As filed with the Securities and Exchange Commission on July 26, 2013

Registration No. 333-189363

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 2 to

Form S-11

REGISTRATION STATEMENT

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Wheeler Real Estate Investment Trust, Inc.

(Exact Name of Registrant as Specified in Its Governing Instruments)

Riversedge North

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Virginia Beach, Virginia 23452

(757) 627-9088

(Address, Including Zip Code and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

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CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered[(1)]	Proposed Maximum Offering Price PerUnit[(2)]	Proposed Maximum Aggregate Offering Price[(2)]	Amount of Registration Fee[(3)]
Common Stock, $.001 par value	9,200,000 Shares[(4)]	$6.02	$55,476,000	$7,567

(1) Includes 1,200,000 shares of common stock that may be purchased by the underwriters to cover over-allotments, if any.
(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. The price per share and aggregate offering price are based on the average high and low price of the registrant s common stock on June 11, 2013 as reported on the NASDAQ Capital Market.
(3) Calculated pursuant to Rule 457(c) based on an estimate of the proposed maximum aggregate offering price. Previously paid.
(4) The registrant has reduced the number of shares registered hereunder from 11,500,000 to 9,200,000 pursuant to this amendment.

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement of the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

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	x

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated July 26, 2013

PRELIMINARY PROSPECTUS

8,000,000 Shares

Wheeler Real Estate Investment Trust, Inc.

Common Stock

We are offering 8,000,000 shares of our common stock, par value $0.01 per share, at a price of $ per share. We are a Maryland corporation that operates as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act).

Our common stock is currently listed on the NASDAQ Capital Market under the symbol WHLR . On July 25, 2013, the last reported sale price of our common stock was $5.20 per share.

Investing in our common stock involves risks. You should read the section entitled Risk Factors beginning on page 24 of this prospectus for a discussion of certain risk factors that you should consider before investing in our common stock.

	Per Share	Total
Public offering price	**$**	**$**
Underwriting discount and commissions[(1)]	**$**	**$**
Proceeds to us, before expenses	**$**	**$**

(1) See Underwriting beginning on page 109 for disclosure regarding the underwriting discounts and expenses payable to the underwriters by us.

The shares of common stock are being offered through the underwriters on a firm commitment basis. We and three shareholders have granted the underwriters a 45 day option to purchase up to 1,200,000 additional shares of common stock at the same price, and on the same terms, solely to cover are over-allotments, if any. It is expected that delivery of the shares will be made in New York, New York on or about , 2013. See Underwriting.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Maxim Group LLC **Newbridge Securities Corporation**

Lead Manager

National Securities Corporation

Co-Managers

CV Brokerage Inc **Northland Capital Markets** **Capitol Securities Management, Inc.**

The date of this prospectus is , 2013.

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You should rely only on the information contained in this document or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

We use market data, demographic data, industry forecasts and projections throughout this prospectus. We have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on historical market data, and there is no assurance that any of the projected amounts will be achieved. We believe that the market and industry research others have performed are reliable, but we have not independently verified this information.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the historical and pro forma financial statements appearing elsewhere in this prospectus, including under the caption Risk Factors. References in this prospectus to we, our, us and our company refer to Wheeler Real Estate Investment Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Wheeler REIT, L.P., a Virginia limited partnership, of which we are the sole general partner (our Operating Partnership). Unless otherwise indicated, the information contained in this prospectus is as of March 31, 2013 and assumes : (1) the acquisition of the Contemplated Properties for cash; (2) the issuance of 8,000,000 shares of common stock at $ per share and the application of the proceeds as described herein; and (3) the conversion of our Series A Preferred Stock into 656,998 shares of common stock automatically upon the completion of the offering contemplated by this prospectus. We have not assumed the exercise of the underwriters over-allotment option. For the meanings of all defined term used herein, please refer to the Glossary at page 116.

Overview

We are a Maryland corporation formed with the principal objective of acquiring, financing, developing, leasing, owning and managing income producing assets such as strip centers, neighborhood centers, grocery-anchored centers, community centers and free-standing retail properties. Our strategy is to opportunistically acquire and reinvigorate well-located, potentially dominant retail properties in secondary and tertiary markets that generate attractive risk-adjusted returns. We target competitively protected properties in communities that have stable demographics and have historically exhibited favorable trends, such as strong population and income growth. We generally lease our properties to national and regional retailers that offer consumer goods and generate regular consumer traffic. We believe our tenants carry goods that are less impacted by fluctuations in the broader U.S. economy and consumers disposable income, generating more predictable property-level cash flows.

We currently own a portfolio consisting of twelve properties including seven retail shopping centers, four free-standing retail properties, and one office property, totaling 545,350 net rentable square feet of which approximately 95.1% were leased as of March 31, 2013.

We believe the current market environment creates a substantial number of favorable investment opportunities with attractive yields on investment and significant upside potential. We believe the markets we plan to pursue in the Mid-Atlantic, Southeast and Southwest have strong demographics and dynamic, diversified economies that will continue to generate jobs and future demand for commercial real estate. We anticipate that the depth and breadth of our real estate experience allows us to capitalize on revenue-enhancing opportunities in our portfolio and source and execute new acquisition and development opportunities in our markets, while maintaining stable cash flows throughout various business and economic cycles.

Jon S. Wheeler, our Chairman and Chief Executive Officer, has 31 years of experience in the real estate sector with particular experience in strategic financial and market analyses and assessments of new or existing properties to maximize returns. We have an integrated team of professionals with experience across all stages of the real estate investment cycle.

We were organized as a Maryland corporation on June 23, 2011 and intend to elect to be taxed as a REIT beginning with our taxable year ended December 31, 2012. We conduct substantially all of our business through our Operating Partnership. We are structured as an UPREIT, which means that we will own most of our properties through our Operating Partnership and its subsidiaries. As an UPREIT, we may be able to acquire properties on more attractive terms from sellers who can defer tax obligations by contributing properties to our Operating Partnership in exchange for Operating Partnership units, which will be redeemable for cash or exchangeable for shares of our common stock at our election.

WHLR Management, LLC (our Administrative Service Company), which is wholly owned by Mr. Wheeler, provides administrative services to our company. Pursuant to the terms of an administrative services agreement between our Administrative Service Company and us, our Administrative Service Company is responsible for identifying targeted real estate investments; handling the disposition of the real estate investments our board of directors has chosen to sell; and administering our day-to-day business operations, including but not limited to, leasing duties, property management, payroll and accounting functions. We also benefit from Mr. Wheeler s partially or wholly owned related business and platform that specializes in retail real estate investment and management. Mr. Wheeler s organization includes (i) Wheeler Interests, LLC, an acquisition and asset management firm, (ii) Wheeler Real Estate, LLC, a real estate leasing management and administration firm, (iii) Wheeler Development, LLC, a full service real estate development firm, (iv) Wheeler Capital, LLC, a capital investment firm specializing in venture capital, financing, and small business loans, (v) Site Applications, LLC, a full service facility company equipped to handle all levels of building maintenance and (vi) TESR, LLC, a tenant coordination company specializing in tenant relations and community events (collectively, our Services Companies). Our headquarters is located at Riversedge North, 2529 Virginia Beach Boulevard, Suite 200, Virginia Beach, Virginia 23452. Our telephone number is (757) 627-9088. Our website is located at WHLR.us. Our Internet website and the information contained therein or connected thereto do not constitute a part of this prospectus or any amendment or supplement hereto.

Business and Growth Strategies

Our strategy is to opportunistically acquire and reinvigorate well-located, potentially dominant retail properties in secondary and tertiary markets that generate attractive risk-adjusted returns. Specifically, we intend to pursue the following strategies to achieve these objectives:

Maximize value through proactive asset management. We believe our market expertise, targeted leasing strategies and proactive approach to asset management will enable us to maximize the operating performance of our portfolio. We will continue to implement an active asset management program to increase the long-term value of each of our properties. This may include expanding existing tenants, re-entitling site plans to allow for additional outparcels, which are small tracts of land used for freestanding development not attached to the main buildings, and repositioning tenant mixes to maximize traffic, tenant sales and percentage rents. As we grow our portfolio, we will seek to maintain a diverse pool of assets with respect to both geographic distribution and tenant mix, helping to minimize our portfolio risk. We will utilize our experience and market knowledge to effectively allocate capital to implement our investment strategy. We continually monitor our markets for opportunities to selectively dispose of properties where returns appear to have been maximized and redeploy proceeds into new acquisitions that have greater return prospects.

Pursue value oriented investment strategy targeting properties fitting within our acquisition profile. We believe the types of retail properties we seek to acquire will provide better risk-adjusted returns compared to other properties in the retail asset class, as well as other property types in general, due to the anticipated improvement in consumer spending habits resulting from a strengthening economy coupled with the long-term nature of the underlying leases and predictability of cash flows. We will acquire retail properties based on identified market and property characteristics, including:

Property type. We focus our investment strategy on income producing assets such as strip centers, neighborhood centers, grocery-anchored centers, community centers and free-standing retail properties. We will target these types of properties because they tend to be more focused on consumer goods as opposed to enclosed malls, which we believe are more oriented to discretionary spending that is susceptible to cyclical fluctuations.

Strip center. A strip center is an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. Open canopies may

connect the store fronts, but a strip center does not have enclosed walkways linking the stores. A strip center may be configured in a straight line or have an L or U shape.

Neighborhood centers. A neighborhood center is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. Neighborhood centers are often anchored by a supermarket or drugstore. The anchors are supported by outparcels typically occupied by restaurants, fast food operators, financial institutions and in-line stores offering various products and services ranging from soft goods, healthcare and electronics.

Community centers. A community center typically offers a wider range of apparel and other soft goods relative to a neighborhood center and in addition to supermarkets and drugstores, can include discount department stores as anchor tenants.

Freestanding retail properties. A freestanding retail property constitutes any retail building that is typically occupied by a single tenant. The lease terms are generally structured as triple-net with the tenant agreeing to pay rent as well as all taxes, insurance and maintenance expenses that arise from the use of the property.

Anchor tenant type. We will target properties with anchor tenants that offer consumer goods that are less impacted by fluctuations in consumers disposable income. We believe nationally and regionally recognized anchor tenants that offer consumer goods provide more predictable property-level cash flows as they are typically higher credit quality tenants that generate stable revenues. We feel these properties will act as a catalyst for incremental leasing demand through increased property foot traffic. We will identify the credit quality of our anchor tenants by conducting a thorough analysis including, but not limited to, a review of tenant operating performance, liquidity and balance sheet strength.

Lease terms. In the near term, we intend to acquire properties that feature one or more of the following characteristics in their tenants lease structure: properties with long-term leases (10 years remaining on the primary lease term) for anchor tenants; properties under triple-net leases, which are leases where the tenant agrees to pay rent as well as all taxes, insurance and maintenance expenses that arise from the use of the property; thereby minimizing our expenses; and properties with leases which incorporate gross percentage rent and/or rental escalations that act as an inflation hedge while maximizing operating cash flows. As a longer-term strategy, we will look to acquire properties with shorter-term lease structures (2-3 years) for in-line tenants, which are tenants that rent smaller spaces around the anchor tenants within a property, that have below market rents that can be renewed at higher market rates.

Geographic markets and demographics. We plan to seek investment opportunities throughout the United States; however, we will focus on the Mid-Atlantic, Southeast and Southwest, which are characterized by attractive demographic and property fundamental trends. We will target competitively protected properties in communities that have stable demographics and have historically exhibited favorable trends, such as strong population and income growth. These communities will also have a combination of the following characteristics:

- established trade areas with high barriers to entry,
- high population base with expected annual growth rate higher than the national average,
- high retail sales per square foot compared to the national average,

above average household income and expected growth,

above-average household density,

favorable infrastructure such as schools to retain and attract residents, and

below-average unemployment rate.

Capitalize on network of relationships to pursue transactions. We plan to pursue transactions in our target markets through the relationships we have developed. Leveraging these relationships, we will target property owners that our management team has transacted with previously, many of whom, we feel, will consider us a preferred counterparty due to our track record of completing fair and timely transactions. We believe this dynamic gives us a competitive advantage in negotiating and executing favorable acquisitions.

Leverage our experienced property management platform. Our executive officers, together with the management teams of our Services Companies, have over 150 years of combined experience managing, operating and leasing retail properties. We consider our Services Companies to be in the best position to oversee the day-to-day operations of our properties, which in turn helps us service our tenants. We feel this generates higher renewal and occupancy rates, minimizes rent interruptions, reduces renewal costs and helps us achieve stronger operating results. Along with this, a major component of our leasing strategy is to cultivate long-term relationships through consistent tenant dialogue in conjunction with a proactive approach to meeting the space requirements of our tenants.

Grow our platform through a comprehensive financing strategy. We believe our capital structure will provide us with sufficient financial capacity and flexibility to fund future growth. Based on our current capitalization, we believe we will have access to multiple sources of financing that are currently unavailable to many of our private market peers or overleveraged public competitors, which will provide us with a competitive advantage. Over time, these financing alternatives may include follow-on offerings of our common stock, unsecured corporate level debt, preferred equity and credit facilities. We have a ratio of debt to total market capitalization of approximately 45%. Although we are not required by our governing documents to maintain this ratio at any particular level, our Board of Directors will review our ratio of debt to total capital on a quarterly basis, with the goal of maintaining a reasonable rate consistent with our expected ratio of debt to total market capitalization going forward. This strategy will enable us to continue to grow our asset base well into the future.

Our Competitive Strengths

We believe the following competitive strengths distinguish us from other owners and operators of commercial real estate and will enable us to take advantage of new acquisition and development opportunities, as well as growth opportunities within our portfolio:

Cornerstone Portfolio of Retail Properties. We have acquired and developed a portfolio of properties located in business centers in Virginia, Florida, Georgia, South Carolina, North Carolina, and Oklahoma. We believe many of our properties currently achieve rental and occupancy rates equal to or above those typically prevailing in their respective markets due to their desirable and competitively advantageous locations within their submarkets, as well as our hands-on management approach. The retail properties comprising our portfolio fit within our property acquisition profile of income producing assets such as strip centers, neighborhood centers, grocery-anchored centers, community centers and free-standing retail properties. These properties are located in local markets that exhibit stable demographics and have historically exhibited favorable trends, such as strong population and income growth. These properties represent the initial base of the larger portfolio that we expect to build over time.

Experienced Management Team. Our executive officers and the members of the management teams of our Services Companies have significant experience in all aspects of the commercial real estate industry, specifically in our markets. They have overseen the acquisition or development and operation of more than 60 shopping centers, representing over 4 million rentable square feet of retail property, including all of the properties in our portfolio. Mr. Wheeler and the real estate professionals employed by our Services Companies have in-depth knowledge of our assets, markets and future growth opportunities, as well as substantial expertise in all aspects of leasing, asset and property management,

marketing, acquisitions, redevelopment and facility engineering and financing, all of which we believe provides us with a significant competitive advantage.

Access to a Pipeline of Acquisition and Leasing Opportunities. We believe that market knowledge and network of relationships with real estate owners, developers, brokers, national and regional lenders and other market participants provides us access to an ongoing pipeline of attractive acquisition and investment opportunities in and near our markets. In addition, we have a network of relationships with numerous national and regional tenants in our markets, many of whom currently are tenants in our retail buildings, which we expect will enhance our ability to retain and attract high quality tenants, facilitate our leasing efforts and provide us with opportunities to increase occupancy rates at our properties, thereby allowing us to maximize cash flows from our properties. We have successfully converted many of our strong relationships with our retail tenants into leasing opportunities at our properties.

Broad Real Estate Expertise with Retail Focus. Our management team has experience and capabilities across the real estate sector with experience and expertise particularly in the retail asset class, which we believe provides for flexibility in pursuing attractive acquisition, development, and repositioning opportunities. Since varying market conditions create opportunities at different times across property types, we believe our expertise enables us to target relatively more attractive investment opportunities throughout economic cycles. In addition, our fully integrated platform with in-house development capabilities allows us to pursue development and redevelopment projects with multiple uses. We believe that our ability to pursue these types of opportunities differentiates us from many competitors in our markets.

Summary Risk Factors

You should consider carefully the risks discussed below and under the heading Risk Factors beginning on page 24 of this prospectus before purchasing our common stock. If any of these risks occur, our business, prospects, financial condition, liquidity, results of operations and ability to make distributions to our stockholders could be materially and adversely affected. In that case, the trading price of our common stock could decline and you could lose some or all of your investment. These risks include, among others, the following:

We have a limited history as a REIT and as a publicly traded company. We have limited financing sources and may not be able to successfully operate as a REIT or a publicly traded company.

Our portfolio is dependent upon regional and local economic conditions and is geographically concentrated in the Mid-Atlantic, Southeast and Southwest.

Our estimated cash available for distribution is insufficient to cover our anticipated annual dividend, which will require us to use proceeds from this offering to fund distributions.

We expect to have approximately $38.5 million of indebtedness outstanding following this offering ($92.9 million following the acquisition of the Contemplated Properties), which may expose us to the risk of default under our debt obligations.

Our success depends on key personnel and the loss of such key personnel could adversely affect our ability to manage our business or implement our growth strategies.

Our Administrative Services Company will face conflicts of interest caused by its arrangements with us, which could result in actions that are not in the long-term best interests of our stockholders.

Failure to qualify as a REIT would have significant adverse consequences to us and the value of our common stock.

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Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Our economic performance and the value of our properties can be affected by many of these factors, including, among others, the following:

adverse changes in financial conditions of buyers, sellers and tenants of our properties, including bankruptcies, financial difficulties, or lease defaults by our tenants;

local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants;

vacancies or ability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;

changes in operating costs and expenses, including, without limitation, increasing labor and material costs, insurance costs, energy prices, environmental restrictions, real estate taxes, and costs of compliance with laws, regulations and government policies, which we may be restricted from passing on to our tenants;

fluctuations in interest rates, which could adversely affect our ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all; and

competition from other real estate investors with significant capital, including other real estate operating companies, publicly traded REITs and institutional investment funds.

Our Properties

Our Portfolio

We currently own twelve properties located in Virginia, North Carolina, South Carolina, Florida, Georgia and Oklahoma, containing a total of approximately 545,350 rentable square feet of retail space, which we refer to as our portfolio. The following table presents an overview of our portfolio, based on information as of March 31, 2013.

Portfolio

Property	Location	Year Built/ Renovated	Number of Tenants	Net Rentable Square Feet	Percentage Leased	Annualized Base Rent	Annualized Base Rent per Leased Square Foot[(1)]
The Shoppes at TJ Maxx	Richmond, VA	1982/1999	14	93,552	90.6%	$ 950,040	$ 11.21
Walnut Hill Plaza	Petersburg, VA	1959/2006/2008	11	89,907	82.7%	550,247	7.40
Lumber River Plaza	Lumberton, NC	1985/1997-98 (expansion)/ 2004	12	66,781	100.0%	514,810	7.71
Perimeter Square	Tulsa, OK	1982-83	8	58,277	95.7%	691,977	12.41
The Shoppes at Eagle Harbor	Carrollton, VA	2009	7	23,303	100.0%	472,561	20.28

Harps At Harbor Point	Grove, OK	2012	1	31,500	100.0%	364,432	11.57
Twin City Crossing	Batesburg-Leesville, SC	1998/2002	5	47,680	100.0%	446,590	9.37
Surrey Plaza	Hawkinsville, GA	1993	5	42,680	100.0%	302,595	7.09
Bixby Commons	Bixby, OK	2012	1	75,000	100.0%	768,500	10.25
Riversedge North	Virginia Beach, VA	2007	1	10,550	100.0%	302,539	28.68
Monarch Bank	Virginia Beach, VA	2002	1	3,620	100.0%	250,740	69.27
Amscot Building	Tampa, FL	2004	1	2,500	100.0%	101,395	40.56
Total Portfolio			67	545,350	95.1%	$ 5,716,426	$ 11.03

		1,530	4,436	4,679
Income before income tax provision (benefit)	3,234	(16,941)	9,597	(7,725)
Income tax provision (benefit)	647	(2,174)	2,526	1,574
Net income (loss)	2,587	(14,767)	7,071	(9,299)
(Income) loss attributable to the noncontrolling interest	(28)	(7)	190	(55)
Net income (loss) attributable to ARC Document Solutions, Inc. shareholders	$ 2,559	$ (14,774)	$ 7,261	$ (9,354)
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	$ 0.06	$ (0.32)	$ 0.16	$ (0.20)
Diluted	$ 0.06	$ (0.32)	$ 0.16	$ (0.20)
Weighted average common shares outstanding:				
Basic	44,983	45,834	44,888	45,756
Diluted	45,188	45,834	44,993	45,756

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Net income (loss)	$2,587	$(14,767)	$7,071	$(9,299)
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments, net of tax	(320)	681	(1,633)	1,421
Fair value adjustment of derivatives, net of tax	—	55	—	141
Other comprehensive (loss) income, net of tax	(320)	736	(1,633)	1,562
Comprehensive income (loss)	2,267	(14,031)	5,438	(7,737)
Comprehensive (loss) income attributable to noncontrolling interest	(202)	149	(364)	369
Comprehensive income (loss) attributable to ARC Document Solutions, Inc. shareholders	$2,469	$(14,180)	$5,802	$(8,106)

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

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

	Nine Months Ended September 30,					
(In thousands)	2018			2017		
Cash flows from operating activities						
Net income (loss)	$	7,071		$	(9,299	)
Adjustments to reconcile net income to net cash provided by operating activities:						
Allowance for accounts receivable	637			867		
Depreciation	21,708			21,787		
Amortization of intangible assets	2,942			3,250		
Amortization of deferred financing costs	175			246		
Goodwill impairment	—			17,637		
Stock-based compensation	1,824			2,251		
Deferred income taxes	2,175			1,045		
Deferred tax valuation allowance	71			488		
Loss on extinguishment and modification of debt	—			230		
Other non-cash items, net	(201		)	(340		)
Changes in operating assets and liabilities:						
Accounts receivable	(6,594		)	406		
Inventory	1,291			(650		)
Prepaid expenses and other assets	(2,326		)	(1,129		)
Accounts payable and accrued expenses	1,289			(33		)
Net cash provided by operating activities	30,062			36,756		
Cash flows from investing activities						
Capital expenditures	(10,463		)	(7,246		)
Other	556			466		
Net cash used in investing activities	(9,907		)	(6,780		)
Cash flows from financing activities						

Proceeds from stock option exercises	—	73
Proceeds from issuance of common stock under Employee Stock Purchase Plan	100	103
Share repurchases	(60)	—
Contingent consideration on prior acquisitions	(176)	(214)
Early extinguishment of long-term debt	—	(14,150)
Payments on long-term debt agreements and capital leases	(17,200)	(60,060)
Borrowings under revolving credit facilities	9,250	54,850
Payments under revolving credit facilities	(20,875)	(9,675)
Payment of deferred financing costs	—	(270)
Net cash used in financing activities	(28,961)	(29,343)
Effect of foreign currency translation on cash balances	(849)	491
Net change in cash and cash equivalents	(9,655)	1,124
Cash and cash equivalents at beginning of period	28,059	25,239
Cash and cash equivalents at end of period	$ 18,404	$ 26,363
Supplemental disclosure of cash flow information		
Noncash investing and financing activities		
Capital lease obligations incurred	$ 16,560	$ 20,714

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

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

1. Description of Business and Basis of Presentation

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

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in conformity with the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management's opinion, the accompanying interim Condensed Consolidated Financial Statements 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 and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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 2017 Form 10-K.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance requires entities to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received in exchange for those goods or services. In addition, Topic 606 provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts.

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting. The adoption of Topic 606 did not result in an adjustment to retained earnings in the Company's consolidated balance sheet as of January 1, 2018.

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

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service Sales				
CDIM	$52,418	$50,089	$160,270	$155,031
MPS	32,384	32,153	97,181	97,697
AIM	3,617	3,383	9,709	9,731
Total service sales	88,419	85,625	267,160	262,459
Equipment and supplies sales	12,054	10,833	35,211	35,010
Total net sales	$100,473	$96,458	$302,371	$297,469

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

Managed Print Services (MPS), consists of placement, management, and optimization of print and imaging equipment in the customers' offices, job sites, and other facilities. MPS relieves the Company's customers of the burden of purchasing print equipment and related supplies and maintaining print devices and print networks, and shifts their costs to a "per-use" basis. MPS is supported by our hosted proprietary technology, Abacus™, which allows our customers to capture, control, manage, print, and account for their documents. MPS contracts include a term ranging from 3 to 5 years and the Company is paid a fixed rate per unit for each print produced (per-use), often referred to as a "click charge." MPS sales are driven by the ongoing print needs of the Company's customers at their facilities. MPS sales are governed by the mutually agreed upon written agreement which outlines the Company's terms and conditions. In providing MPS on a per-use basis, the Company is providing a series of services that have the same pattern of transfer and are measured as each customer produces a print or per-use. Accordingly, the performance obligations are satisfied over-time on an output method as each print is produced (per-use) by the customer. For each month of service, the prints produced during the period equate to the consideration that the Company expects to receive from the invoice generated for this period. Taxes collected concurrent with revenue-producing activities are excluded from revenue.

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

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

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Codification (“ASC”) 842 (“ASC 842”), Leases. The new guidance replaces the existing guidance in ASC 840, Leases. ASC 842 requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases, and is to be applied using a modified retrospective approach. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (ROU) asset and a corresponding lease liability. For finance leases the lessee will recognize interest expense and amortization of the ROU asset and for operating leases the lessee will recognize a straight-line total lease expense. ASC 842 is effective for the Company January 1, 2019.

In July, 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides entities the option to use the effective date as the date of initial application on transition to the new guidance. The Company plans to elect this transition method, and as a result, the Company will not adjust comparative information for prior periods. While the Company is continuing to assess the potential impacts that ASC 842 will have on its consolidated financial statements, the Company believes that the most significant impact relates to its accounting for facility leases for its service centers and office space, which are currently classified as operating leases. The Company expects the accounting for capital leases related to its machinery and equipment will remain substantially unchanged under the new standard. Due to the substantial number of operating leases that it has, the Company believes this ASU will increase assets and liabilities by the same material amount on its consolidated balance sheet. The Company’s undiscounted minimum commitments under noncancelable operating leases as of December 31, 2017 was approximately $64.0 million. The Company does not believe adoption of this ASU will have a significant impact to its consolidated statements of operations, equity, or cash flows.

Segment Reporting

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

Risk and Uncertainties

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

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

2. Earnings per Share

The Company accounts for earnings per share in accordance with ASC 260, Earnings Per Share. Basic earnings per share is computed by dividing net income attributable to ARC by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been

outstanding if common shares subject to outstanding options and acquisition rights had been issued and if the additional common shares were dilutive. Common share equivalents are excluded from the computation if their effect is anti-dilutive. For the three and nine months ended September 30, 2018, 4.0 million and 5.1 million common shares were excluded from the calculation of diluted net income attributable to ARC per common share, respectively, because they were anti-dilutive. For the three and nine months ended September 30, 2017, 5.3 million common shares were excluded from the calculation of diluted net loss attributable to ARC per common share because they were anti-dilutive. The Company's common share equivalents consist of stock options issued under the Company's stock plan.

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Basic and diluted weighted average common shares outstanding were calculated as follows for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average common shares outstanding during the period—basic	44,983	45,834	44,888	45,756
Effect of dilutive stock options	205	—	105	—
Weighted average common shares outstanding during the period—diluted	45,188	45,834	44,993	45,756

3. Goodwill and Other Intangibles

Goodwill

In accordance with ASC 350, Intangibles - Goodwill and Other, the Company assesses goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired. At September 30, 2018, the Company performed its assessment and determined that goodwill was not impaired.

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

For its annual goodwill impairment test as of September 30, 2017, the Company elected to early-adopt ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test. As a result, the Company compared the fair value of a reporting unit with its respective carrying value, and recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit's fair value.

At September 30, 2017, the Company's goodwill impairment analysis showed one reporting unit with goodwill attributed to it with a carrying amount which exceeded its fair value. The underperformance of the Company relative to its forecast in the third quarter of 2017, and more specifically, the underperformance against forecast of one of the Company's reporting units which previously had goodwill impairment in 2016 drove the decline in the fair value of the reporting unit. As a result, the Company recorded a pretax, non-cash charge for the three months ended September 30, 2017 to reduce the carrying value of goodwill by $17.6 million.

The Company determines the fair value of its reporting units using an income approach. Under the income approach, the Company determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others.

Given the changing document and printing needs of the Company's customers, and the uncertainties regarding the effect on the Company's business, there can be no assurance that the estimates and assumptions made for purposes of the Company's goodwill impairment test in 2018 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 2019, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350, Intangibles-Goodwill and Other) outside of the quarter when the Company regularly performs its annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.
The changes in the carrying amount of goodwill from January 1, 2017 through September 30, 2018 are summarized as follows:

	Gross Goodwill	Accumulated Impairment Loss	Net Carrying Amount
January 1, 2017	$405,558	$ 266,870	$138,688
Goodwill impairment	—	17,637	(17,637)
December 31, 2017	405,558	284,507	121,051
Goodwill impairment	—	—	—
September 30, 2018	$405,558	$ 284,507	$121,051

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

Long-lived and Other Intangible Assets

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

Factors considered by the Company include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. When the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, the Company recognizes an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair value of the asset, based on the fair value if available, or discounted cash flows, if fair value is not available. The Company assessed potential impairments of its long lived assets as of September 30, 2018 and concluded that there was no impairment.

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

The following table sets forth the Company’s other intangible assets resulting from business acquisitions as of September 30, 2018 and December 31, 2017 which continue to be amortized:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable other intangible assets						
Customer relationships	$99,332	$ 93,598	$ 5,734	$99,486	$ 90,805	$ 8,681
Trade names and trademarks	20,262	19,918	344	20,297	19,910	387
	$119,594	$ 113,516	$ 6,078	$119,783	$ 110,715	$ 9,068

Estimated future amortization expense of other intangible assets for the remainder of the 2018 fiscal year, each of the subsequent four fiscal years and thereafter are as follows:

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2018 (excluding the nine months ended September 30, 2018)	$931
2019	3,138
2020	1,529
2021	173
2022	99
Thereafter	208
	$6,078

4. Income Taxes

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

The Company recorded an income tax provision of $0.6 million and $2.5 million in relation to pretax income of $3.2 million and $9.6 million for the three and nine months ended September 30, 2018, respectively, which resulted in an effective income tax rate of 20.0% and 26.3%, respectively. The Company recorded an income tax benefit of $2.2 million and an income tax provision of $1.6 million in relation to pretax losses of $16.9 million and $7.7 million for the three and nine months ended September 30, 2017, respectively, which resulted in an effective income tax rate of 12.8% and (20.4)%, respectively.

In December 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company. This includes a reduction to the federal corporate tax rate from 35 percent to 21 percent for the tax years beginning after December 31, 2017. The TCJA also provides for a one-time transition tax on certain foreign earnings as well as changes beginning in 2018 regarding the deductibility of interest expense, additional limitations on executive compensation, meals and entertainment expenses and the inclusion of certain foreign earnings in U.S. taxable income.

The Company recognized $11.9 million of tax expense in the fourth quarter of 2017 primarily due to the reduction in its net U.S. deferred tax assets for the 14 percentage point decrease in the U.S. federal statutory rate. The Company has completed its accounting for the tax effects of the TCJA as it relates to its 2017 tax year. Additionally, further guidance from the Internal Revenue Service ("IRS"), SEC, or the FASB could result in changes to the Company's accounting for the tax effects of the TCJA in its 2018 tax year and future tax years.

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

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

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

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

The Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative income/losses in recent years, as adjusted for permanent differences. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's current estimates, due to unanticipated events or otherwise, could have a material effect on its financial condition and results of operations. The Company has a $2.4 million valuation allowance against certain deferred tax assets as of September 30, 2018.

Based on the Company's current assessment, the remaining net deferred tax assets as of September 30, 2018 are considered more likely than not to be realized. The valuation allowance of $2.4 million may be increased or reduced as conditions change or if the Company is unable to implement certain available tax planning strategies. The realization of the Company's net deferred tax assets ultimately depend on future taxable income, reversals of existing taxable temporary differences or through a loss carry back. The Company has income tax receivables of $136 thousand as of September 30, 2018 included in other current assets in its interim Condensed Consolidated Balance Sheet primarily related to income tax refunds for prior years.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2018	December 31, 2017
Term Loan maturing 2022, net of deferred financing fees of $605 and $757; 3.87% and 3.12% interest rate at September 30, 2018 and December 31, 2017	$53,770	$56,993
Revolving Loans; 4.09% and 3.64% interest rate at September 30, 2018 and December 31, 2017	30,625	42,250
Various capital leases; weighted average interest rate of 4.6% and 5.0% at September 30, 2018 and December 31, 2017; principal and interest payable monthly through September 2023	47,817	45,157
Various other notes payable with a weighted average interest rate of 10.7% at September 30, 2018 and December 31, 2017; principal and interest payable monthly through November 2019	11	17
	132,223	144,417
Less current portion	(21,334)	(20,791)
	$110,889	$123,626

Credit Agreement

On July 14, 2017, the Company amended its Credit Agreement which was originally entered into on November 20, 2014 with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto.

Prior to being amended, the Credit Agreement provided for the extension of term loans ("Term Loans") in an aggregate principal amount of $175.0 million. In addition, prior to being amended, the Credit Agreement provided for the extension of revolving loans ("Revolving Loans") in an aggregate principal amount not to exceed $30.0 million. The amendment increased the maximum aggregate principal amount of Revolving Loans under the agreement from $30.0 million to $80.0 million and reduced the outstanding principal amount of the Term Loan under the agreement to $60.0 million. Upon the execution of the amendment to the Credit Agreement, the total principal amount outstanding under the agreement remained unchanged at $110.0 million. As a result of the amendment to the Credit Agreement, the principal of the Term Loan amortizes at an annual rate of 7.5% during the first and second years following the date of the amendment and at an annual rate of 10% during the third, fourth and fifth years following the date of the amendment, with any remaining balance payable upon the maturity date. The amendment also extended the maturity date for both the Revolving Loans and the Term Loans until July 14, 2022.

As of September 30, 2018, the Company's borrowing availability of Revolving Loans under the $80.0 million Revolving Loan commitment was $47.2 million, after deducting outstanding letters of credit of $2.2 million and outstanding Revolving Loans of $30.6 million. In November 2018, the Company reduced the $80.0 million Revolving Loan commitment by $15.0 million, which reduced the Company's borrowing availability to $32.2 million.

Loans borrowed under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.25% to 2.25%, based on the Company's Total Leverage Ratio (as defined in the Credit Agreement). Loans borrowed under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one

month LIBOR rate plus 1.00%, per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its "prime rate," plus (ii) a margin ranging from 0.25% to 1.25%, based on the Company's Total Leverage Ratio. The amendment reduced the rate of interest payable on the loans borrowed under the Credit Agreement by 0.25%.

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

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of the Company and its subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of the Company or its subsidiaries; change the nature of their business; prepay or amend certain indebtedness; engage in certain transactions with affiliates; amend their organizational documents; or enter into certain restrictive agreements. In addition, the amended Credit Agreement contains financial covenants which requires the Company to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 3.25 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the amended Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00.

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

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

6. Commitments and Contingencies

Operating Leases. The Company leases machinery, equipment, and office and operational facilities under non-cancelable operating lease agreements used in the ordinary course of business.

Legal Proceedings. We are involved in various 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.

7. Stock-Based Compensation

The Company's stock plan provides for the grant of incentive and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards to employees, directors and consultants of the Company. On April 26, 2018, the Company's shareholders approved an amendment to the Company's stock plan to increase the aggregate number of shares authorized for issuance under such plan by 3.5 million shares. The Company's stock plan, as amended, currently authorizes the Company to issue up to 7.0 million shares of common stock. As of September 30, 2018, 3.1 million shares remained available for issuance under the stock plan.

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

During the nine months ended September 30, 2018, the Company granted options to acquire a total of 0.7 million shares of the Company's common stock to certain key employees with an exercise price equal to the fair market value of the Company's common stock on the date of grant. During the nine months ended September 30, 2018, the Company granted 0.3 million shares of restricted stock awards to certain key employees with a deemed issuance price per share equal to the closing price of the Company's common stock on the date the restricted stock was granted. These stock options and restricted stock awards vest annually over three years from the grant date. In addition, the Company granted approximately 28 thousand shares of restricted stock awards to each of the Company's six non-employee members of its board of directors with a deemed issuance price per share equal to the closing price

of the Company's common stock on the date the restricted stock was granted. These restricted stock awards issued to the Company's non-employee directors vest on the one-year anniversary of the grant date.

Stock-based compensation expense was $0.6 million and $1.8 million for the three and nine months ended September 30, 2018, respectively, compared to stock-based compensation expense of $0.7 million and $2.3 million for the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, total unrecognized compensation cost related to unvested stock-based payments totaled $3.2 million and is expected to be recognized over a weighted-average period of approximately 1.9 years.

8. Fair Value Measurements

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

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

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

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

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a nonrecurring basis as of and for the nine months ended September 30, 2018 and 2017:

	Significant Other Unobservable Inputs			
	September 30, 2018		September 30, 2017	
	Level 3	Total Losses	Level 3	Total Losses
Nonrecurring Fair Values				
Goodwill	$121,051	$ —	$121,051	$17,637

In accordance with ASC 350, goodwill was written down to its implied fair value of $121.1 million as of September 30, 2017, resulting in impairment charges of $17.6 million during the three and nine months ended September 30, 2017. See Note 3, “Goodwill and Other Intangibles” for further information regarding the process of determining the implied fair value of goodwill and change in goodwill.

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

Cash equivalents: Cash equivalents are time deposits with maturity of three months or less when purchased, which are highly liquid and readily convertible to cash. Cash equivalents reported in the Company’s interim Condensed Consolidated Balance Sheet were $6.6 million and $8.5 million as of September 30, 2018 and December 31, 2017, 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 interim Condensed Consolidated Balance Sheets approximates fair value based on the Company’s current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount reported in the Company’s interim Condensed Consolidated Balance Sheet as of September 30, 2018 for borrowings under its Credit Agreement is $85.0 million, excluding unamortized deferred financing fees. The Company has determined, utilizing observable market quotes, that the fair value of borrowings under its Credit Agreement is $85.0 million as of September 30, 2018.

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 2017 Form 10-K and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
Business Summary
ARC Document Solutions, Inc. ("ARC Document Solutions," "ARC," "we," "us," or "our") is a leading document solutions provider to design, engineering, construction, and facilities management professionals, while also providing document solutions to businesses of all types.
Our customers need us to manage the scale, complexity and workflow of their documents. We help them reduce their costs and increase their efficiency by improving their access and control over documents, and we offer a wide variety of ways to access, distribute, collaborate on, and store documents.
Each of our service offerings is enabled through a suite of supporting proprietary technology and a wide variety of value-added services. We have categorized our service and product offerings to report distinct sales recognized from:

Construction Document and Information Management (CDIM), which consists of professional services and software services to manage and distribute documents and information primarily related to construction projects. CDIM sales include software services such as SKYSITE®, our cloud-based project communication application, as well as providing document and information management services that are often technology-enabled. The bulk of our current revenue from CDIM comes from large-format and small-format printing services we provide in both black and white and in color.
Sales of software services are a smaller part of overall CDIM revenues. The sale of services addresses a variety of customer needs including the provision of project communication tools, project information management, building information modeling, digital document distribution services, printing services, and others.
Managed Print Services (MPS), consists of placement, management, and optimization of print and imaging equipment in our customers' offices, job sites, and other facilities. MPS relieves our customers of the burden of owning and managing print devices and print networks, and shifts their costs to a "per-use" basis. MPS is supported by our proprietary technology, Abacus™, which allows our customers to capture, control, manage, print, and account for their documents. MPS 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, and 2) an arrangement by which our customers outsource their printing function to us, including all office printing, copying, and reprographics printing. In both cases this is recurring, contracted revenue with most contracts ranging from 3 to 5 years and we are paid a single cost per unit of material used, often referred to as a "click charge." MPS sales are driven by the ongoing print needs of our customers at their facilities.
Archiving and Information Management (AIM), combines software and professional services to facilitate the capture, management, access and retrieval of documents and information that have been produced in the past. AIM includes our SKYSITE software to organize, search and retrieve documents, as well as the provision of services that include the capture and conversion of hardcopy and electronic documents, and their cloud-based storage and maintenance. AIM sales are driven by the need to leverage past intellectual property for present or future use, facilitate cost savings and efficiency improvements over current hardcopy and digital storage methods, as well as comply with regulatory and records retention requirements.
Equipment and Supplies, which consists of reselling printing, imaging, and related equipment to customers primarily to architectural, engineering and construction firms.
We have expanded our business beyond the services we traditionally provided to the architectural, engineering, construction, and building owner/operator (AEC/O) industry in the past and are currently focused on growing MPS, AIM and CDIM, as we believe the mix of services demanded by the AEC/O industry continues to shift toward document management at customer locations and in the cloud, and away from its historical emphasis on large-format construction drawings produced "offsite" in our service centers.

We deliver our services via the cloud, through a nationwide network of service centers, regionally-based technical specialists, locally-based sales executives, and a national/regional sales force known as Global Solutions.
Based on our analysis of our operating results, we estimate that sales to the AEC/O industry accounted for approximately 79% of our net sales for the nine months ended September 30, 2018, with the remaining 21% consisting of sales to businesses outside of construction.

Costs and Expenses

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

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

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

Results of Operations

	Three Months Ended September 30,		Increase (decrease)		Nine Months Ended September 30,		Increase (decrease)	
(In millions, except percentages)	2018	2017 (1)	$	%	2018	2017 (1)	$	%
CDIM	$52.4	$50.1	$2.3	4.6 %	$160.3	$155.0	$5.2	3.4 %
MPS	32.4	32.2	0.2	0.7 %	97.2	97.7	(0.5)	(0.5)%
AIM	3.6	3.4	0.2	6.9 %	9.7	9.7	—	(0.2)%
Total service sales	88.4	85.6	2.8	3.3 %	267.2	262.5	4.7	1.8 %
Equipment and supplies sales	12.1	10.8	1.2	11.3 %	35.2	35.0	0.2	0.6 %
Total net sales	$100.5	$96.5	$4.0	4.2 %	$302.4	$297.5	$4.9	1.6 %
Gross profit	$32.7	$29.2	$3.4	11.8 %	$98.7	$94.6	$4.1	4.4 %
Selling, general and administrative expenses	$27.0	$25.8	$1.1	4.4 %	$81.8	$76.5	$5.2	6.8 %
Amortization of intangibles	$0.9	$1.1	$(0.1)	(9.9)%	$2.9	$3.3	$(0.3)	(9.5)%
Goodwill impairment	$—	$17.6	$(17.6)	(100.0)%	$—	$17.6	$(17.6)	(100.0)%
Loss on extinguishment and modification of debt	$—	$0.1	$(0.1)	(100.0)%	$—	$0.2	$(0.2)	(100.0)%
Interest expense, net	$1.5	$1.5	$(0.1)	(3.4)%	$4.4	$4.7	$(0.2)	(5.2)%
Income tax provision (benefit)	$0.6	$(2.2)	$2.8	(129.8)%	$2.5	$1.6	$1.0	60.5 %
Net income (loss) attributable to ARC	$2.6	$(14.8)	$17.3	(117.3)%	$7.3	$(9.4)	$16.6	(177.6)%
Non-GAAP (2)								
Adjusted net income attributable to ARC (2)	$2.3	$0.4	$2.0	555.3 %	$7.0	$5.9	$1.1	17.7 %
EBITDA (2)	$13.0	$(7.0)	$20.0	(286.3)%	$38.9	$21.9	$16.9	77.2 %
Adjusted EBITDA (2)	$13.6	$11.5	$2.1	18.7 %	$40.7	$42.1	$(1.4)	(3.2)%

(1) Column does not foot due to rounding

(2) See "Non-GAAP Financial Measures" on pg. 22 for additional information.

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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 September 30,		As Percentage of Net Sales Nine Months Ended September 30,	
	2018 (1)	2017 (1)	2018 (1)	2017 (1)
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	67.5	69.7	67.4	68.2
Gross profit	32.5	30.3	32.6	31.8
Selling, general and administrative expenses	26.8	26.8	27.0	25.7
Amortization of intangibles	0.9	1.1	1.0	1.1
Goodwill impairment	—	18.3	—	5.9
Income (loss) from operations	4.7	(15.9)	4.6	(1.0)
Interest expense, net	1.5	1.6	1.5	1.6
Income before income tax provision (benefit)	3.2	(17.6)	3.2	(2.6)
Income tax provision (benefit)	0.6	(2.3)	0.8	0.5
Net income (loss)	2.6	(15.3)	2.3	(3.1)
Loss (income) attributable to the noncontrolling interest	—	—	0.1	—
Net income (loss) attributable to ARC	2.5 %	(15.3)%	2.4 %	(3.1)%
Non-GAAP (2)				
EBITDA (2)	13.0 %	(7.2)%	12.9 %	7.4 %
Adjusted EBITDA (2)	13.6 %	11.9 %	13.5 %	14.1 %

(1) Column does not foot due to rounding
(2) See "Non-GAAP Financial Measures" on pg. 22 for additional information.

Three and Nine Months Ended September 30, 2018 Compared to Three and Nine Months Ended September 30, 2017

Net Sales

Net sales for the three and nine months ended September 30, 2018 increased 4.2% and 1.6%, respectively, compared to the same periods in 2017 due primarily to increases in our print-based sales.

CDIM. Year-over-year sales of CDIM services increased $2.3 million, or 4.6%, and $5.2 million, or 3.4%, for the three and nine months ended September 30, 2018, respectively. The increase in sales of CDIM services was driven by an increase in project-related printing partially offset by the continued but moderating reduction in demand for printed construction drawings and related services being replaced by the ongoing adoption of technology. CDIM services represented 52% and 53% of total net sales for the three and nine months ended September 30, 2018, respectively, compared to 52% for both the three and nine months ended September 30, 2017.

MPS. Year-over-year sales of MPS services for the three months ended September 30, 2018 increased $0.2 million, or 0.7%, and for the nine months ended September 30, 2018, decreased $0.5 million, or 0.5%. The increase in MPS services for the three months ended September 30, 2018 was due to new customer acquisitions and the expansion of MPS services within our existing customer base. For the nine months ended September 30, 2018, the decrease was due primarily to the decline in print volumes from our existing customers. The decline in print volumes was driven in part by the continued optimization of our customers' in-house print environment. Our MPS offering delivers value to our customers by optimizing their print infrastructure, which in turn, will lower their print volume over time. Revenues from MPS Services sales represented approximately 32% of total net sales for both the three and nine months ended September 30, 2018, as compared to 33% for both the three and nine months ended September 30, 2017.

The number of MPS locations has grown to approximately 10,500 as of September 30, 2018, representing a net increase of approximately 500 locations compared to September 30, 2017. While MPS is subject to temporary performance fluctuations based on the loss or acquisition of large clients, we believe there is an opportunity for MPS

sales growth in the future due to the value that we bring to our customers and the desire to reduce printing costs in the AEC/O industry.

AIM. Year-over-year sales of AIM Services increased $0.2 million, or 6.9% for the three months ended September 30, 2018, and was flat for the nine months ended September 30, 2018. The increase in sales of our AIM Services during the three months ended September 30, 2018 was primarily driven by an increase in project-based scanning performed at our service centers. We are driving an expansion of our addressable market for AIM Services by targeting building owners and facilities managers that require on-demand access to their legacy documents to operate their assets efficiently.

Equipment and Supplies Sales. Year-over-year sales of Equipment and Supplies increased $1.2 million, or 11.3%, and $0.2 million, or 0.6%, for the three and nine months ended September 30, 2018, respectively. These increases in Equipment and Supplies sales were primarily driven by the replacement of aging equipment fleets for customers who prefer to own their equipment. Equipment and Supplies Sales derived from UNIS Document Solutions Co. Ltd ("UDS"), our Chinese business venture, increased to $6.9 million and $18.7 million for the three and nine months ended September 30, 2018, respectively, as compared to $5.4 million and $17.2 million for the three and nine months ended September 30, 2017, respectively. Traditionally, our customers in China have exhibited a preference for owning print and imaging related equipment as opposed to using equipment through onsite services arrangements. Equipment and Supplies sales continued to decline in the U.S. for the nine months ended September 30, 2018. We do not anticipate growth in Equipment and Supplies Sales outside of China as we continue to place more focus on growing MPS sales and converting sales contracts to MPS agreements.

Gross Profit

During the three months ended September 30, 2018, gross profit and gross margin increased to $32.7 million, and 32.5% compared to $29.2 million and 30.3%, during the same period in 2017, on a sales increase of $4.0 million. During the nine months ended September 30, 2018, gross profit and gross margin increased to $98.7 million, and 32.6% compared to $94.6 million and 31.8%, during the same period in 2017, on a sales increase of $4.9 million. The increase in our gross margins for the three and nine months ended September 30, 2018 was primarily driven by the increase in our net sales as compared to the same periods in 2017, which allowed us to better leverage the fixed portion of our overhead and labor costs, as well as the results of certain gross margin improvement initiatives we commenced in 2018. These increases were partially offset by higher employee medical costs in 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $1.1 million, or 4.4%, and $5.2 million, or 6.8%, for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017.

General and administrative expenses increased $1.7 million, or 11.7%, and $4.3 million, or 9.8%, for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increase in expenses was driven by increased healthcare costs, increased incentive bonus accruals due to the improved financial performance, as well as investments in corporate infrastructure during 2018 that helped to fuel our sales growth.

Year-over-year sales and marketing expenses decreased $0.6 million for the three months ended September 30, 2018, and increased $0.9 million for the nine months ended September 30, 2018 compared to the same periods in 2017. The increase for the nine months ended September 30, 2018, was primarily due to investments in sales and marketing staff, training, and marketing initiatives that commenced the second half of 2017 and continued into 2018 to support our new technology-enabled offerings and to grow our print-based offerings. The year-over-year decrease in sales and marketing expenses for the three months ended September 30, 2018 was primarily due to an optimization of our sales organization, maintaining those investments that yielded positive results and discontinuing those investments that did not.

Amortization of Intangibles

Amortization of intangibles of $0.9 million and $2.9 million for the three and nine months ended September 30, 2018, respectively, decreased slightly compared to the same periods in 2017 due to the completed amortization of certain customer relationship intangibles related to historical acquisitions.

Loss on Extinguishment and Modification of Debt

Additional principal payments above the minimum required principal payments on our Credit Agreement resulted in a loss on the extinguishment and modification of debt of $0.1 million and $0.2 million for the three and nine months ended September 30, 2017.

Interest Expense, Net

Net interest expense totaled $1.5 million and $4.4 million for the three and nine months ended September 30, 2018, respectively, compared to $1.5 million and $4.7 million for the same period in 2017. The decrease for the nine months ended September 30, 2018 compared to 2017 was due to our continued pay down of our long-term debt, partially offset by rising interest rates.

Income Taxes

We recorded an income tax provision of $0.6 million and $2.5 million in relation to pretax income of $3.2 million and $9.6 million for the three and nine months ended September 30, 2018, respectively, which resulted in an effective income tax rate of 20.0% and 26.3%. Excluding the impact of additional valuation allowances and other discrete tax items, our effective income tax rate would have been 26.4% and 29.3%, respectively.

We have a $2.4 million valuation allowance against certain deferred tax assets as of September 30, 2018.

By comparison, we recorded an income tax benefit of $2.2 million and an income tax provision of $1.6 million in relation to pretax losses of $16.9 million and $7.7 million for the three and nine months ended September 30, 2017, respectively, which resulted in an effective income tax rate of 12.8% and (20.4)%, for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2017, our effective income tax rate would have been 41.1%, excluding the impact of the goodwill impairment, an additional valuation allowance, certain stock-based compensation not deductible for income tax purposes and other discrete items.

We had a $1.8 million valuation allowance against certain deferred tax assets as of September 30, 2017.

Noncontrolling Interest

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

Net Income Attributable to ARC

Net income attributable to ARC was $2.6 million and $7.3 million during the three and nine months ended September 30, 2018, respectively, compared to net losses of $14.8 million and $9.4 million in the same periods in 2017. The changes in net income attributable to ARC for three and nine months ended September 30, 2018 compared to the prior year period are primarily due to the goodwill impairment charge recognized in the third quarter of 2017.

EBITDA

EBITDA margin increased to 13.0% and 12.9% for the three and nine months ended September 30, 2018, respectively, from (7.2)% and 7.4% for the same periods in 2017. Excluding the effect of the goodwill impairment, loss on extinguishment of debt, and stock-based compensation, adjusted EBITDA margin increased to 13.6% and decreased to 13.5% during the three and nine months ended September 30, 2018, respectively, as compared to 11.9% and 14.1% for the same periods in 2017. The increase in adjusted EBITDA margin for the three months ended September 30,2018 was primarily due to the increase in gross profit noted above. The decrease in adjusted EBITDA margin for the nine months ended September 30, 2018 was primarily due to the increase in employee medical costs, which increased $0.6 million and $3.6 million for the three and nine months ended September 30, 2018, respectively.

Impact of Inflation

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

Non-GAAP Financial Measures

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

measure of our liquidity.

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

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calculated by dividing EBITDA by net sales.

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

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

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

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

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

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

Specifically, we have presented adjusted net income attributable to ARC and adjusted earnings per share attributable to ARC shareholders for the three and nine months ended September 30, 2018 and 2017 to reflect the exclusion of the goodwill impairment, loss on extinguishment and modification of debt, 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 and nine months ended September 30, 2018 and 2017. We believe these charges were the result of items which are not indicative of our actual operating performance.

We have presented adjusted EBITDA for the three and nine months ended September 30, 2018 and 2017 to exclude the goodwill impairment, loss on extinguishment and modification of debt and stock-based compensation expense. The adjustment of EBITDA for these items is consistent with the definition of adjusted EBITDA in our Credit Agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

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

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows provided by operating activities	$7,097	$11,326	$30,062	$36,756
Changes in operating assets and liabilities	4,956	(959)	6,340	1,406
Non-cash expenses, including depreciation and amortization	(9,466)	(25,134)	(29,331)	(47,461)
Income tax provision (benefit)	647	(2,174)	2,526	1,574
Interest expense, net	1,478	1,530	4,436	4,679
(Income) loss attributable to the noncontrolling interest	(28)	(7)	190	(55)
Depreciation and amortization	8,338	8,430	24,650	25,037
EBITDA	$13,022	$(6,988)	$38,873	$21,936

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

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income (loss) attributable to ARC Document Solutions, Inc.	$2,559	$(14,774)	$7,261	$(9,354)
Interest expense, net	1,478	1,530	4,436	4,679
Income tax provision (benefit)	647	(2,174)	2,526	1,574
Depreciation and amortization	8,338	8,430	24,650	25,037
EBITDA	13,022	(6,988)	38,873	21,936
Loss on extinguishment and modification of debt	—	124	—	230
Goodwill impairment	—	17,637	—	17,637
Stock-based compensation	597	699	1,824	2,251
Adjusted EBITDA	$13,619	$11,472	$40,697	$42,054

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

	Three Months Ended September 30, 2018 (1)	Three Months Ended September 30, 2017 (1)	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017 (1)
Net income (loss) margin attributable to ARC Document Solutions, Inc.	2.5 %	(15.3)%	2.4 %	(3.1)%
Interest expense, net	1.5	1.6	1.5	1.6
Income tax provision (benefit)	0.6	(2.3)	0.8	0.5
Depreciation and amortization	8.3	8.7	8.2	8.4
EBITDA margin	13.0	(7.2)	12.9	7.4
Loss on extinguishment and modification of debt	—	0.1	—	0.1
Goodwill impairment	—	18.3	—	5.9
Stock-based compensation	0.6	0.7	0.6	0.8
Adjusted EBITDA margin	13.6%	11.9 %	13.5%	14.1 %

(1) Column does not foot due to rounding

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2018	2017	2018	2017
Net income (loss) attributable to ARC Document Solutions, Inc.	$2,559	$(14,774)	$7,261	$(9,354)
Loss on extinguishment and modification of debt	—	124	—	230
Goodwill impairment	—	17,637	—	17,637
Income tax benefit related to above items	—	(3,144)	—	(3,186)
Deferred tax valuation allowance and other discrete tax items	(213)	515	(290)	594
Adjusted net income attributable to ARC Document Solutions, Inc.	$2,346	$358	$6,971	$5,921
Actual:				
Earnings (loss) per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	$0.06	$(0.32)	$0.16	$(0.20)
Diluted	$0.06	$(0.32)	$0.16	$(0.20)
Weighted average common shares outstanding:				
Basic	44,983	45,834	44,888	45,756
Diluted	45,188	45,834	44,993	45,756
Adjusted:				
Earnings per share attributable to ARC Document Solutions, Inc. shareholders:				
Basic	$0.05	$0.01	$0.16	$0.13
Diluted	$0.05	$0.01	$0.15	$0.13
Weighted average common shares outstanding:				
Basic	44,983	45,834	44,888	45,756
Diluted	45,188	46,342	44,993	46,335

Liquidity and Capital Resources

Our principal sources of cash have been cash flows from operations and borrowings under our debt and lease agreements. Our recent historical uses of cash have been for ongoing operations, payment of principal and interest on outstanding debt obligations, capital expenditures and stock repurchases.

Total cash and cash equivalents as of September 30, 2018, was $18.4 million. Of this amount, $12.0 million was held in foreign countries, with $10.2 million held in China. Repatriation of some of our cash and cash equivalents in foreign countries could be subject to delay for local country approvals and could have potential adverse tax consequences. As a result of holding cash and cash equivalents outside of the U.S., our financial flexibility may be reduced.

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

	Nine Months Ended September 30,	
(In thousands)	2018	2017
Net cash provided by operating activities	$30,062	$36,756
Net cash used in investing activities	$(9,907)	$(6,780)
Net cash used in financing activities	$(28,961)	$(29,343)

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Operating Activities
Cash flows from operations are primarily driven by sales and net profit generated from these sales, excluding non-cash charges.
The decrease in cash flows from operations during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to the timing of sales and the related collection of those receivables, as well as increased employee medical costs in the current year. Days sales outstanding ("DSO") was 56 days as of September 30, 2018 and 55 as of September 30, 2017. We expect to collect on the sales recognized during the third quarter, but not yet collected as of September 30, 2018, during the fourth quarter. Employee medical costs increased approximately $3.6 million for the nine months ended September 30, 2018 as compared to the same period in 2017.
Investing Activities
Net cash used in investing activities was primarily related to capital expenditures. We incurred capital expenditures totaling $10.5 million and $7.2 million for the nine months ended September 30, 2018 and 2017, respectively. The change in capital expenditures is driven primarily by the timing of equipment purchases, and whether such equipment is leased or purchased with available cash. Also contributing to the increase in investing activities in 2018 were capital expenditures related to leasehold improvements. As we continue to foster our relationships with credit providers to obtain attractive lease rates, we struck a more balanced approach in 2018 in regards to leased versus purchased equipment.
Financing Activities
Net cash of $29.0 million used in financing activities during the nine months ended September 30, 2018 primarily relates to payments on our debt agreements and capital leases. We amended our Credit Agreement in the third quarter of 2017 resulting in a decrease in required quarterly principal payments on our term loan debt. In addition, the amendment increased the maximum aggregate principal amount of revolving loans from $30.0 million to $80.0 million, and resized the outstanding principal amount of the term loan under the agreement at $60.0 million, although the total principal amount outstanding remained unchanged at $110.0 million on the date of the amendment. Prior to the amendment, we paid down the principal of our term loan debt by making required quarterly payments in advance. Following the amendment, we continue to pay down the outstanding revolving loans under our Credit Agreement.
Our cash position, working capital, and debt obligations as of September 30, 2018 and December 31, 2017 are shown below and should be read in conjunction with our interim Condensed Consolidated Balance Sheets and notes thereto contained elsewhere in this report.

(In thousands)	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 18,404	$ 28,059
Working capital	$ 35,676	$ 39,583
Borrowings from credit agreement (1) (2)	$ 84,395	$ 99,243
Other debt obligations	47,828	45,174
Total debt obligations	$ 132,223	$ 144,417

(1) Net of deferred financing fees of $0.6 million and $0.8 million at September 30, 2018 and December 31, 2017, respectively.
(2) Includes $30.6 million and $42.3 million of revolving loans outstanding under our Credit Agreement at September 30, 2018 and December 31, 2017, respectively.
The decrease of $3.9 million in working capital in 2018 was primarily due to the decline in cash and cash equivalents and offset ,in part, by an increase to accounts receivable. To manage our working capital, we chiefly focus on our DSO and monitor the aging of our accounts receivable, as receivables are the most significant element of our working capital.
We believe that our current cash and cash equivalents balance of $18.4 million, availability under our revolving credit facility, availability under our equipment lease lines, and cash flows provided by operations should be adequate to

cover the next twelve months of working capital needs, debt 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. See "Debt Obligations" section for further information related to our revolving credit facility.

We generate the majority of our revenue from sales of services and products to the AEC/O industry. As a result, our operating results and financial condition can be significantly affected by economic factors that influence the AEC/O industry, 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, the executive team continues to selectively evaluate potential acquisitions.
Debt Obligations

Credit Agreement
On July 14, 2017, we amended our credit agreement ("Credit Agreement"), which was originally entered into on November 20, 2014 with Wells Fargo Bank, National Association, as administrative agent and the lenders party thereto.
Prior to being amended, the Credit Agreement provided for the extension of term loans (“Term Loans”) in an aggregate principal amount of $175.0 million. In addition, prior to being amended, the Credit Agreement provided for the extension of revolving loans (“Revolving Loans”) in an aggregate principal amount not to exceed $30.0 million. The amendment increased the maximum aggregate principal amount of Revolving Loans under the agreement from $30.0 million to $80.0 million and reduced the outstanding principal amount of the Term Loan under the agreement to $60.0 million. Upon the execution of the amendment to the Credit Agreement, the total principal amount outstanding under the agreement remained unchanged at $110.0 million. As a result of the amendment to the Credit Agreement, the principal of the Term Loan amortizes at an annual rate of 7.5% during the first and second years following the date of the amendment and at an annual rate of 10% during the third, fourth and fifth years following the date of the amendment, with any remaining balance payable upon the maturity date. The amendment also extended the maturity date for both the Revolving Loans and the Term Loans until July 14, 2022.
As of September 30, 2018, our borrowing availability under the $80.0 million Revolving Loan commitment was $47.2 million, after deducting outstanding letters of credit of $2.2 million and outstanding Revolving Loans of $30.6 million. In November 2018, we reduced the $80.0 million Revolving Loan commitment by $15.0 million, which reduced our borrowing availability to $32.2 million.

Loans borrowed under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus a margin ranging from 1.25% to 2.25%, based on our Total Leverage Ratio (as defined in the Credit Agreement). Loans borrowed under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00%, per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its “prime rate,” plus (ii) a margin ranging from 0.25% to 1.25%, based on our Total Leverage Ratio. The amendment reduced the rate of interest payable on the loans borrowed under the Credit Agreement by 0.25%.

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

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting the ability (subject to various exceptions) of us and our subsidiaries to: incur additional indebtedness (including guarantee obligations); incur liens; sell certain property or assets; engage in mergers or other fundamental changes; consummate acquisitions; make investments; pay dividends, other distributions or repurchase equity interest of us or our subsidiaries; change the nature of their business; prepay or

amend certain indebtedness; engage in certain transactions with affiliates; amend our organizational documents; or enter into certain restrictive agreements. In addition, the Credit Agreement contains financial covenants which requires us to maintain (i) at all times, a Total Leverage Ratio in an amount not to exceed 3.25 to 1.00; and (ii) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement), as of the last day of each fiscal quarter, an amount not less than 1.15 to 1.00. We were in compliance with our covenants as of September 30, 2018 and are currently forecasted to remain in compliance with our covenants for the remainder of the term of the Credit Agreement.

The Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; material inaccuracy of a representation or warranty when made; cross-

default to other material indebtedness; bankruptcy, insolvency and dissolution events; inability to pay debts; monetary judgment defaults; actual or asserted invalidity or impairment of any definitive loan documentation, repudiation of guaranties or subordination terms; certain ERISA related events; or a change of control.

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

Capital Leases

As of September 30, 2018, we had $47.8 million of capital lease obligations outstanding, with a weighted average interest rate of 4.6% and maturities between 2018 and 2023.

Off-Balance Sheet Arrangements

As of September 30, 2018, 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.

Legal Proceedings. We are involved in various 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 2017 Annual Report on Form 10-K includes a description of certain critical accounting policies, including those with respect to goodwill, revenue recognition, and income taxes. There have been no material changes to our critical accounting policies described in our 2017 Annual Report on Form 10-K.

Goodwill Impairment

In accordance with ASC 350, Intangibles - Goodwill and Other, we assess goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired. At September 30, 2018, the Company performed its assessment and determined that goodwill was not impaired.

At September 30, 2017, our goodwill impairment analysis showed one reporting unit with goodwill attributed to it had a carrying amount which exceeded its fair value. Our underperformance relative to our forecast in the third quarter of 2017, and more specifically, our underperformance against forecast of one of our reporting units which previously had goodwill impairment in 2016 drove the decline in the fair value of the reporting unit. As a result, we recorded a pretax, non-cash charge for the three months ended September 30, 2017 to reduce the carrying value of goodwill by $17.6 million.

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

We determine the fair value of our reporting units using an income approach. Under the income approach, we determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions,

including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others.

Traditionally, 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

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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 an implied fair value of goodwill. For our annual goodwill impairment test as of September 30, 2017, we elected to early-adopt ASU 2017-04 which simplifies subsequent goodwill measurement by eliminating step two from the goodwill impairment test. As a result, we compared the fair value of a reporting unit with its respective carrying value, and recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit's fair value.

The results of the latest annual goodwill impairment test, as of September 30, 2018, were as follows:

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

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2019 and beyond, assuming all other assumptions remain constant, would result in no further impairment of goodwill.
Based upon a separate sensitivity analysis, a 50 basis point increase to the weighted average cost of capital would result in no further impairment of goodwill.
Given the 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 2018 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 2019, 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.

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

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;

- Taxable income in prior carryback years; and
- Tax-planning strategies.

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

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

It is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. We utilize a rolling three years of actual and current year anticipated results as the primary measure of cumulative income/losses in recent years, as adjusted for permanent differences. The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability.

Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations. We had a $2.4 million valuation allowance against certain deferred tax assets as of September 30, 2018.

Our gross deferred tax assets remain available to us for use in future years until they fully expire, which based on forecasted continuing profitability, we estimate that it is more likely than not that future earnings will be sufficient to realize certain of our deferred tax assets. 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 required.

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

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

The amount of taxable income or loss we report to the various tax jurisdictions is subject to ongoing audits by federal, state and foreign tax authorities. 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 had no unrecognized tax benefits as of September 30, 2018. 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 2017 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 and the adoption of Revenue from Contracts with Customers (Topic 606) on January 1, 2018.

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. Borrowings under our Credit Agreement bear interest at a rate equal to an applicable margin plus a variable rate. As such, the Credit Agreement exposes us to market risk for changes in interest rates.

As of September 30, 2018, we had $132.8 million of total debt and capital lease obligations, of which approximately 36% was at a fixed rate, with the remainder at variable rates. Given our outstanding indebtedness at September 30, 2018, the effect of a 100 basis point increase in LIBOR on our interest expense would be approximately $0.9 million annually.

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 September 30, 2018. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 2018, our disclosure controls and procedures were effective.
Changes in Internal Control over Financial Reporting
There were no changes to internal control over financial reporting during the three months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION
Item 1. Legal Proceedings

We are involved 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.
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, 2017. 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, 2017.

Item 6. Exhibits

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

*Filed herewith

SIGNATURES

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

Date: November 7, 2018

ARC DOCUMENT SOLUTIONS, INC.

/s/ KUMARAKULASINGAM SURIYAKUMAR
Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer

/s/ JORGE AVALOS
Jorge Avalos
Chief Financial Officer

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