statements, shall be responsible for ARC’s compliance with financial reporting and disclosure laws and rules, and shall perform other duties commonly incident to the office of CFO, and shall also perform such other duties and have such other powers as the Board of Directors or ARC’s CEO shall designate from time to time. Executive shall have the authority generally incident and necessary to perform such duties. Executive will be a member of the executive team.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX B
COMPENSATION AND BENEFITS

During the Employment Term, Executive shall receive the following compensation and benefits:

1. **Base Salary** . During the Employment Term, ARC shall pay Executive a base salary at the annual rate of \$325,000 per year or such higher rate as may be determined from time to time by ARC in accordance with ARC's compensation policies and practices (“ **Base Salary** ”). Such Base Salary shall be paid in accordance with ARC's standard payroll practice for senior executives.
2. **Incentive Bonus** . During the Employment Term, Executive shall be eligible to receive an annual Incentive Bonus (“ **Incentive Bonus** ”) in an amount not exceeding eighty percent (80%) of Executive's Base Salary per year contingent upon achievement of performance criteria to be established by ARC's CEO in consultation with Executive and approved by the Compensation Committee of ARC's Board of Directors. Except as otherwise provided in this Agreement, Executive shall not be entitled to payment of an Incentive Bonus unless he remains continuously employed through the last day of the fiscal year to which such bonus relates. The Incentive Bonus shall be paid in cash no later than March 15th after the close of each fiscal year.
3. **Annual Long Term Equity Incentive Award**. Executive shall be eligible to receive Annual Long Term Equity Incentive Awards of \$50,000 per fiscal year, payable in the form of a stock option award to Executive under ARC's 2014 Stock Plan, to be approved by the Compensation Committee of ARC's Board of Directors at the first meeting of the Compensation Committee following the close of each fiscal year. The number of shares subject to such option shall be determined based on the Black-Scholes valuation model (taking into account the closing price of ARC's common stock on the New York Stock Exchange on the date of grant) and shall vest in equal installments of twenty-five percent (25%) on each of the first four anniversaries of the date of grant, subject to Executive's continued employment with ARC on each vesting date.
4. **Additional Discretionary Bonuses** . ARC may from time to time, in its absolute discretion, establish additional bonus programs for Executive.
5. **Benefit Plans and Fringe Benefits** . Executive shall be eligible to participate in or receive benefits under 401(k) savings plan, nonqualified deferred compensation plan, supplemental executive retirement plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, or any other employee benefit or fringe benefit plan, generally made available by ARC to senior executives in accordance with the eligibility requirements of such plans and subject to the terms and conditions set forth in this Agreement. ARC shall pay full cost for coverage of Executive and Executive's spouse and eligible children under all group insurance (including self-insured) benefit plans.

6. **Vacations** . Executive shall be entitled to four (4) weeks paid vacation each calendar year accrued and vested in accordance with ARC's vacation policy applicable to senior executives.
7. **Expense Reimbursement** . ARC shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties under this Agreement in accordance with ARC's customary practices applicable to senior executives, provided that such expenses are incurred and accounted for in accordance with ARC's policy.
8. **Professional Organization Dues, Memberships, etc** . During the Employment Term, ARC shall reimburse Executive for such dues and memberships of appropriate professional organizations which are approved by ARC's CEO.
9. **Stock and Equity Plan Participation** . In the sole discretion of the Board of Directors of ARC, Executive shall be eligible to participate in stock option, stock purchase, stock bonus and similar plans of ARC established from time to time by ARC. The restricted shares of ARC common stock granted to Executive prior to the effective date of this Agreement shall continue to vest in equal installments of twenty-five percent (25%) on each of the first four anniversaries of the date of grant, subject to Executive's continued employment with ARC on each vesting date.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX C
RELEASE AGREEMENT

I understand that my position with ARC Document Solutions, Inc. (" **ARC** ") terminated effective _____ (the " **Separation Date** "). ARC has agreed that if I choose to sign this Agreement, ARC will pay me severance benefits (minus the standard withholdings and deductions) pursuant to the terms of the Executive Employment Agreement entered into on May 1, 2014 between myself and ARC (the " **Severance Benefits** "). I understand that I am not entitled to the Severance Benefits unless I sign this Agreement. I understand that in addition to the Severance Benefits, ARC will pay me all of my accrued salary and vacation, to which I am entitled by law.

In consideration for the Severance Benefits I am receiving under this Agreement, I agree not to use or disclose any of ARC's proprietary information without written authorization from ARC, to immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control, and to release ARC and its officers, directors, agents, attorneys, employees, shareholders, and affiliates from any and all claims, debts, liabilities, demands, causes of action, attorneys' fees, damages, or obligations of every kind and nature, whether they are known or unknown, arising at any time prior to the date I sign this Agreement. This general release includes, but is not limited to: all federal and state statutory and common law claims, claims related to my employment or the termination of my employment or related to breach of contract, tort, wrongful termination, discrimination, wages or benefits, or claims for any form of compensation. This release is not intended to release any claims I have or may have against any of the released parties for (a) indemnification as a director, officer, agent or employee under applicable law, charter document or agreement, (b) severance and other termination benefits under my employment agreement and any related written documents, (c) health or other insurance benefits based on claims already submitted or which are covered claims properly submitted in the future, (d) vested rights under pension, retirement or other benefit plans, or (e) in respect of events, acts or omissions occurring after the date of this Release Agreement.

In releasing claims unknown to me at present, I am waiving all rights and benefits under Section 1542 of the California Civil Code, and any law or legal principle of similar effect in any jurisdiction:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the federal Age Discrimination in Employment Act of 1967, as amended (" **ADEA** "). I also acknowledge that the consideration given for the waiver in the above paragraph is in addition to anything of value to which I was already entitled. I have been advised by this writing, as required by the ADEA that: (a) my waiver and release do not apply to any claims that

may arise after my signing of this Agreement; (b) I should consult with an attorney prior to executing this release, (c) I have twenty-one (21) days within which to consider this release (although I may choose to voluntarily execute this release earlier); (d) I have seven (7) days following the execution of this release to revoke the Agreement; (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by me and by ARC ("**Effective Date**"); and I will not be paid any of the Severance Benefits until this Agreement has become effective.

This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between ARC and me with regard to the subject matter hereof I am not relying on any promise or representation by ARC that is not expressly stated herein. This Agreement may only be modified by a writing signed by both me and a duly authorized officer of ARC. I accept and agree to the terms and conditions stated above:

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __

By: __

John Toth

Title: _____

Address: __

—

EXECUTIVE EMPLOYMENT AGREEMENT

ARC DOCUMENT SOLUTIONS, INC. (“ ARC ”) and RAHUL K. ROY (“ Executive ”) agree to enter into this EMPLOYMENT AGREEMENT dated as of May 1, 2014 as follows:

1. EMPLOYMENT.

ARC hereby agrees to employ Executive, and Executive hereby agrees to be employed by ARC, upon the terms and subject to the conditions set forth in this Agreement.

2. TERM.

The period of Executive’s employment under this Agreement shall begin as of May 1, 2014 and shall continue until terminated in accordance with Section 7 below. As used in this Agreement, the phrase “ **Employment Term** ” refers to Executive’s period of employment from the date of this Agreement until the date his employment is terminated.

3. POSITION, DUTIES AND RESPONSIBILITIES.

- (a) During the Employment Term, Executive shall have the position, duties and responsibilities set forth in Appendix A to this Agreement.
 - (b) Executive agrees to faithfully serve ARC, devote his full working time, attention and energies to the business of ARC, its subsidiaries and affiliates, and perform the duties under this Agreement to the best of his abilities. Executive shall not engage in any other employment, occupation or consulting activity for any direct or indirect remuneration. This obligation shall not preclude Executive from: (i) serving in any volunteer capacity with any professional, community, industry, civic, educational or charitable organization; (ii) serving as a member of corporate boards of directors, provided that the Chief Executive Officer (“ CEO ”) of ARC has given written consent, and these activities or services do not materially interfere or conflict with Executive’s responsibilities or ability to perform his duties under this Agreement; or (iii) engaging in personal investment
-

activities for himself and his family which do not interfere with the performance of his duties and obligations hereunder.

- (c) Executive agrees (i) to comply with all applicable laws, rules and regulations; (ii) to comply with ARC's rules, procedures, policies, requirements, and directions; and (iii) not to engage in any other business or employment without the written consent of ARC except as otherwise specifically provided herein.

4. COMPENSATION AND BENEFITS.

During the Employment Term, Executive shall receive the compensation and benefits set forth in Appendix B to this Agreement.

5. NON-COMPETITION; NON-SOLICITATION.

The parties hereto recognize that Executive's services are unique and the restrictive covenants set forth in this Section 5 are essential to protect the business (including trade secret and other confidential information disclosed by ARC to, learned by, or developed by, Executive during the course of employment by ARC) and the goodwill of ARC. For purposes of this Section 5, all references to "ARC" shall include ARC's predecessors, subsidiaries and affiliates. As part of the consideration for the compensation and benefits to be paid to Executive hereunder, during the term of this Agreement Executive shall not:

- (a) Engage in any business similar or related to or competitive with the business conducted by ARC described from time to time in ARC's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the "**Core Business of ARC**");
- (b) Render advice or services to, or otherwise assist, any other person, association, corporation, or other entity that is engaged, directly or indirectly, in any business similar or related to, or competitive with, the Core Business of ARC;

- (c) Transact any business in any manner with or pertaining to suppliers or customers of ARC which, in any manner, would have, or is likely to have, an adverse effect upon the Core Business of ARC; or
- (d) Induce any employee of ARC to terminate his or her employment with ARC, or hire or assist in the hiring of any such employee by any person or entity not affiliated with ARC.

For purposes of this Agreement, "affiliate" shall mean any entity which owns or controls, is owned or controlled by, or is under common ownership or control, with ARC.

6. CONFIDENTIALITY; INVENTIONS.

- (a) **Confidentiality.** Executive acknowledges that it is the policy of ARC to maintain as secret and confidential all valuable and unique information heretofore or hereafter acquired, developed or used by ARC relating to the business, operations, employees and customers of ARC, which information gives ARC a competitive advantage in the industry, and which information includes technical knowledge, know-how or trade secrets and information concerning operations, sales, personnel, suppliers, customers, costs, profits, markets, pricing policies, all matters referred to in Section 6(b) below, and other confidential information and materials (the "**Confidential Information**").
 - (i) **Non-Disclosure.** Executive recognizes that the services to be performed by Executive are special and unique, and that by reason of his duties he will be given, acquire or learn Confidential Information. Executive recognizes that all such Confidential Information is the sole and exclusive property of ARC and its subsidiaries or affiliates. Executive shall not, either during or after his employment by ARC, disclose the Confidential Information to anyone outside ARC or use the Confidential Information for any purpose whatsoever, other than

for the performance of his duties hereunder, except as authorized by ARC in connection with performance of such duties.

(ii) **Return of Confidential Information.** Executive shall deliver promptly upon termination of employment with ARC, or at any time requested by ARC, all memos, notes, records, reports, manuals, drawings, and any other documents, whether in electronic form or otherwise, containing any Confidential Information, including without limitation all copies of such materials in any format which Executive may then possess or have under his control.

(b) **Ownership of Inventions; Assignment of Rights.**

(i) **Disclosure of Inventions to Company.** Executive agrees promptly to fully disclose in writing to ARC and to hold in trust for the sole right and benefit of ARC, or its designee, all of Executive's rights, titles, and interests in and to any and all inventions, discoveries, developments, concepts, improvements, trade secrets, formulas, techniques, processes, software, and know-how, whether or not patentable and whether or not reduced to practice, all works of authorship, whether or not copyrightable, and any and all other like developments or items conceived, developed, or learned by Executive during the period of employment by ARC, either alone or jointly with others, which relate to or result from the actual or anticipated business, work, research, development or investigations of ARC, or which result, to any extent, from use of ARC's property, supplies, equipment or facilities or of the Proprietary Information (the foregoing hereinafter collectively referred to as the "**Inventions**").

(ii) **Inventions are Sole Property of ARC** . To the extent Inventions include material subject to copyright protection, such materials have been specially commissioned by ARC and they shall be deemed "work for hire" as such term is defined under U.S. copyright law. Executive acknowledges and agrees that all Inventions shall be the sole property of ARC or any other entity designated by it, and Executive hereby irrevocably and exclusively assigns to ARC, its successors, and assigns, without further consideration, all right, title, and interest in and to all such Inventions including, without limit, any trademarks, service marks, trade names, copyrights, patents, trade secrets, mask work rights or other intellectual property or proprietary rights relating to the Inventions, in any and all countries, whether or not registrable under United States or foreign trademark, copyright, patent or similar laws and all applications for registration thereunder ("**Rights**"). Such assignment does not apply to any invention which qualifies fully under the provisions of Section 2870 of the California Labor Code (attached hereto for reference); provided, however, Executive shall maintain contemporaneous written records of the process of creating such an invention; and provided further that such invention (including the records relating thereto) remains subject to the disclosure obligation of the preceding paragraph. To the extent any of Executive's rights in Inventions, including without limitation any moral rights, are not subject to assignment hereunder, Executive further grants to ARC an exclusive, perpetual, irrevocable, royalty-free worldwide license to such Inventions for use, sale, license and distribution, marketing, advertising, copying and to make derivative works thereof or any other use ARC wishes. ARC or any other entity designated

by it shall be the sole owner of all Inventions and Rights pertaining to the Inventions. In case any Invention is described in a patent application or disclosed to third parties by Executive within three years after leaving the employ of ARC, it is to be presumed that the Invention was conceived during the period of Executive's employment by ARC and the Invention will belong to ARC unless proved by Executive to have been conceived following termination of such employment. Executive hereby irrevocably and forever waives, and agrees never to assert any Moral Rights, as defined below, as applicable, in or to the Inventions which Executive may now have or which may accrue to Executive's benefit under U.S. or foreign copyright laws and any and all other residual rights and benefits which arise under any other applicable law now in force or hereafter enacted. The term "Moral Rights" shall mean any and all rights of paternity or integrity of the Inventions and the right to object to any modification, translation or use of the Inventions, and any similar rights existing under the judicial or statutory law of any country in the world or under any treaty, regardless of whether or not such right is denominated or referred to as a moral right.

- (iii) **Assignment of Inventions.** Executive agrees to assist ARC, or its designee, at ARC's expense to secure ARC's Rights in and to the Inventions and will disclose to ARC all pertinent information and data with respect to the Inventions that is needed to secure the Rights and will execute all applications, specifications, assignments and other instruments which ARC reasonably requests to enable ARC to apply for and obtain the Rights, and to assign and convey to ARC, its successors, assigns, and nominees the sole and exclusive rights, titles and interests

in and to such Inventions and Rights. Executive further agrees that his obligation to execute or cause to be executed, any such instrument or papers shall continue after the termination of employment with ARC. In the event that ARC is unable, after reasonable effort, to secure Executive's signature on any of the foregoing assignments, instruments or papers, whether because of Executive's physical or mental incapacity or for any other reason whatsoever, Executive hereby irrevocably designates and appoints ARC and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and on Executive's behalf and stead, to execute and/or file any documents, and to do all other lawfully permitted acts to further the prosecution, issuance, and enforcement of letters patent, copyright, trademark and other analogous rights or protections thereon, or which are otherwise necessary to secure, apply for or obtain Rights, or to assign and convey to ARC, its successors, assigns and nominees the sole and exclusive rights, titles and interests in and to such Inventions and Rights with the same legal force and effect as if executed by Executive. Executive's obligation to assist ARC in obtaining and enforcing Rights for the Inventions in any and all countries shall continue beyond the termination of Executive's relationship with ARC but ARC shall compensate Executive at a reasonable rate after such termination for time actually spent by Executive at ARC's request for such assistance.

- (iv) **Prior Inventions.** Any and all prior inventions, discoveries and improvements made by Executive prior to employment with ARC shall not be affected by this Agreement. Executive acknowledges that he provided a complete list of such

inventions, discoveries and improvements made by Executive prior to Employee's employment with ARC, in connection with, and incorporated by referenced into, the Agreement.

- (c) **Use of Information.** Executive shall not deliver, reproduce or in any way allow Confidential Information to be delivered or used by any third party without specific direction or consent of ARC's CEO. Likewise, Executive shall not disclose to ARC, use in ARC's business, or cause ARC to use, any documents, information or material that is a trade secret of others.
- (d) **Predecessors, Subsidiaries and Affiliates.** For purposes of this Section, references to ARC include its predecessors, subsidiaries and affiliates.

7. TERMINATION OF EMPLOYMENT.

Executive's employment under this Agreement may be terminated under any of the circumstances set forth in this Section 7. Upon termination, Executive (or his beneficiary or estate, as the case may be) shall be entitled to receive the compensation and benefits described in Section 8 below, and if applicable, Section 9 below.

- (a) **Death.** Upon Executive's death.
- (b) **Disability.** Upon Executive becoming "**Permanently Disabled**", which, for purposes of this Agreement, shall mean Executive's incapacity due to physical or mental illness or cause, which, in the written opinion of Executive's regular licensed physician, results in the Executive being unable to perform his duties on a full-time basis for six (6) months during a period of twelve (12) months.

- (c) **Termination by ARC for Cause.** Upon written notice to Executive, ARC may terminate this Agreement for “**Cause**,” which, for purposes of this Agreement, shall mean termination by ARC in its reasonable discretion because of Executive’s:
- (i) willful refusal without proper cause to perform (other than by reason of physical or mental disability or death) the duties set forth in this Agreement or delegated from time to time in writing by the Board of Directors or ARC’s CEO, which remains uncorrected for thirty (30) days following written notice to Executive by ARC’s CEO; or
 - (ii) gross negligence, self-dealing or willful misconduct of Executive in connection with the performance of his duties hereunder, including, without limitation, misappropriation of funds or property of ARC or its subsidiaries or affiliates, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of ARC or its subsidiaries or affiliates, or any willful act or gross negligence having the effect of injuring the reputation, business or business relationships of ARC or its subsidiaries or affiliates; or
 - (iii) fraud, dishonesty or misappropriation of ARC business and assets that harms the business of ARC or its subsidiaries or affiliates; or
 - (iv) habitual insobriety, abuse of alcohol, abuse of prescription drugs, or use of illegal drugs; or
 - (v) engaging in any criminal activity involving moral turpitude; or

- (vi) indictment or being held for trial in connection with a misdemeanor involving moral turpitude or any felony; or
 - (vii) conviction of a felony or entry into a guilty plea that negatively reflects on Executive's fitness to perform the duties or harms the reputation or business of ARC or its subsidiaries or affiliates; or
 - (viii) any material breach of any covenants under this Agreement or other material policy of ARC, other than under clauses (i) through (vii) of this Section 7(c), which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO.
- (d) **Termination by ARC without Cause.** Upon written notice to Executive, ARC may terminate this Agreement at any time without any Cause or reason whatsoever.
- (e) **Termination by Executive with Good Reason.** Upon written notice to ARC of any of the following "**Good Reasons**," and the failure of ARC to correct the reduction, change or breach within thirty (30) days after receipt of such notice, Executive may terminate this Agreement after the occurrence of:
- (i) a material change by ARC in the nature of Executive's title, duties, authorities and responsibilities set forth in this Agreement without Executive's express written consent; or
 - (ii) a reduction in the nature of Executive's compensation as established under this Agreement, without Executive's express written consent; or

- (iii) a change in the officers (including a change in the persons who occupy such positions) to whom Executive reports without Executive's express consent; or
 - (iv) a material breach by ARC of any material sections of this Agreement, other than as set forth in clauses (i) through (iii) of this Section 7(e); or
 - (v) a Change of Control, as defined in Section 7(g), as a result of which Executive is not offered the same or comparable position in the surviving company, or is offered such position but within twelve (12) months after Executive accepts such position, Executive's employment is terminated either without Cause or for a Good Reason described in subsections (i), (ii), (iii) of this Section 7(e) or in subsection (iv) as to the employment agreement then applicable to Executive.
- (f) **Termination by Executive without Good Reason.** Upon forty-five (45) days prior written notice to ARC, Executive may terminate this Agreement and resign from Executive's employment hereunder without any Good Reason.
- (g) **Change of Control.**
- (i) For purposes of this Agreement, "**Change of Control**" shall mean:
 - (A) ARC merges or consolidates with any other corporation (other than one of ARC's subsidiaries), as a result of which ARC is not the surviving company, or the shares of ARC voting stock outstanding immediately after such transaction do not constitute, become exchanged for or converted into, more than fifty percent (50%) of the Voting Shares of the merged or consolidated company (as defined below);

- (B) ARC sells or otherwise transfers or disposes of all or substantially all of its assets;
 - (C) Any third person or entity shall become the Beneficial Owner, as defined by Rule 13(d)-3 under the Securities Exchange Act of 1934, in one transaction or a series of related transactions within any twelve (12) month period, of at least fifty percent (50%) of the Voting Shares of ARC's then outstanding voting securities.
- (ii) For purposes of this Agreement, “ **Voting Shares** ” shall mean the combined voting securities entitled to vote in the election of directors of a corporation, including ARC, or the merged, consolidated or surviving company, if other than ARC.

8. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

Upon termination of Executive's employment under this Agreement, Executive (or his designated beneficiary or estate, as the case may be) shall be entitled to receive the following compensation:

- (a) **Earned but Unpaid Compensation.** Executive will be entitled to: (i) payment for all Base Salary and unused vacation accrued and prorated, but unpaid, as of the effective date of termination, provided that payment will be made no later than 30 days after the effective date of termination, (ii) payment, when due, of any vested but unpaid Incentive Bonus for the preceding fiscal year, (iii) any unreimbursed business expenses authorized by this Agreement, provided that such reimbursement will be paid to Executive no later than 30 days after the effective date of termination, (iv) continuation of any benefits under Section 4 of Appendix B as required by applicable law (e.g., COBRA), and (v)

such rights as then exist with respect to then vested stock options, restricted stock or other rights under similar plans.

- (b) **Termination because of Death or Disability of Executive.** If Executive's employment hereunder is terminated under Sections 7(a) or (b) by reason of Executive's death or by reason of being Permanently Disabled, Executive or his family shall be entitled to continuation of coverage and premium payments by ARC under ARC's group insurance programs for Executive and his eligible family members under Section 6 for a period of twelve (12) months after the termination of employment.
- (c) **Termination by ARC for Cause or by Executive without Good Reason .** If Executive's employment hereunder is terminated by ARC for Cause pursuant to Section 7(c), or by Executive without Good Reason pursuant to Section 7(f), Executive shall not be entitled to any additional payments or benefits hereunder.
- (d) **Other Compensation and Benefits.** Except as may be provided under Section 9 of this Agreement,
 - (vi) any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Appendix B shall be determined and paid in accordance with the terms of such plans, policies and arrangements, and
 - (vii) Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

9. ADDITIONAL COMPENSATION PAYABLE FOLLOWING TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.

- (a) **Requirements for Additional Compensation.** In addition to the compensation set forth in Section 8 above, Executive will receive the additional compensation and benefits set forth in paragraph (b) below, if the following requirements are met:
- (ix) Executive's employment is terminated by ARC without Cause pursuant to Section 7(d) above or by Executive for Good Reason pursuant to Section 7(e) above; and
 - (x) On or after his date of termination, Executive executes a Release Agreement in the form attached as Appendix C to this Agreement (or such substantially similar form as may be provided by ARC) within the time frame specified by ARC.
- (b) **Additional Compensation.** ARC shall provide Executive with the following compensation and benefits:
- (i) ARC shall continue to pay Executive his Base Salary at the rate in effect immediately prior to his termination date as if he had continued in employment until the end of the twelve (12)-month period beginning on such termination date (the "**Severance Pay Period**");
 - (ii) Continuation of coverage and premium payments by ARC under ARC's group insurance programs for Executive and his eligible family members under Section 4 of Appendix B during the Severance Pay Period;
 - (iii) unvested stock options, restricted stock or similar rights granted to Executive shall accelerate and become vested and exercisable immediately as of the effective date of termination.

(c) **Parachute Payments** . In the event that the severance, acceleration of stock options and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended or replaced (the "**Code**") and (ii) but for this Section 9(c), would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then Executive's benefits hereunder shall be either:

(viii) provided to Executive in full; or

(ix) provided to Executive only as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless ARC and Executive otherwise agree in writing, any determination required under this Section 9(c) shall be made in writing in good faith by ARC's independent public accountants (the "**Accountants**"). For purposes of making the calculations required by this Section 11(e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code. ARC and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this

Section 9(c). ARC shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 9(c).

(d) **Special Section 409A Rules Applying to Payment Severance Compensation.**

(i) This Section shall apply to all or any portion of any payment or benefit payable under the Agreement as a result of termination of the Executive's employment that is not exempted from Section 409A of the Code ("**409A Severance Compensation**").

(ii) Notwithstanding anything in the Agreement to the contrary, the following rules shall apply to any 409A Severance Compensation in order to prevent any accelerated or additional tax under Section 409A of the Code:

(A) If the termination of the Executive's employment does not qualify as a "separation from service" within the meaning of Treasury Regulation section 1.409A-1(h) from the "Company's Controlled Group", then any 409A Severance Compensation will not commence until a "separation from service" occurs or, if earlier, the earliest other date as is permitted under Section 409A of the Code. For this purpose, the "Company's Controlled Group" means the Company (i) any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company.

(B) In any case where the date of Executive's termination of employment and the date by which Executive is required to deliver a Release Agreement that has become effective fall in two separate taxable years, any payments or benefits required to be made to Executive that are conditioned on the effectiveness of the Release Agreement and are treated as nonqualified deferred compensation for purposes of Section 409A of the Code shall be made in the later taxable year, with any payments or benefits deferred pursuant to this clause (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid or provided to Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the payment dates otherwise specified for them herein.

(C) If at the time of the Executive's separation from service, Executive is a "specified employee" as defined in Section 409A of the Code, then the Company will defer the commencement of any 409A Severance Compensation (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six (6) months following your separation from service or, if earlier, the earliest other date as is permitted under Section 409A.

10. ARBITRATION AND EQUITABLE RELIEF

- (a) **Arbitration.** In consideration of Executive's employment with ARC, its promise to arbitrate all employment-related disputes and Executive's receipt of the compensation

paid to Executive by ARC, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including ARC and any employee, officer, director, shareholder or benefit plan of ARC in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's employment with ARC or the termination of that employment with ARC, including any provision of this Agreement, shall be subject to binding arbitration under the arbitration rules set forth in the California Code of Civil Procedure Sections 1280 through 1294.2, including section 1283.05 collectively (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and hereby agrees to waive any right to a trial by jury, include without limitation, any common law claims, statutory claims under Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act of 1990, the Age Discrimination In Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment And Housing Act, the California Labor Code (except for workers compensation or unemployment insurance claims), or ERISA, claims of harassment, discrimination or wrongful termination and any other statutory claims under state or federal law.

- (b) **Procedure.** Any arbitration will be administered by JAMS and a neutral arbitrator will be selected in a manner consistent with its rules for the resolution of employment disputes. The arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. The arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. ARC will pay for any administrative or hearing fees charged by the

arbitrator or JAMS except that Executive shall pay the first \$200.00 of any filing fees associated with any arbitration Executive initiates. The arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules. To the extent that the JAMS rules for the resolution of employment disputes conflict with the Rules, the Rules shall take precedence. The decision of the arbitrator shall be in writing.

- (c) **Remedy.** Except as provided by the Rules and this Agreement, arbitration shall be the sole, exclusive and final remedy for any dispute between ARC and Executive. Accordingly, except as provided for by the Rules and this Agreement, neither ARC nor Executive will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful ARC policy, and the arbitrator shall not order or require ARC to adopt a policy not otherwise required by law which ARC has not adopted.
- (d) **Availability of Injunctive Relief.** In addition to the right under the Rules to petition the court for provisional relief, ARC may also petition the court for injunctive relief, notwithstanding any provision in this Agreement requiring arbitration, where ARC alleges or claims a violation of this Agreement, or any separate agreement between Executive and ARC regarding trade secrets, confidential information or non-solicitation, or California Labor Code §2870. No bond shall be required of ARC. Executive understands and agrees that any breach or threatened breach of this Agreement or of any such separate agreement will cause irreparable injury to ARC or its subsidiaries or affiliates and that money damages will not provide an adequate remedy therefore, and Executive hereby consents to the issuance of an injunction. In the event either party

seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorney fees related thereto.

- (e) **Administrative Relief.** This Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.
- (f) **Voluntary Nature of Agreement.** Executive acknowledges and agrees that he is executing this Agreement voluntarily and without any duress or undue influence by ARC or anyone else. Executive further acknowledges and agrees that he has carefully read this Agreement, that he has asked any questions needed for him to understand the terms, consequences and binding effect of this Agreement, and that he fully understands this Agreement, including that he is waiving his right to a jury trial. Finally, Executive acknowledges that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

11. WITHHOLDING OF TAXES.

ARC shall withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

12. COMPLIANCE WITH SECTION 409A.

ARC and Executive agree to modify and administer the Agreement to the extent possible to comply with Section 409A of the Code and to avoid incurring any excise and other additional tax liability that might be imposed on Executive or ARC. To the extent a provision of this Agreement is contrary to or fails to address the minimum requirements of Section 409A of the Code and applicable guidance issued thereunder, ARC may, in its sole discretion, take such steps as it deems reasonable to provide the coverage or benefits provided under the Agreement so as to comply with Section 409A of the Code and the guidance issued thereunder; provided, however,

that, any and all tax liability and penalties resulting from non-compliance with Section 409A of the Code shall remain the sole responsibility of Executive.

13. NO CLAIM AGAINST ASSETS.

Nothing in this Agreement shall be construed as giving Executive any claim against any specific assets of ARC or as imposing any trustee relationship upon ARC in respect of Executive. ARC shall not be required to establish a special or separate fund or to segregate any of its assets in order to provide for the satisfaction of its obligations under this Agreement. Executive's rights under this Agreement shall be limited to those of an unsecured general creditor of the ARC and its affiliates

14. GOVERNING LAW.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California without regard to California conflict of laws principles.

15. NOTICES.

Any notices or other communications desired or required under this Agreement shall be in writing, signed by the Party making the same, and shall be deemed delivered when personally delivered or on the second business day after the same is sent by certified or registered mail, postage prepaid, addressed as follows (or to such other address as may be designated by like written notice):

If to Executive: At the last residential address known by ARC

If to ARC: ARC Document Solutions, Inc.
 1981 North Broadway, Suite 385

 Walnut Creek, CA 94596
 Attn.: Chief Executive Officer

16. SEVERABILITY.

In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

17. ASSIGNMENT.

Except as otherwise specifically provided herein, neither party shall assign this Agreement or any rights hereunder without the consent of the other party, and any attempted or purported assignment without such consent shall be void; provided that Executive's consent under this Agreement shall not be required hereby for any of the transactions involving a Change of Control. This Agreement shall otherwise bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, legatees, devisees, executors, administrators and legal representatives.

18. ENTIRE AGREEMENT; AMENDMENT.

This Agreement contains the entire agreement of the parties and supersedes all prior or contemporaneous negotiations, correspondence, understandings and agreements between the parties regarding the subject matter of this Agreement. Any prior employment agreement, bonus agreement or other compensation agreement between Executive and ARC or any predecessor, subsidiary or affiliate of ARC, is hereby amended and superseded as of the Effective Date. This Agreement may not be amended or modified except in writing signed by both parties.

19. MISCELLANEOUS.

- (a) **Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) **Separability.** If any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.
- (c) **Headings.** Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) **Rules of Construction.** Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) **Counterparts.** This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first hereinabove set forth.

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __
Kumarakulasingam Suriyakumar

By: __
Rahul K. Roy

Title: President and Chief Executive Officer

Address: __

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EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX A
POSITION, DUTIES AND RESPONSIBILITIES

During the Employment Term, Executive shall have the following position, duties and responsibilities:

1. ARC will employ Executive as its Chief Technology Officer (“ **CTO** ”).
2. Executive shall report to ARC’s Chief Executive Officer (“ **CEO** ”). Executive's primary responsibilities shall be to:
 - a. Design, develop and implement technology solutions as required for general business planning regarding technology and systems required to maintain ARC's business operations and competitiveness;
 - b. recognize new developments in technology and anticipate trends;
 - c. update and improve technology solutions acquired by, or developed within, ARC to facilitate ARC to maintain its competitive edge in the market place;
 - d. establish and advise ARC on long-term needs for information systems and plan strategies for developing systems and acquiring hardware to meet ARC's business needs;
 - e. research, develop and establish the infrastructure required for the company's information management systems and to enable the company and its systems to remain current with industry standards and trends;
 - f. serve as technical project manager or designate and oversee project managers related to ARC systems and technology;
 - g. be responsible for the development, operation, protection and maintenance of ARC's software tools and products, including the PlanWell series of products, Abacus, BidCaster, EWO, MetaPrint and OneView, and such new or additional products as may be owned or developed by ARC from time to time;
 - h. manage and maintain ARC's technology center(s) and oversee the training of technical personnel;
 - i. ensure that ARC's intellectual property, including such software tools and products, are at all times during the term of, and upon the expiration or termination of, this Agreement, fully secured and documented in accordance with industry standards and best practices;
 - j. ensure that, upon the expiration or termination of this Agreement, the duties and responsibilities of Executive as CTO shall be transitioned to a new person hired or

otherwise designated by ARC as ARC's new CTO in such a manner that there will be no disruptions or interruptions to ARC's business; and

- k. perform other duties commonly incident to the office and such other duties and have such other powers as ARC's CEO shall designate from time to time.

Without limiting the foregoing, Executive shall have the authority generally incident and necessary to perform such duties.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX B
COMPENSATION AND BENEFITS

During the Employment Term, Executive shall receive the following compensation and benefits:

1. **Base Salary** . During the Employment Term, ARC shall pay Executive a base salary at the annual rate of \$575,000 per year or such higher rate as may be determined from time to time by ARC in accordance with ARC's compensation policies and practices (" **Base Salary** "). Such Base Salary shall be paid in accordance with ARC's standard payroll practice for senior executives.
2. **Incentive Bonus** . During the Employment Term, Executive shall be eligible to receive an annual Incentive Bonus (" **Incentive Bonus** ") in an amount not exceeding eighty percent (80%) of Executive's Base Salary per year contingent upon achievement of performance criteria to be established by ARC's CEO in consultation with Executive and approved by the Compensation Committee of ARC's Board of Directors. Except as otherwise provided in this Agreement, Executive shall not be entitled to payment of an Incentive Bonus unless he remains continuously employed through the last day of the fiscal year to which such bonus relates. The Incentive Bonus shall be paid no later than no later than March 15th after the close of each fiscal year, in cash or ARC common stock, or partly in each, as elected by Executive at least 20 days before the date such Incentive Bonus is paid. As a condition to receiving ARC common stock Executive must deposit with ARC on the date of issuance cash in the amount, if any, by which the total of employee withholding taxes required to be withheld with respect to the entire Incentive Bonus exceeds the cash portion of the Incentive Bonus available for withholding.
3. **Additional Discretionary Bonuses** . ARC may from time to time, in its absolute discretion, establish additional bonus programs for Executive.
4. **Benefit Plans and Fringe Benefits** . Executive shall be eligible to participate in or receive benefits under 401(k) savings plan, nonqualified deferred compensation plan, supplemental executive retirement plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, or any other employee benefit or fringe benefit plan, generally made available by ARC to senior executives in accordance with the eligibility requirements of such plans and subject to the terms and conditions set forth in this Agreement. ARC shall pay full cost for coverage of Executive and Executive's spouse and eligible children under all group insurance (including self-insured) benefit plans.
5. **Vacations** . Executive shall be entitled to four (4) weeks paid vacation each calendar year accrued and vested in accordance with ARC's vacation policy applicable to senior executives.
6. **Expense Reimbursement** . ARC shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties

under this Agreement in accordance with ARC's customary practices applicable to senior executives, provided that such expenses are incurred and accounted for in accordance with ARC's policy.

7. **Professional Organization Dues, Memberships, etc** . During the Employment Term, ARC shall reimburse Executive for such dues and memberships of appropriate professional organizations which are approved by ARC's CEO.
8. **Stock and Equity Plan Participation** . In the sole discretion of the Board of Directors of ARC, Executive shall be eligible to participate in stock option, stock purchase, stock bonus and similar plans of ARC established from time to time by ARC

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX C
RELEASE AGREEMENT

I understand that my position with ARC Document Solutions, Inc. ("ARC") terminated effective _____ (the "Separation Date"). ARC has agreed that if I choose to sign this Agreement, ARC will pay me severance benefits (minus the standard withholdings and deductions) pursuant to the terms of the Executive Employment Agreement entered into on May 1, 2014 between myself and ARC (the "Severance Benefits"). I understand that I am not entitled to the Severance Benefits unless I sign this Agreement. I understand that in addition to the Severance Benefits, ARC will pay me all of my accrued salary and vacation, to which I am entitled by law.

In consideration for the Severance Benefits I am receiving under this Agreement, I agree not to use or disclose any of ARC's proprietary information without written authorization from ARC, to immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control, and to release ARC and its officers, directors, agents, attorneys, employees, shareholders, and affiliates from any and all claims, debts, liabilities, demands, causes of action, attorneys' fees, damages, or obligations of every kind and nature, whether they are known or unknown, arising at any time prior to the date I sign this Agreement. This general release includes, but is not limited to: all federal and state statutory and common law claims, claims related to my employment or the termination of my employment or related to breach of contract, tort, wrongful termination, discrimination, wages or benefits, or claims for any form of compensation. This release is not intended to release any claims I have or may have against any of the released parties for (a) indemnification as a director, officer, agent or employee under applicable law, charter document or agreement, (b) severance and other termination benefits under my employment agreement and any related written documents, (c) health or other insurance benefits based on claims already submitted or which are covered claims properly submitted in the future, (d) vested rights under pension, retirement or other benefit plans, or (e) in respect of events, acts or omissions occurring after the date of this Release Agreement.

In releasing claims unknown to me at present, I am waiving all rights and benefits under Section 1542 of the California Civil Code, and any law or legal principle of similar effect in any jurisdiction:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"). I also acknowledge that the consideration given for the waiver in the above paragraph is in addition to anything of value to which I was already entitled. I have been advised by this writing, as required by the ADEA that: (a) my waiver and release do not apply to any claims that

may arise after my signing of this Agreement; (b) I should consult with an attorney prior to executing this release, (c) I have twenty-one (21) days within which to consider this release (although I may choose to voluntarily execute this release earlier); (d) I have seven (7) days following the execution of this release to revoke the Agreement; (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by me and by ARC ("**Effective Date**"); and I will not be paid any of the Severance Benefits until this Agreement has become effective.

This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between ARC and me with regard to the subject matter hereof I am not relying on any promise or representation by ARC that is not expressly stated herein. This Agreement may only be modified by a writing signed by both me and a duly authorized officer of ARC. I accept and agree to the terms and conditions stated above:

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __

By: __

Rahul K. Roy

Title: _____

Address: __

—

EXECUTIVE EMPLOYMENT AGREEMENT

ARC DOCUMENT SOLUTIONS, INC. (“ ARC ”) and DILANTHA WIJESURIYA (“ Executive ”) agree to enter into this EMPLOYMENT AGREEMENT dated as of May 1, 2014 as follows:

1. EMPLOYMENT.

ARC hereby agrees to employ Executive, and Executive hereby agrees to be employed by ARC, upon the terms and subject to the conditions set forth in this Agreement.

2. TERM.

The period of Executive’s employment under this Agreement shall begin as of May 1, 2014 and shall continue until terminated in accordance with Section 7 below. As used in this Agreement, the phrase “ **Employment Term** ” refers to Executive’s period of employment from the date of this Agreement until the date his employment is terminated.

3. POSITION, DUTIES AND RESPONSIBILITIES.

- (a) During the Employment Term, Executive shall have the position, duties and responsibilities set forth in Appendix A to this Agreement.
 - (b) Executive agrees to faithfully serve ARC, devote his full working time, attention and energies to the business of ARC, its subsidiaries and affiliates, and perform the duties under this Agreement to the best of his abilities. Executive shall not engage in any other employment, occupation or consulting activity for any direct or indirect remuneration. This obligation shall not preclude Executive from: (i) serving in any volunteer capacity with any professional, community, industry, civic, educational or charitable organization; (ii) serving as a member of corporate boards of directors, provided that the Chief Executive Officer (“ CEO ”) of ARC has given written consent, and these activities or services do not materially interfere or conflict with Executive’s responsibilities or ability to perform his duties under this Agreement; or (iii) engaging in personal investment
-

activities for himself and his family which do not interfere with the performance of his duties and obligations hereunder.

- (c) Executive agrees (i) to comply with all applicable laws, rules and regulations; (ii) to comply with ARC's rules, procedures, policies, requirements, and directions; and (iii) not to engage in any other business or employment without the written consent of ARC except as otherwise specifically provided herein.

4. COMPENSATION AND BENEFITS.

During the Employment Term, Executive shall receive the compensation and benefits set forth in Appendix B to this Agreement.

5. RESTRICTIVE COVENANTS.

- (a) **Non-Competition; Non-Solicitation** . The parties hereto recognize that Executive's services are unique and the restrictive covenants set forth in this Section 5 are essential to protect the business (including trade secret and other confidential information disclosed by ARC to, learned by, or developed by, Executive during the course of employment by ARC) and the goodwill of ARC. For purposes of this Section 5, all references to "ARC" shall include ARC's predecessors, subsidiaries and affiliates. As part of the consideration for the compensation and benefits to be paid to Executive hereunder, during the term of this Agreement Executive shall not:

- (i) Engage in any business similar or related to or competitive with the business conducted by ARC described from time to time in ARC's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the "**Core Business of ARC**");

- (ii) Render advice or services to, or otherwise assist, any other person, association, corporation, or other entity that is engaged, directly or indirectly, in any business similar or related to, or competitive with, the Core Business of ARC;
- (iii) Transact any business in any manner with or pertaining to suppliers or customers of ARC which, in any manner, would have, or is likely to have, an adverse effect upon the Core Business of ARC; or
- (iv) Induce any employee of ARC to terminate his or her employment with ARC, or hire or assist in the hiring of any such employee by any person or entity not affiliated with ARC.

For purposes of this Agreement, “affiliate” shall mean any entity which owns or controls, is owned or controlled by, or is under common ownership or control, with ARC.

6. CONFIDENTIALITY

Executive acknowledges that it is the policy of ARC to maintain as secret and confidential all valuable and unique information heretofore or hereafter acquired, developed or used by ARC relating to the business, operations, employees and customers of ARC, which information gives ARC a competitive advantage in the industry, and which information includes technical knowledge, know-how or trade secrets and information concerning operations, sales, personnel, suppliers, customers, costs, profits, markets, pricing policies, and other confidential information and materials (the “**Confidential Information**”).

- (a) **Non-Disclosure.** Executive recognizes that the services to be performed by Executive are special and unique, and that by reason of his duties he will be given, acquire or learn Confidential Information. Executive recognizes that all such Confidential Information is the sole and exclusive property of ARC. Executive shall not, either during or after his employment by ARC, disclose the Confidential Information to anyone outside ARC or use the Confidential Information for any purpose whatsoever, other than for the

performance of his duties hereunder, except as authorized by ARC in connection with performance of such duties.

- (b) **Return of Confidential Information.** Executive shall deliver promptly upon termination of employment with ARC, or at any time requested by ARC, all memos, notes, records, reports, manuals, drawings, and any other documents, whether in electronic form or otherwise, containing any Confidential Information, including without limitation all copies of such materials in any format which Executive may then possess or have under his control.
- (c) **Ownership of Inventions; Assignment of Rights.** Executive agrees that all information, inventions, intellectual property, trade secrets, copyrights, trademarks, content, know-how, documents, reports, plans, proposals, marketing and sales plans, client lists, client files and materials made by him or by ARC (the “**Work Product**”) are the property of ARC and shall not be used by him in any way adverse to the interests of ARC. Executive assigns to ARC any and all rights of every nature which Executive may have in any such Work Product; provided, however, that such assignment does not apply to any right which qualifies fully under California Labor Code Section 2870. This section shall survive any termination of this Agreement and the employment relationship between Executive and ARC. Executive shall not deliver, reproduce or in any way allow such documents or things to be delivered or used by any third party without specific direction or consent of the Board of Directors. Likewise, Executive shall not disclose to ARC, use in ARC’s business, or cause ARC to use, any information or material that is a trade secret of others.

- (d) **Predecessors, Subsidiaries and Affiliates.** For purposes of this Section, references to ARC include its predecessors, subsidiaries and affiliates.

7. TERMINATION OF EMPLOYMENT.

Executive's employment under this Agreement may be terminated under any of the circumstances set forth in this Section 7. Upon termination, Executive (or his beneficiary or estate, as the case may be) shall be entitled to receive the compensation and benefits described in Section 8 below, and if applicable, Section 9 below.

- (a) **Death.** Upon Executive's death.
- (b) **Disability.** Upon Executive becoming "**Permanently Disabled**", which, for purposes of this Agreement, shall mean Executive's incapacity due to physical or mental illness or cause, which, in the written opinion of Executive's regular licensed physician, results in the Executive being unable to perform his duties on a full-time basis for six (6) months during a period of twelve (12) months.
- (c) **Termination by ARC for Cause.** Upon written notice to Executive, ARC may terminate this Agreement for "**Cause**," which, for purposes of this Agreement, shall mean termination by ARC in its reasonable discretion because of Executive's:
- (i) willful refusal without proper cause to perform (other than by reason of physical or mental disability or death) the duties set forth in this Agreement or delegated from time to time in writing by the Board of Directors or ARC's CEO, which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO; or
 - (ii) gross negligence, self-dealing or willful misconduct of Executive in connection with the performance of his duties hereunder, including, without limitation,

misappropriation of funds or property of ARC or its subsidiaries or affiliates, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of ARC or its subsidiaries or affiliates, or any willful act or gross negligence having the effect of injuring the reputation, business or business relationships of ARC or its subsidiaries or affiliates; or

- (iii) fraud, dishonesty or misappropriation of ARC business and assets that harms the business of ARC or its subsidiaries or affiliates; or
- (iv) habitual insobriety, abuse of alcohol, abuse of prescription drugs, or use of illegal drugs; or
- (v) engaging in any criminal activity involving moral turpitude; or
- (vi) indictment or being held for trial in connection with a misdemeanor involving moral turpitude or any felony; or
- (vii) conviction of a felony or entry into a guilty plea that negatively reflects on Executive's fitness to perform the duties or harms the reputation or business of ARC or its subsidiaries or affiliates; or
- (viii) any material breach of any covenants under this Agreement or other material policy of ARC, other than under clauses (i) through (vii) of this Section 7(c), which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO.

- (d) **Termination by ARC without Cause.** Upon written notice to Executive, ARC may terminate this Agreement at any time without any Cause or reason whatsoever.
- (e) **Termination by Executive with Good Reason.** Upon written notice to ARC of any of the following “**Good Reasons**,” and the failure of ARC to correct the reduction, change or breach within thirty (30) days after receipt of such notice, Executive may terminate this Agreement after the occurrence of:
- (i) a material change by ARC in the nature of Executive’s title, duties, authorities and responsibilities set forth in this Agreement without Executive’s express written consent; or
 - (ii) a reduction in the nature of Executive’s compensation as established under this Agreement, without Executive’s express written consent; or
 - (iii) a change in the officers (other than a change in the persons who occupy such positions) to whom Executive reports without Executive’s express consent; or
 - (iv) a material breach by ARC of any material sections of this Agreement, other than as set forth in clauses (i) through (iii) of this Section 7(e); or
 - (v) a Change of Control, as defined in Section 7(g), as a result of which Executive is not offered the same or comparable position in the surviving company, or is offered such position but within twelve (12) months after Executive accepts such position, Executive’s employment is terminated either without Cause or for a Good Reason described in subsections (i), (ii), (iii) of this Section 7(e) or in subsection (iv) as to the employment agreement then applicable to Executive.

- (f) **Termination by Executive without Good Reason.** Upon forty-five (45) days prior written notice to ARC, Executive may terminate this Agreement and resign from Executive's employment hereunder without any Good Reason.
- (g) **Change of Control.**
- (i) For purposes of this Agreement, "**Change of Control**" shall mean:
- (A) ARC merges or consolidates with any other corporation (other than one of ARC's subsidiaries), as a result of which ARC is not the surviving company, or the shares of ARC voting stock outstanding immediately after such transaction do not constitute, become exchanged for or converted into, more than fifty percent (50%) of the Voting Shares of the merged or consolidated company (as defined below);
 - (B) ARC sells or otherwise transfers or disposes of all or substantially all of its assets;
 - (C) Any third person or entity shall become the Beneficial Owner, as defined by Rule 13(d)-3 under the Securities Exchange Act of 1934, in one transaction or a series of related transactions within any twelve (12) month period, of at least fifty percent (50%) of the Voting Shares of ARC's then outstanding voting securities.
- (ii) For purposes of this Agreement, "**Voting Shares**" shall mean the combined voting securities entitled to vote in the election of directors of a corporation, including ARC, or the merged, consolidated or surviving company, if other than ARC.

8. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

Upon termination of Executive's employment under this Agreement, Executive (or his designated beneficiary or estate, as the case may be) shall be entitled to receive the following compensation:

- (a) **Earned but Unpaid Compensation.** Executive will be entitled to: (i) payment for all Base Salary and unused vacation accrued and prorated, but unpaid, as of the effective date of termination, provided that payment will be made no later than 30 days after the effective date of termination, (ii) payment, when due, of any vested but unpaid Incentive Bonus for the preceding fiscal year, (iii) any unreimbursed business expenses authorized by this Agreement, provided that such reimbursement will be paid to Executive no later than 30 days after the effective date of termination, (iv) continuation of any benefits under Section 5 of Appendix B as required by applicable law (e.g., COBRA), and (v) such rights as then exist with respect to then vested stock options, restricted stock or other rights under similar plans.
- (b) **Termination because of Death or Disability of Executive.** If Executive's employment hereunder is terminated under Sections 7(a) or (b) by reason of Executive's death or by reason of being Permanently Disabled, Executive or his family shall be entitled to continuation of coverage and premium payments by ARC under ARC's group insurance programs for Executive and his eligible family members under Section 6 for a period of twelve (12) months after the termination of employment.
- (c) **Termination by ARC for Cause or by Executive without Good Reason .** If Executive's employment hereunder is terminated by ARC for Cause pursuant to Section 7

(c), or by Executive without Good Reason pursuant to Section 7(f), Executive shall not be entitled to any additional payments or benefits hereunder.

(d) **Other Compensation and Benefits.** Except as may be provided under Section 9 of this Agreement,

(vi) any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Appendix B above shall be determined and paid in accordance with the terms of such plans, policies and arrangements, and

(vii) Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

9. ADDITIONAL COMPENSATION PAYABLE FOLLOWING TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.

(a) **Requirements for Additional Compensation.** In addition to the compensation set forth in Section 8 above, Executive will receive the additional compensation and benefits set forth in paragraph (b) below, if the following requirements are met:

(ix) Executive's employment is terminated by ARC without Cause pursuant to Section 7(d) above or by Executive for Good Reason pursuant to Section 7(e) above; and

(x) On or after his date of termination, Executive executes a Release Agreement in the form attached as Appendix C to this Agreement (or such substantially similar form as may be provided by ARC) within the time frame specified by ARC.

- (b) **Additional Compensation.** ARC shall provide Executive with the following compensation and benefits:
- (i) ARC shall continue to pay Executive his Base Salary at the rate in effect immediately prior to his termination date as if he had continued in employment until the end of the twelve (12)-month period beginning on such termination date (the “ **Severance Pay Period** ”);
 - (ii) Continuation of coverage and premium payments by ARC under ARC’s group insurance programs for Executive and his eligible family members under Section 5 of Appendix during the Severance Pay Period;
 - (iii) unvested stock options, restricted stock or similar rights granted to Executive shall accelerate and become vested and exercisable immediately as of the effective date of termination.
- (c) **Parachute Payments .** In the event that the severance, acceleration of stock options and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended or replaced (the " **Code** ") and (ii) but for this Section 9(c), would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), then Executive's benefits hereunder shall be either:
- (viii) provided to Executive in full; or
 - (ix) provided to Executive only as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the

foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless ARC and Executive otherwise agree in writing, any determination required under this Section 9(c) shall be made in writing in good faith by ARC's independent public accountants (the " **Accountants** "). For purposes of making the calculations required by this Section 11(e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code. ARC and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 9(c). ARC shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 9(c).

(d) **Special Section 409A Rules Applying to Payment Severance Compensation.**

- (i) This Section shall apply to all or any portion of any payment or benefit payable under the Agreement as a result of termination of the Executive's employment that is not exempted from Section 409A of the Code (" **409A Severance Compensation** ").
- (ii) Notwithstanding anything in the Agreement to the contrary, the following rules shall apply to any 409A Severance Compensation in order to prevent any accelerated or additional tax under Section 409A of the Code:

(A) If the termination of the Executive's employment does not qualify as a "separation from service" within the meaning of Treasury Regulation section 1.409A-1(h) from the "Company's Controlled Group", then any 409A Severance Compensation will not commence until a "separation from service" occurs or, if earlier, the earliest other date as is permitted under Section 409A of the Code. For this purpose, the "Company's Controlled Group" means the Company (i) any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company.

(B) In any case where the date of Executive's termination of employment and the date by which Executive is required to deliver a Release Agreement that has become effective fall in two separate taxable years, any payments or benefits required to be made to Executive that are conditioned on the effectiveness of the Release Agreement and are treated as nonqualified deferred compensation for purposes of Section 409A of the Code shall be made in the later taxable year, with any payments or benefits deferred pursuant to this clause (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid or provided to Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the payment dates otherwise specified for them herein.

(C) If at the time of the Executive's separation from service, Executive is a "specified employee" as defined in Section 409A of the Code, then the Company will defer the commencement of any 409A Severance Compensation (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six (6) months following your separation from service or, if earlier, the earliest other date as is permitted under Section 409A.

10. ARBITRATION AND EQUITABLE RELIEF

(a) **Arbitration.** In consideration of Executive's employment with ARC, its promise to arbitrate all employment-related disputes and Executive's receipt of the compensation paid to Executive by ARC, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including ARC and any employee, officer, director, shareholder or benefit plan of ARC in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's employment with ARC or the termination of that employment with ARC, including any provision of this Agreement, shall be subject to binding arbitration under the arbitration rules set forth in the California Code of Civil Procedure Sections 1280 through 1294.2, including section 1283.05 collectively (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and hereby agrees to waive any right to a trial by jury, include without limitation, any common law claims, statutory claims under Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act of 1990, the Age Discrimination In Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment And Housing Act, the California Labor Code (except for workers

compensation or unemployment insurance claims), or ERISA, claims of harassment, discrimination or wrongful termination and any other statutory claims under state or federal law.

- (b) **Procedure.** Any arbitration will be administered by JAMS and a neutral arbitrator will be selected in a manner consistent with its rules for the resolution of employment disputes. The arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. The arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. ARC will pay for any administrative or hearing fees charged by the arbitrator or JAMS except that Executive shall pay the first \$200.00 of any filing fees associated with any arbitration Executive initiates. The arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules. To the extent that the JAMS rules for the resolution of employment disputes conflict with the Rules, the Rules shall take precedence. The decision of the arbitrator shall be in writing.
- (c) **Remedy.** Except as provided by the Rules and this Agreement, arbitration shall be the sole, exclusive and final remedy for any dispute between ARC and Executive. Accordingly, except as provided for by the Rules and this Agreement, neither ARC nor Executive will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful ARC policy, and the arbitrator shall not order or require ARC to adopt a policy not otherwise required by law which ARC has not adopted.

- (d) **Availability of Injunctive Relief.** In addition to the right under the Rules to petition the court for provisional relief, ARC may also petition the court for injunctive relief, notwithstanding any provision in this Agreement requiring arbitration, where ARC alleges or claims a violation of this Agreement, or any separate agreement between Executive and ARC regarding trade secrets, confidential information or non-solicitation, or California Labor Code §2870. No bond shall be required of ARC. Executive understands and agrees that any breach or threatened breach of this Agreement or of any such separate agreement will cause irreparable injury to ARC or its subsidiaries or affiliates and that money damages will not provide an adequate remedy therefore, and Executive hereby consents to the issuance of an injunction. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorney fees related thereto.
- (e) **Administrative Relief.** This Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.
- (f) **Voluntary Nature of Agreement.** Executive acknowledges and agrees that he is executing this Agreement voluntarily and without any duress or undue influence by ARC or anyone else. Executive further acknowledges and agrees that he has carefully read this Agreement, that he has asked any questions needed for him to understand the terms, consequences and binding effect of this Agreement, and that he fully understands this

Agreement, including that he is waiving his right to a jury trial. Finally, Executive acknowledges that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

11. WITHHOLDING OF TAXES.

ARC shall withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

12. COMPLIANCE WITH SECTION 409A.

ARC and Executive agree to modify and administer the Agreement to the extent possible to comply with Section 409A of the Code and to avoid incurring any excise and other additional tax liability that might be imposed on Executive or ARC. To the extent a provision of this Agreement is contrary to or fails to address the minimum requirements of Section 409A of the Code and applicable guidance issued thereunder, ARC may, in its sole discretion, take such steps as it deems reasonable to provide the coverage or benefits provided under the Agreement so as to comply with Section 409A of the Code and the guidance issued thereunder; provided, however, that, any and all tax liability and penalties resulting from non-compliance with Section 409A of the Code shall remain the sole responsibility of Executive.

13. NO CLAIM AGAINST ASSETS.

Nothing in this Agreement shall be construed as giving Executive any claim against any specific assets of ARC or as imposing any trustee relationship upon ARC in respect of Executive. ARC shall not be required to establish a special or separate fund or to segregate any of its assets in order to provide for the satisfaction of its obligations under this Agreement. Executive's rights under this Agreement shall be limited to those of an unsecured general creditor of the ARC and its affiliates

14. GOVERNING LAW.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California without regard to California conflict of laws principles.

15. NOTICES.

Any notices or other communications desired or required under this Agreement shall be in writing, signed by the Party making the same, and shall be deemed delivered when personally delivered or on the second business day after the same is sent by certified or registered mail, postage prepaid, addressed as follows (or to such other address as may be designated by like written notice):

If to Executive: At the last residential address known by ARC

If to ARC: ARC Document Solutions, Inc.
1981 North Broadway, Suite 385

Walnut Creek, CA 94596
Attn.: Chief Executive Officer

16. SEVERABILITY.

In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

17. ASSIGNMENT.

Except as otherwise specifically provided herein, neither party shall assign this Agreement or any rights hereunder without the consent of the other party, and any attempted or purported assignment without such consent shall be void; provided that Executive's consent under this Agreement shall not be required hereby for any of the transactions involving a Change of Control. This Agreement shall otherwise bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, legatees, devisees, executors, administrators and legal representatives.

18. ENTIRE AGREEMENT; AMENDMENT.

This Agreement contains the entire agreement of the parties and supersedes all prior or contemporaneous negotiations, correspondence, understandings and agreements between the parties regarding the subject matter of this Agreement. Any prior employment agreement, bonus agreement or other compensation agreement between Executive and ARC or any predecessor, subsidiary or affiliate of ARC, is hereby amended and superseded as of the Effective Date. This Agreement may not be amended or modified except in writing signed by both parties.

19. MISCELLANEOUS.

- (a) **Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) **Separability.** If any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be

enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

- (c) **Headings.** Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) **Rules of Construction.** Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) **Counterparts.** This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first hereinabove set forth.

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __
Kumarakulasingam Suriyakumar

By: __
Dilantha Wijesuriya

Title: President and Chief Executive Officer

Address: __

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EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX A
POSITION, DUTIES AND RESPONSIBILITIES

During the Employment Term, Executive shall have the following position, duties and responsibilities:

1. ARC will employ Executive as its Chief Operating Officer.
2. Executive shall report to the Chief Executive Officer (" **CEO** ") of ARC. Executive's primary responsibilities shall be to (i) manage the daily operations of ARC, including, sales and marketing, business development, administration, and information systems, (ii) lead the execution of ARC's long range corporate goals, and (iii) perform such other duties which are normal and customary to the position of Chief Operating Officer of a publicly-traded company. Executive shall have the authority generally incident and necessary to perform such duties. Executive will be a member of the executive team.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX B
COMPENSATION AND BENEFITS

During the Employment Term, Executive shall receive the following compensation and benefits:

1. **Base Salary** . During the Employment Term, ARC shall pay Executive a base salary at the annual rate of \$370,000 per year or such higher rate as may be determined from time to time by ARC in accordance with ARC's compensation policies and practices (“ **Base Salary** ”). Such Base Salary shall be paid in accordance with ARC's standard payroll practice for senior executives.
2. **Incentive Bonus** . During the Employment Term, Executive shall be eligible to receive an annual Incentive Bonus (“Incentive Bonus”) in an amount not exceeding one hundred percent (100%) of Executive's Base Salary per year contingent upon achievement of performance criteria to be established by ARC's CEO in consultation with Executive and approved by the Compensation Committee of ARC's Board of Directors. Except as otherwise provided in this Agreement, Executive shall not be entitled to payment of an Incentive Bonus unless he remains continuously employed through the last day of the fiscal year to which such bonus relates. The Incentive Bonus shall be paid in cash no later than March 15th after the close of each fiscal year.
3. **Annual Long Term Equity Incentive Award**. Executive shall be eligible to receive Annual Long Term Equity Incentive Awards of \$200,000 per fiscal year, payable in the form of a stock option award to Executive under ARC's 2014 Stock Plan, to be approved by the Compensation Committee of ARC's Board of Directors at the first meeting of the Compensation Committee following the close of each fiscal year. The number of shares subject to such option shall be determined based on the Black-Scholes valuation model (taking into account the closing price of ARC's common stock on the New York Stock Exchange on the date of grant) and shall vest in equal installments of twenty-five percent (25%) on each of the first four anniversaries of the date of grant, subject to Executive's continued employment with ARC on each vesting date.
4. **Additional Discretionary Bonuses** . ARC may from time to time, in its absolute discretion, establish additional bonus programs for Executive.
5. **Benefit Plans and Fringe Benefits** . Executive shall be eligible to participate in or receive benefits under 401(k) savings plan, nonqualified deferred compensation plan, supplemental executive retirement plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, or any other employee benefit or fringe benefit plan, generally made available by ARC to senior executives in accordance with the eligibility requirements of such plans and subject to the terms and conditions set forth in this Agreement. ARC shall pay full cost for coverage of Executive and Executive's spouse and eligible children under all group insurance (including self-insured) benefit plans.

6. **Vacations** . Executive shall be entitled to four (4) weeks paid vacation each calendar year accrued and vested in accordance with ARC's vacation policy applicable to senior executives.
7. **Expense Reimbursement** . ARC shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties under this Agreement in accordance with ARC's customary practices applicable to senior executives, provided that such expenses are incurred and accounted for in accordance with ARC's policy.
8. **Professional Organization Dues, Memberships, etc** . During the Employment Term, ARC shall reimburse Executive for such dues and memberships of appropriate professional organizations which are approved by ARC's CEO.
9. **Stock and Equity Plan Participation** . In the sole discretion of the Board of Directors of ARC, Executive shall be eligible to participate in stock option, stock purchase, stock bonus and similar plans of ARC established from time to time by ARC. The restricted shares of ARC common stock granted to Executive prior to the effective date of this Agreement shall continue to vest in equal installments of twenty-five percent (25%) on each of the first four anniversaries of the date of grant, subject to Executive's continued employment with ARC on each vesting date.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX C
RELEASE AGREEMENT

I understand that my position with ARC Document Solutions, Inc. (" **ARC** ") terminated effective _____ (the " **Separation Date** "). ARC has agreed that if I choose to sign this Agreement, ARC will pay me severance benefits (minus the standard withholdings and deductions) pursuant to the terms of the Executive Employment Agreement entered into on May 1, 2014 between myself and ARC (the " **Severance Benefits** "). I understand that I am not entitled to the Severance Benefits unless I sign this Agreement. I understand that in addition to the Severance Benefits, ARC will pay me all of my accrued salary and vacation, to which I am entitled by law.

In consideration for the Severance Benefits I am receiving under this Agreement, I agree not to use or disclose any of ARC's proprietary information without written authorization from ARC, to immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control, and to release ARC and its officers, directors, agents, attorneys, employees, shareholders, and affiliates from any and all claims, debts, liabilities, demands, causes of action, attorneys' fees, damages, or obligations of every kind and nature, whether they are known or unknown, arising at any time prior to the date I sign this Agreement. This general release includes, but is not limited to: all federal and state statutory and common law claims, claims related to my employment or the termination of my employment or related to breach of contract, tort, wrongful termination, discrimination, wages or benefits, or claims for any form of compensation. This release is not intended to release any claims I have or may have against any of the released parties for (a) indemnification as a director, officer, agent or employee under applicable law, charter document or agreement, (b) severance and other termination benefits under my employment agreement and any related written documents, (c) health or other insurance benefits based on claims already submitted or which are covered claims properly submitted in the future, (d) vested rights under pension, retirement or other benefit plans, or (e) in respect of events, acts or omissions occurring after the date of this Release Agreement.

In releasing claims unknown to me at present, I am waiving all rights and benefits under Section 1542 of the California Civil Code, and any law or legal principle of similar effect in any jurisdiction:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the federal Age Discrimination in Employment Act of 1967, as amended (" **ADEA** "). I also acknowledge that the consideration given for the waiver in the above paragraph is in addition to anything of value to which I was already entitled. I have been advised by this writing, as required by the ADEA that: (a) my waiver and release do not apply to any claims that

may arise after my signing of this Agreement; (b) I should consult with an attorney prior to executing this release, (c) I have twenty-one (21) days within which to consider this release (although I may choose to voluntarily execute this release earlier); (d) I have seven (7) days following the execution of this release to revoke the Agreement; (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by me and by ARC ("**Effective Date**"); and I will not be paid any of the Severance Benefits until this Agreement has become effective.

This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between ARC and me with regard to the subject matter hereof I am not relying on any promise or representation by ARC that is not expressly stated herein. This Agreement may only be modified by a writing signed by both me and a duly authorized officer of ARC. I accept and agree to the terms and conditions stated above:

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __

By: __

Dilantha Wijesuriya

Title: _____

Address: __

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EXECUTIVE EMPLOYMENT AGREEMENT

ARC DOCUMENT SOLUTIONS, INC. (“ARC”) and JORGE AVALOS (“Executive”) agree to enter into this EMPLOYMENT AGREEMENT dated as of May 1, 2014 as follows:

1. EMPLOYMENT.

ARC hereby agrees to employ Executive, and Executive hereby agrees to be employed by ARC, upon the terms and subject to the conditions set forth in this Agreement.

2. TERM.

The period of Executive’s employment under this Agreement shall begin as of May 1, 2014 and shall continue until terminated in accordance with Section 7 below. As used in this Agreement, the phrase “**Employment Term**” refers to Executive’s period of employment from the date of this Agreement until the date his employment is terminated.

3. POSITION, DUTIES AND RESPONSIBILITIES.

- (a) During the Employment Term, Executive shall have the position, duties and responsibilities set forth in Appendix A to this Agreement.
 - (b) Executive agrees to faithfully serve ARC, devote his full working time, attention and energies to the business of ARC, its subsidiaries and affiliates, and perform the duties under this Agreement to the best of his abilities. Executive shall not engage in any other employment, occupation or consulting activity for any direct or indirect remuneration. This obligation shall not preclude Executive from: (i) serving in any volunteer capacity with any professional, community, industry, civic, educational or charitable organization; (ii) serving as a member of corporate boards of directors, provided that the Chief Executive Officer (“CEO”) of ARC has given written consent, and these activities or services do not materially interfere or conflict with Executive’s responsibilities or ability to perform his duties under this Agreement; or (iii) engaging in personal investment
-

activities for himself and his family which do not interfere with the performance of his duties and obligations hereunder.

- (c) Executive agrees (i) to comply with all applicable laws, rules and regulations; (ii) to comply with ARC's rules, procedures, policies, requirements, and directions; and (iii) not to engage in any other business or employment without the written consent of ARC except as otherwise specifically provided herein.

4. COMPENSATION AND BENEFITS.

During the Employment Term, Executive shall receive the compensation and benefits set forth in Appendix B to this Agreement.

5. RESTRICTIVE COVENANTS.

- (a) **Non-Competition; Non-Solicitation** . The parties hereto recognize that Executive's services are unique and the restrictive covenants set forth in this Section 5 are essential to protect the business (including trade secret and other confidential information disclosed by ARC to, learned by, or developed by, Executive during the course of employment by ARC) and the goodwill of ARC. For purposes of this Section 5, all references to "ARC" shall include ARC's predecessors, subsidiaries and affiliates. As part of the consideration for the compensation and benefits to be paid to Executive hereunder, during the term of this Agreement Executive shall not:

- (i) Engage in any business similar or related to or competitive with the business conducted by ARC described from time to time in ARC's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the "**Core Business of ARC**");

- (ii) Render advice or services to, or otherwise assist, any other person, association, corporation, or other entity that is engaged, directly or indirectly, in any business similar or related to, or competitive with, the Core Business of ARC;
- (iii) Transact any business in any manner with or pertaining to suppliers or customers of ARC which, in any manner, would have, or is likely to have, an adverse effect upon the Core Business of ARC; or
- (iv) Induce any employee of ARC to terminate his or her employment with ARC, or hire or assist in the hiring of any such employee by any person or entity not affiliated with ARC.

For purposes of this Agreement, “affiliate” shall mean any entity which owns or controls, is owned or controlled by, or is under common ownership or control, with ARC.

6. CONFIDENTIALITY

Executive acknowledges that it is the policy of ARC to maintain as secret and confidential all valuable and unique information heretofore or hereafter acquired, developed or used by ARC relating to the business, operations, employees and customers of ARC, which information gives ARC a competitive advantage in the industry, and which information includes technical knowledge, know-how or trade secrets and information concerning operations, sales, personnel, suppliers, customers, costs, profits, markets, pricing policies, and other confidential information and materials (the “**Confidential Information**”).

- (a) **Non-Disclosure.** Executive recognizes that the services to be performed by Executive are special and unique, and that by reason of his duties he will be given, acquire or learn Confidential Information. Executive recognizes that all such Confidential Information is the sole and exclusive property of ARC. Executive shall not, either during or after his employment by ARC, disclose the Confidential Information to anyone outside ARC or use the Confidential Information for any purpose whatsoever, other than for the

performance of his duties hereunder, except as authorized by ARC in connection with performance of such duties.

- (b) **Return of Confidential Information.** Executive shall deliver promptly upon termination of employment with ARC, or at any time requested by ARC, all memos, notes, records, reports, manuals, drawings, and any other documents, whether in electronic form or otherwise, containing any Confidential Information, including without limitation all copies of such materials in any format which Executive may then possess or have under his control.
- (c) **Ownership of Inventions; Assignment of Rights.** Executive agrees that all information, inventions, intellectual property, trade secrets, copyrights, trademarks, content, know-how, documents, reports, plans, proposals, marketing and sales plans, client lists, client files and materials made by him or by ARC (the “**Work Product**”) are the property of ARC and shall not be used by him in any way adverse to the interests of ARC. Executive assigns to ARC any and all rights of every nature which Executive may have in any such Work Product; provided, however, that such assignment does not apply to any right which qualifies fully under California Labor Code Section 2870. This section shall survive any termination of this Agreement and the employment relationship between Executive and ARC. Executive shall not deliver, reproduce or in any way allow such documents or things to be delivered or used by any third party without specific direction or consent of the Board of Directors. Likewise, Executive shall not disclose to ARC, use in ARC’s business, or cause ARC to use, any information or material that is a trade secret of others.

- (d) **Predecessors, Subsidiaries and Affiliates.** For purposes of this Section, references to ARC include its predecessors, subsidiaries and affiliates.

7. TERMINATION OF EMPLOYMENT.

Executive's employment under this Agreement may be terminated under any of the circumstances set forth in this Section 7. Upon termination, Executive (or his beneficiary or estate, as the case may be) shall be entitled to receive the compensation and benefits described in Section 8 below, and if applicable, Section 9 below.

- (a) **Death.** Upon Executive's death.
- (b) **Disability.** Upon Executive becoming "**Permanently Disabled**", which, for purposes of this Agreement, shall mean Executive's incapacity due to physical or mental illness or cause, which, in the written opinion of Executive's regular licensed physician, results in the Executive being unable to perform his duties on a full-time basis for six (6) months during a period of twelve (12) months.
- (c) **Termination by ARC for Cause.** Upon written notice to Executive, ARC may terminate this Agreement for "**Cause**," which, for purposes of this Agreement, shall mean termination by ARC in its reasonable discretion because of Executive's:
- (i) willful refusal without proper cause to perform (other than by reason of physical or mental disability or death) the duties set forth in this Agreement or delegated from time to time in writing by the Board of Directors or ARC's CEO, which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO; or
 - (ii) gross negligence, self-dealing or willful misconduct of Executive in connection with the performance of his duties hereunder, including, without limitation,

misappropriation of funds or property of ARC or its subsidiaries or affiliates, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of ARC or its subsidiaries or affiliates, or any willful act or gross negligence having the effect of injuring the reputation, business or business relationships of ARC or its subsidiaries or affiliates; or

- (iii) fraud, dishonesty or misappropriation of ARC business and assets that harms the business of ARC or its subsidiaries or affiliates; or
- (iv) habitual insobriety, abuse of alcohol, abuse of prescription drugs, or use of illegal drugs; or
- (v) engaging in any criminal activity involving moral turpitude; or
- (vi) indictment or being held for trial in connection with a misdemeanor involving moral turpitude or any felony; or
- (vii) conviction of a felony or entry into a guilty plea that negatively reflects on Executive's fitness to perform the duties or harms the reputation or business of ARC or its subsidiaries or affiliates; or
- (viii) any material breach of any covenants under this Agreement or other material policy of ARC, other than under clauses (i) through (vii) of this Section 7(c), which remains uncorrected for thirty (30) days following written notice to Executive by ARC's CEO.

- (d) **Termination by ARC without Cause.** Upon written notice to Executive, ARC may terminate this Agreement at any time without any Cause or reason whatsoever.
- (e) **Termination by Executive with Good Reason.** Upon written notice to ARC of any of the following “**Good Reasons**,” and the failure of ARC to correct the reduction, change or breach within thirty (30) days after receipt of such notice, Executive may terminate this Agreement after the occurrence of:
- (i) a material change by ARC in the nature of Executive’s title, duties, authorities and responsibilities set forth in this Agreement without Executive’s express written consent; or
 - (ii) a reduction in the nature of Executive’s compensation as established under this Agreement, without Executive’s express written consent; or
 - (iii) a change in the officers (other than a change in the persons who occupy such positions) to whom Executive reports without Executive’s express consent; or
 - (iv) a material breach by ARC of any material sections of this Agreement, other than as set forth in clauses (i) through (iii) of this Section 7(e); or
 - (v) a Change of Control, as defined in Section 7(g), as a result of which Executive is not offered the same or comparable position in the surviving company, or is offered such position but within twelve (12) months after Executive accepts such position, Executive’s employment is terminated either without Cause or for a Good Reason described in subsections (i), (ii), (iii) of this Section 7(e) or in subsection (iv) as to the employment agreement then applicable to Executive.

- (f) **Termination by Executive without Good Reason.** Upon forty-five (45) days prior written notice to ARC, Executive may terminate this Agreement and resign from Executive's employment hereunder without any Good Reason.
- (g) **Change of Control.**
- (i) For purposes of this Agreement, "**Change of Control**" shall mean:
- (A) ARC merges or consolidates with any other corporation (other than one of ARC's subsidiaries), as a result of which ARC is not the surviving company, or the shares of ARC voting stock outstanding immediately after such transaction do not constitute, become exchanged for or converted into, more than fifty percent (50%) of the Voting Shares of the merged or consolidated company (as defined below);
 - (B) ARC sells or otherwise transfers or disposes of all or substantially all of its assets;
 - (C) Any third person or entity shall become the Beneficial Owner, as defined by Rule 13(d)-3 under the Securities Exchange Act of 1934, in one transaction or a series of related transactions within any twelve (12) month period, of at least fifty percent (50%) of the Voting Shares of ARC's then outstanding voting securities.
- (ii) For purposes of this Agreement, "**Voting Shares**" shall mean the combined voting securities entitled to vote in the election of directors of a corporation, including ARC, or the merged, consolidated or surviving company, if other than ARC.

8. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

Upon termination of Executive's employment under this Agreement, Executive (or his designated beneficiary or estate, as the case may be) shall be entitled to receive the following compensation:

- (a) **Earned but Unpaid Compensation.** Executive will be entitled to: (i) payment for all Base Salary and unused vacation accrued and prorated, but unpaid, as of the effective date of termination, provided that payment will be made no later than 30 days after the effective date of termination, (ii) payment, when due, of any vested but unpaid Incentive Bonus for the preceding fiscal year, (iii) any unreimbursed business expenses authorized by this Agreement, provided that such reimbursement will be paid to Executive no later than 30 days after the effective date of termination, (iv) continuation of any benefits under Section 4 of Appendix B as required by applicable law (e.g., COBRA), and (v) such rights as then exist with respect to then vested stock options, restricted stock or other rights under similar plans.
- (b) **Termination because of Death or Disability of Executive.** If Executive's employment hereunder is terminated under Sections 7(a) or (b) by reason of Executive's death or by reason of being Permanently Disabled, Executive or his family shall be entitled to continuation of coverage and premium payments by ARC under ARC's group insurance programs for Executive and his eligible family members under Section 6 for a period of twelve (12) months after the termination of employment.
- (c) **Termination by ARC for Cause or by Executive without Good Reason .** If Executive's employment hereunder is terminated by ARC for Cause pursuant to Section 7

(c), or by Executive without Good Reason pursuant to Section 7(f), Executive shall not be entitled to any additional payments or benefits hereunder.

(d) **Other Compensation and Benefits.** Except as may be provided under Section 9 of this Agreement,

(vi) any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Appendix B shall be determined and paid in accordance with the terms of such plans, policies and arrangements, and

(vii) Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

9. ADDITIONAL COMPENSATION PAYABLE FOLLOWING TERMINATION WITHOUT CAUSE OR TERMINATION FOR GOOD REASON.

(a) **Requirements for Additional Compensation.** In addition to the compensation set forth in Section 8 above, Executive will receive the additional compensation and benefits set forth in paragraph (b) below, if the following requirements are met:

(ix) Executive's employment is terminated by ARC without Cause pursuant to Section 7(d) above or by Executive for Good Reason pursuant to Section 7(e) above; and

(x) On or after his date of termination, Executive executes a Release Agreement in the form attached as Appendix C to this Agreement (or such substantially similar form as may be provided by ARC) within the time frame specified by ARC.

- (b) **Additional Compensation.** ARC shall provide Executive with the following compensation and benefits:
- (i) ARC shall continue to pay Executive his Base Salary at the rate in effect immediately prior to his termination date as if he had continued in employment until the end of the twelve (12)-month period beginning on such termination date (the “ **Severance Pay Period** ”);
 - (ii) Continuation of coverage and premium payments by ARC under ARC’s group insurance programs for Executive and his eligible family members under Section 4 of Appendix B during the Severance Pay Period;
 - (iii) unvested stock options, restricted stock or similar rights granted to Executive shall accelerate and become vested and exercisable immediately as of the effective date of termination.
- (c) **Parachute Payments .** In the event that the severance, acceleration of stock options and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended or replaced (the " **Code** ") and (ii) but for this Section 9(c), would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), then Executive's benefits hereunder shall be either:
- (viii) provided to Executive in full; or
 - (ix) provided to Executive only as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the

foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless ARC and Executive otherwise agree in writing, any determination required under this Section 9(c) shall be made in writing in good faith by ARC's independent public accountants (the " **Accountants** "). For purposes of making the calculations required by this Section 11(e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code. ARC and Executive shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 9(c). ARC shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 9(c).

(d) **Special Section 409A Rules Applying to Payment Severance Compensation.**

- (i) This Section shall apply to all or any portion of any payment or benefit payable under the Agreement as a result of termination of the Executive's employment that is not exempted from Section 409A of the Code (" **409A Severance Compensation** ").
- (ii) Notwithstanding anything in the Agreement to the contrary, the following rules shall apply to any 409A Severance Compensation in order to prevent any accelerated or additional tax under Section 409A of the Code:

(A) If the termination of the Executive's employment does not qualify as a "separation from service" within the meaning of Treasury Regulation section 1.409A-1(h) from the "Company's Controlled Group", then any 409A Severance Compensation will not commence until a "separation from service" occurs or, if earlier, the earliest other date as is permitted under Section 409A of the Code. For this purpose, the "Company's Controlled Group" means the Company (i) any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company and (ii) any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company.

(B) In any case where the date of Executive's termination of employment and the date by which Executive is required to deliver a Release Agreement that has become effective fall in two separate taxable years, any payments or benefits required to be made to Executive that are conditioned on the effectiveness of the Release Agreement and are treated as nonqualified deferred compensation for purposes of Section 409A of the Code shall be made in the later taxable year, with any payments or benefits deferred pursuant to this clause (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid or provided to Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the payment dates otherwise specified for them herein.

(C) If at the time of the Executive's separation from service, Executive is a "specified employee" as defined in Section 409A of the Code, then the Company will defer the commencement of any 409A Severance Compensation (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six (6) months following your separation from service or, if earlier, the earliest other date as is permitted under Section 409A.

10. ARBITRATION AND EQUITABLE RELIEF

- (a) **Arbitration.** In consideration of Executive's employment with ARC, its promise to arbitrate all employment-related disputes and Executive's receipt of the compensation paid to Executive by ARC, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including ARC and any employee, officer, director, shareholder or benefit plan of ARC in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's employment with ARC or the termination of that employment with ARC, including any provision of this Agreement, shall be subject to binding arbitration under the arbitration rules set forth in the California Code of Civil Procedure Sections 1280 through 1294.2, including section 1283.05 collectively (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and hereby agrees to waive any right to a trial by jury, include without limitation, any common law claims, statutory claims under Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act of 1990, the Age Discrimination In Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment And Housing Act, the California Labor Code (except for workers

compensation or unemployment insurance claims), or ERISA, claims of harassment, discrimination or wrongful termination and any other statutory claims under state or federal law.

- (b) **Procedure.** Any arbitration will be administered by JAMS and a neutral arbitrator will be selected in a manner consistent with its rules for the resolution of employment disputes. The arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. The arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. ARC will pay for any administrative or hearing fees charged by the arbitrator or JAMS except that Executive shall pay the first \$200.00 of any filing fees associated with any arbitration Executive initiates. The arbitrator shall administer and conduct any arbitration in a manner consistent with the Rules. To the extent that the JAMS rules for the resolution of employment disputes conflict with the Rules, the Rules shall take precedence. The decision of the arbitrator shall be in writing.
- (c) **Remedy.** Except as provided by the Rules and this Agreement, arbitration shall be the sole, exclusive and final remedy for any dispute between ARC and Executive. Accordingly, except as provided for by the Rules and this Agreement, neither ARC nor Executive will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful ARC policy, and the arbitrator shall not order or require ARC to adopt a policy not otherwise required by law which ARC has not adopted.

- (d) **Availability of Injunctive Relief.** In addition to the right under the Rules to petition the court for provisional relief, ARC may also petition the court for injunctive relief, notwithstanding any provision in this Agreement requiring arbitration, where ARC alleges or claims a violation of this Agreement, or any separate agreement between Executive and ARC regarding trade secrets, confidential information or non-solicitation, or California Labor Code §2870. No bond shall be required of ARC. Executive understands and agrees that any breach or threatened breach of this Agreement or of any such separate agreement will cause irreparable injury to ARC or its subsidiaries or affiliates and that money damages will not provide an adequate remedy therefore, and Executive hereby consents to the issuance of an injunction. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorney fees related thereto.
- (e) **Administrative Relief.** This Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.
- (f) **Voluntary Nature of Agreement.** Executive acknowledges and agrees that he is executing this Agreement voluntarily and without any duress or undue influence by ARC or anyone else. Executive further acknowledges and agrees that he has carefully read this Agreement, that he has asked any questions needed for him to understand the terms, consequences and binding effect of this Agreement, and that he fully understands this

Agreement, including that he is waiving his right to a jury trial. Finally, Executive acknowledges that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

11. WITHHOLDING OF TAXES.

ARC shall withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

12. COMPLIANCE WITH SECTION 409A.

ARC and Executive agree to modify and administer the Agreement to the extent possible to comply with Section 409A of the Code and to avoid incurring any excise and other additional tax liability that might be imposed on Executive or ARC. To the extent a provision of this Agreement is contrary to or fails to address the minimum requirements of Section 409A of the Code and applicable guidance issued thereunder, ARC may, in its sole discretion, take such steps as it deems reasonable to provide the coverage or benefits provided under the Agreement so as to comply with Section 409A of the Code and the guidance issued thereunder; provided, however, that, any and all tax liability and penalties resulting from non-compliance with Section 409A of the Code shall remain the sole responsibility of Executive.

13. NO CLAIM AGAINST ASSETS.

Nothing in this Agreement shall be construed as giving Executive any claim against any specific assets of ARC or as imposing any trustee relationship upon ARC in respect of Executive. ARC shall not be required to establish a special or separate fund or to segregate any of its assets in order to provide for the satisfaction of its obligations under this Agreement. Executive's rights under this Agreement shall be limited to those of an unsecured general creditor of the ARC and its affiliates

14. GOVERNING LAW.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California without regard to California conflict of laws principles.

15. NOTICES.

Any notices or other communications desired or required under this Agreement shall be in writing, signed by the Party making the same, and shall be deemed delivered when personally delivered or on the second business day after the same is sent by certified or registered mail, postage prepaid, addressed as follows (or to such other address as may be designated by like written notice):

If to Executive: At the last residential address known by ARC

If to ARC: ARC Document Solutions, Inc.
1981 North Broadway, Suite 385

Walnut Creek, CA 94596
Attn.: Chief Financial Officer

16. SEVERABILITY.

In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

17. ASSIGNMENT.

Except as otherwise specifically provided herein, neither party shall assign this Agreement or any rights hereunder without the consent of the other party, and any attempted or purported assignment without such consent shall be void; provided that Executive's consent under this Agreement shall not be required hereby for any of the transactions involving a Change of Control. This Agreement shall otherwise bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, legatees, devisees, executors, administrators and legal representatives.

18. ENTIRE AGREEMENT; AMENDMENT.

This Agreement contains the entire agreement of the parties and supersedes all prior or contemporaneous negotiations, correspondence, understandings and agreements between the parties regarding the subject matter of this Agreement. Any prior employment agreement, bonus agreement or other compensation agreement between Executive and ARC or any predecessor, subsidiary or affiliate of ARC, is hereby amended and superseded as of the Effective Date. This Agreement may not be amended or modified except in writing signed by both parties.

19. MISCELLANEOUS.

- (a) **Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) **Separability.** If any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be

enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

- (c) **Headings.** Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) **Rules of Construction.** Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) **Counterparts.** This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first hereinabove set forth.

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __
Kumarakulasingam Suriyakumar

By: __
Jorge Avalos

Title: President and Chief Executive Officer

Address: __

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EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX A
POSITION, DUTIES AND RESPONSIBILITIES

During the Employment Term, Executive shall have the following position, duties and responsibilities:

1. ARC will employ Executive as its Chief Accounting Officer/Vice President Finance .
2. Executive shall report to Chief Financial Officer (“ CFO ”) of ARC. Executive's responsibilities shall be commensurate with the position of chief accounting officer and vice president finance of a publicly-traded company and Executive shall perform such other duties as ARC's CFO shall designate from time to time. Executive shall have the authority generally incident and necessary to perform such duties. Executive will be a member of the executive team.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX B
COMPENSATION AND BENEFITS

During the Employment Term, Executive shall receive the following compensation and benefits:

1. **Base Salary** . During the Employment Term, ARC shall pay Executive a base salary at the annual rate of \$280,000 per year or such higher rate as may be determined from time to time by ARC in accordance with ARC's compensation policies and practices (“ **Base Salary** ”). Such Base Salary shall be paid in accordance with ARC's standard payroll practice for senior executives.
2. **Incentive Bonus** . During the Employment Term, Executive shall be eligible to receive an annual Incentive Bonus (“ **Incentive Bonus** ”) in an amount not exceeding eighty percent (80%) of Executive's Base Salary per year contingent upon achievement of performance criteria to be established by ARC's CFO in consultation with Executive and approved by the Compensation Committee of ARC's Board of Directors. Except as otherwise provided in this Agreement, Executive shall not be entitled to payment of an Incentive Bonus unless he remains continuously employed through the last day of the fiscal year to which such bonus relates. The Incentive Bonus shall be paid in cash no later than March 15th after the close of each fiscal year.
3. **Additional Discretionary Bonuses** . ARC may from time to time, in its absolute discretion, establish additional bonus programs for Executive.
4. **Benefit Plans and Fringe Benefits** . Executive shall be eligible to participate in or receive benefits under 401(k) savings plan, nonqualified deferred compensation plan, supplemental executive retirement plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, or any other employee benefit or fringe benefit plan, generally made available by ARC to senior executives in accordance with the eligibility requirements of such plans and subject to the terms and conditions set forth in this Agreement. ARC shall pay full cost for coverage of Executive and Executive's spouse and eligible children under all group insurance (including self-insured) benefit plans.
5. **Vacations** . Executive shall be entitled to four (4) weeks paid vacation each calendar year accrued and vested in accordance with ARC's vacation policy applicable to senior executives.
6. **Expense Reimbursement** . ARC shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties under this Agreement in accordance with ARC's customary practices applicable to senior executives, provided that such expenses are incurred and accounted for in accordance with ARC's policy.

7. **Stock and Equity Plan Participation** . In the sole discretion of the Board of Directors of ARC, Executive shall be eligible to participate in stock option, stock purchase, stock bonus and similar plans of ARC established from time to time by ARC. The restricted shares of ARC common stock granted to Executive prior to the effective date of this Agreement shall continue to vest in equal installments of twenty-five percent (25%) on each of the first four anniversaries of the date of grant, subject to Executive's continued employment with ARC on each vesting date.

EXECUTIVE EMPLOYMENT AGREEMENT
APPENDIX C
RELEASE AGREEMENT

I understand that my position with ARC Document Solutions, Inc. (" **ARC** ") terminated effective _____ (the " **Separation Date** "). ARC has agreed that if I choose to sign this Agreement, ARC will pay me severance benefits (minus the standard withholdings and deductions) pursuant to the terms of the Executive Employment Agreement entered into on May 1, 2014 between myself and ARC (the " **Severance Benefits** "). I understand that I am not entitled to the Severance Benefits unless I sign this Agreement. I understand that in addition to the Severance Benefits, ARC will pay me all of my accrued salary and vacation, to which I am entitled by law.

In consideration for the Severance Benefits I am receiving under this Agreement, I agree not to use or disclose any of ARC's proprietary information without written authorization from ARC, to immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control, and to release ARC and its officers, directors, agents, attorneys, employees, shareholders, and affiliates from any and all claims, debts, liabilities, demands, causes of action, attorneys' fees, damages, or obligations of every kind and nature, whether they are known or unknown, arising at any time prior to the date I sign this Agreement. This general release includes, but is not limited to: all federal and state statutory and common law claims, claims related to my employment or the termination of my employment or related to breach of contract, tort, wrongful termination, discrimination, wages or benefits, or claims for any form of compensation. This release is not intended to release any claims I have or may have against any of the released parties for (a) indemnification as a director, officer, agent or employee under applicable law, charter document or agreement, (b) severance and other termination benefits under my employment agreement and any related written documents, (c) health or other insurance benefits based on claims already submitted or which are covered claims properly submitted in the future, (d) vested rights under pension, retirement or other benefit plans, or (e) in respect of events, acts or omissions occurring after the date of this Release Agreement.

In releasing claims unknown to me at present, I am waiving all rights and benefits under Section 1542 of the California Civil Code, and any law or legal principle of similar effect in any jurisdiction:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the federal Age Discrimination in Employment Act of 1967, as amended (" **ADEA** "). I also acknowledge that the consideration given for the waiver in the above paragraph is in addition to anything of value to which I was already entitled. I have been advised by this writing, as required by the ADEA that: (a) my waiver and release do not apply to any claims that

may arise after my signing of this Agreement; (b) I should consult with an attorney prior to executing this release, (c) I have twenty-one (21) days within which to consider this release (although I may choose to voluntarily execute this release earlier); (d) I have seven (7) days following the execution of this release to revoke the Agreement; (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by me and by ARC ("**Effective Date**"); and I will not be paid any of the Severance Benefits until this Agreement has become effective.

This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between ARC and me with regard to the subject matter hereof I am not relying on any promise or representation by ARC that is not expressly stated herein. This Agreement may only be modified by a writing signed by both me and a duly authorized officer of ARC. I accept and agree to the terms and conditions stated above:

ARC DOCUMENT SOLUTIONS, INC.

EXECUTIVE

By: __

By: __

Jorge Avalos

Title: _____

Address: __

—

**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) 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

Date: May 7, 2014

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar

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

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

I, John E.D. Toth, 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) 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

Date: May 7, 2014

/s/ JOHN E.D. TOTH

John E.D. Toth
Chief Financial Officer
(Principal Financial Officer)

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

I, Kumarakulasingam Suriyakumar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ARC Document Solutions, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2014 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: May 7, 2014

/s/ KUMARAKULASINGAM SURIYAKUMAR

Kumarakulasingam Suriyakumar

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

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

I, John E.D. Toth, 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 March 31, 2014 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: May 7, 2014

/s/ JOHN E.D. TOTH

John E.D. Toth
Chief Financial Officer
(Principal Financial Officer)