

ARC Group Worldwide, Inc.
Form 10-K
September 26, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 – K

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

For the Fiscal Year Ended June 30, 2017

OR

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

For the transition period from to

ARC Group Worldwide, Inc.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

001-33400

(Commission File Number)

87-0454148

(I.R.S. Employer Identification Number)

810 Flightline Blvd.

Deland, FL 32724

(Address of principal executive offices including zip code)

(303) 467-5236

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None

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

\$.0005 par value common stock

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 K.

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.

| | |
|-------------------------|---|
| Large accelerated filer | Accelerated filer |
| | (Do not check if a smaller reporting company) |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

As of January 1, 2017, the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$40.8 million, based on the closing sale price of the registrant's common stock on such date as reported on the NASDAQ Capital Market Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

As of September 8, 2017, there were 18,209,485 shares of the registrant's \$0.0005 par value common stock outstanding.

Portions of the registrant's Definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

Table of Contents

ARC Group Worldwide, Inc.

Table of Contents

| | Page No. |
|---|----------|
| <u>PART I</u> | |
| <u>Item 1. Business</u> | 1 |
| <u>Item 1A. Risk Factors</u> | 8 |
| <u>Item 1B. Unresolved Staff Comments</u> | 26 |
| <u>Item 2. Properties</u> | 26 |
| <u>Item 3. Legal Proceedings</u> | 26 |
| <u>Item 4. Mine Safety Disclosures</u> | 26 |
| <u>PART II</u> | |
| <u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 27 |
| <u>Item 6. Selected Financial Data</u> | 28 |
| <u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 28 |
| <u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u> | 38 |
| <u>Item 8. Financial Statements and Supplementary Data</u> | 39 |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 69 |
| <u>Item 9A. Controls and Procedures</u> | 69 |
| <u>Item 9B. Other Information</u> | 71 |
| <u>PART III</u> | |
| <u>Item 10. Directors, Executive Officers and Corporate Governance</u> | 71 |
| <u>Item 11. Executive Compensation</u> | 71 |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 71 |
| <u>Item 13. Certain Relationships and Related Transactions and Director Independence</u> | 71 |
| <u>Item 14. Principal Accounting Fees and Services</u> | 71 |
| <u>Part IV</u> | |
| <u>Item 15. Exhibits, Financial Statement Schedules</u> | 72 |
| <u>Signatures</u> | 74 |

Table of Contents

PART I

Cautionary Statement Concerning Forward-Looking Statements

The information contained in this Annual Report (this “Report”) may contain certain statements about ARC Group Worldwide, Inc. (the “Company” or “ARC”) that are or may be “forward-looking statements,” that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of ARC and are subject to uncertainty and changes in circumstances and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Factors that could cause our results to differ materially from current expectations include, but are not limited to factors detailed in our reports filed with the U.S. Securities and Exchange Commission (“SEC”), including but not limited to those under the caption “Risk Factors” contained herein. In addition, these statements are based on a number of assumptions that are subject to change. The forward-looking statements contained in this Report may include all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by, or that include the words “targets,” “plans,” “believes,” “expects,” “aims,” “intends,” “will,” “may,” “anticipates,” “estimates,” “approximates,” “sees,” “should,” “would,” “expect,” “positioned,” “strategy,” or words or terms of similar substance or derivative variation or negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (1) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses, and future prospects; (2) business and management strategies and the expansion and growth of ARC; (3) the effects of government regulation on ARC’s business; and (4) our plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Additional particular uncertainties that could cause our actual results to be materially different than those expressed in forward-looking statements include: risks associated with our international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of our markets; availability and cost of raw materials, parts and components used in our products; the competitive environment in the areas of our planned industrial activities; our ability to identify, finance, acquire and successfully integrate attractive acquisition targets; expected earnings of ARC; the amount of and our ability to estimate known and unknown liabilities; material disruption at any of our significant manufacturing facilities; the solvency of our insurers and the likelihood of their payment for losses; our ability to manage and grow our business and execution of our business and growth strategies; our ability and the ability of our customers to access required capital at a reasonable cost; our ability to expand our business in our targeted markets; the level of capital investment and expenditures by our customers in our strategic markets; our financial performance; our ability to identify, address and remediate any material weakness in our internal control over financial reporting; our ability to achieve or maintain credit ratings and the impact on our funding costs and competitive position if we do not do so; and other risk factors as disclosed herein under the caption “Risk Factors.” Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. ARC undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of ARC unless otherwise expressly stated.

ITEM 1. BUSINESS

Overview

ARC Group Worldwide, Inc. is a global advanced manufacturer offering a full suite of products and services to our customers, with specific expertise in metal injection molding (“MIM”) and metal 3D printing (also referred to herein as additive manufacturing or “AM”). To further advance and support these core capabilities, the Company also offers complementary services associated with: (i) precision metal stamping; (ii) traditional and clean room plastic injection molding; and (iii) advanced rapid and conformal tooling. Through our diverse product offering, we provide our customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication.

Table of Contents

We further differentiate ourselves from our competitors by providing innovative, custom capabilities, which improve high-precision manufacturing efficiency and speed-to-market for our customers.

Our Business Model

Our business model is to accelerate the widespread adoption of MIM and AM, along with other key technologies, including automation, robotics, and production software in traditional manufacturing, thereby benefiting from the elimination of inefficiencies currently present in the global supply chain. More specifically, the two key pillars of our business strategy are centered on the following areas:

- **Holistic Manufacturing Solution.** The metal and plastic fabrication industries are highly fragmented sectors with numerous single-solution providers. Given the inefficiencies associated with working with these disjointed groups, many manufacturers seek to improve their supplier base by working with more scaled, holistic providers. Our strategy is to facilitate the consolidation and streamlining of global supply chains by offering a holistic solution to our customers' manufacturing needs. In particular, ARC provides a "one-stop shop" solution to our customers by offering a spectrum of highly advanced products, processes, and services, thereby delivering highly-engineered precision components at efficient production yields.
- **Accelerating Speed-to-Market.** The traditional prototype-to-production process is often subject to lengthy bottlenecks and is characterized by inefficient price quoting delays, time-consuming tooling procedures, and outdated production methodologies. To differentiate itself from competitors, ARC focuses on reducing inefficiencies in the development cycle by offering the seamless integration of a wide-variety of proprietary technologies in order to dramatically reduce the time and cost associated with new product development. Specifically, the Company has developed rapid and instant online quoting solutions, rapid prototype solutions, short-run production services, in-house rapid and advanced conformal tooling, and rapid full production capabilities.

Separately, U.S. manufacturing has been rejuvenated as global wage disparities mitigate and traditional labor-intensive processes are displaced by technology. These macroeconomic trends will aid in the adoption of our business strategy.

Our key fundamental strengths are built upon core capabilities, including:

- **Metal Injection Molding.** We are a large and well-respected MIM provider. As a pioneer of MIM technology, and driven by our material science understanding, powder metallurgy experience, and established global facilities, we are one of the most advanced MIM operators in the marketplace. ARC provides high-quality, complex, precise, net-shape metal components to market-leading companies in numerous sectors, including the medical and dental, firearm and defense, automotive, aerospace, consumer durable, and electronic device industries. Further, our process is highly automated, utilizing advanced robotics and automation to ensure high levels of quality and

efficiency.

- **Metal 3D Printing.** We offer a variety of 3D printing solutions, with an emphasis on metal 3D printing. In general, given promising signs of growth and related barriers to entry, we believe the metal 3D printing sector is one of the more attractive segments of the overall additive manufacturing industry. Furthermore, metal 3D printing, while a complex technology still in its early stages, shares several fundamental similarities with our MIM business, thereby helping to accelerate our research and development. Separately, our metal 3D printing capabilities enable ARC to offer a variety of new services, including rapid prototyping, rapid tooling and short-run production, helping our customers improve their product speed-to-market. Given our established customer base, diverse metallurgy background, and scalable injection molding capabilities, we believe we are well-positioned in the industrial metal 3D printing market.
- **Additional Complementary Metal and Plastic Fabrication Capabilities.** We offer a number of additional specialty metal and plastic fabrication capabilities that enable us to provide our customers with a full suite of custom-component products. Our specialty capabilities include precision stamping, magnesium injection molding, computer numerical control machining, plastic injection molding (including medical clean room applications), and fitting and flange manufacturing.

Our overall growth strategy is centered on:

- driving organic improvement through the expansion and cross-selling of our core services to existing clients;
- accelerating the adoption of our technology by new customers in traditional manufacturing markets;

Table of Contents

- expanding our holistic service offerings through strategic vertical and horizontal acquisitions; and
- improving financial and operational results from the implementation of operational best practices.

Accordingly, all of our business divisions are managed consistently with this strategy in order to drive organic sales growth and cash flow generation, while improving quality, speed, and service to our customers.

Our History

ARC was incorporated in the State of Utah on September 30, 1987. On August 8, 2012, we acquired Advanced Forming Technology, Inc. (“AFT”), a leading provider of MIM components to a variety of industries. AFT is comprised of two operating units, AFT-U.S. and AFT-Hungary. Concurrently, we acquired all of the shares of Quadrant Metals Technology, LLC (“QMT”), whose subsidiaries, Tekna Seal LLC (“Tekna Seal”), FloMet LLC (“FloMet”) and General Flange & Forge LLC (“GF&F”), provided high-quality fabricated metal components to diverse industries, among them medical and dental device, firearm and defense industries, electronic device, and the fluid handling industries, including energy.

On April 7, 2014, we acquired two companies, Advance Tooling Concepts, LLC (“ATC”) and Thixoforming LLC (“Thixoforming”). ATC is a leading plastic injection molding company, offering complete, turnkey plastic injection molding capabilities, as well as fully-staffed and equipped in-house molding and tooling for diverse markets, including the medical and dental device, electronic, consumer, and defense industries. Thixoforming is a leading provider of magnesium injection molding, producing complex, high-density injection molding components from magnesium alloys.

On June 25, 2014, we acquired substantially all of the assets of Key Corporation (“Key”) and 411 Munson Holding (“Munson”). Key is a precision metal stamping company that also offers value-added secondary design and production processing. The Key acquisition, along with the purchase of certain real property from Munson used in Key operations, allows ARC to provide its customers with metal stamping applications in order to offer a more holistic solution and improve the speed-to-market.

During 2017, the Company determined two subsidiaries, Tekna Seal and ARC Wireless, LLC, were not essential to core, ongoing growth operations and subsequently divested them. Also, during 2017, the Company decided to divest GF&F and classified the business as held for sale at June 30, 2017. GF&F was sold on September 15, 2017 (see Note 3, Divestitures, of the accompanying Notes to Consolidated Financial Statements in Part II, Item 8, for further information).

Everest Hill Group Inc. (“Everest Hill Group”) has been our major stockholder since 2008. Over its 35 year investment history, Everest Hill Group and its affiliated investment vehicles have invested in over 75 companies, including approximately 40 active portfolio companies. We believe that Everest Hill Group’s successful investment track record and long-term investment horizon provides value to our Company and its shareholders.

Industry Overview

We serve the global manufacturing industry as a provider of holistic prototype development and production solutions. In particular, we manufacture highly-engineered, precision components for OEMs in the medical and dental device, defense and firearm, automotive, aerospace, and defense industries, among others. While our manufacturing technologies continue to gain market acceptance, they currently represent a fractional share of the global manufacturing market.

The global manufacturing industries we compete in are generally highly fragmented, consisting of many privately-held production companies and some publicly traded companies. We believe the industry offers opportunities for consolidation, as many small, privately-held companies lack the financial resources to invest in the emerging technologies that are necessary to remain competitive.

Further, manufacturing technology in our industry has been rapidly evolving, creating improvements in accuracy, complexity, and the development of an increasing variety of feedstock alternatives. We expect these trends to continue, and believe new technologies, including processing capabilities, advanced materials, and additive manufacturing advancements will enable us to create new and more efficient parts and services, thereby providing an excellent opportunity for long-term, future growth.

Table of Contents

Key Industry Trends

The global manufacturing industry is evolving as characterized by a number of key trends, including:

- **On-shoring of Global Manufacturing to the United States and the Developed World.** U.S. manufacturing may capture a growing portion of global manufacturing revenue as technological improvements, lower domestic energy prices, and the equalization of developing country wage disparity reestablishes the United States as a desirable location for select manufacturing operations.
- **Growth Opportunity in Industrial 3D Printing.** The additive manufacturing industry has begun to displace certain traditional manufacturing technologies, and we believe this trend may continue. In particular, the industrial metal 3D printing service sector could outpace growth in the overall additive manufacturing industry given associated cost and production efficiencies, particularly in the aerospace, firearm and defense, and medical and dental industries.
- **Accelerating Pace of New Product Development.** As the landscape for global OEMs becomes increasingly competitive, our OEM customers face increasing pressure to launch both new products and new versions of existing products with greater frequency. In order to meet these objectives, our OEM customers seek to improve and accelerate the supply of highly-engineered, high-quality parts and components, enabling them to increase speed-to-market. These customers are increasingly selecting suppliers on the basis of quality and speed of execution.
- **Demand for Efficient and Consolidated Supply Chain.** The existing supply chain offers opportunities for improvement as OEMs procure parts, components, and sub-assemblies from many suppliers. A large supplier base requires OEM customers to invest substantial time and capital in the coordination and management of their supply chains, with OEMs maintaining large numbers of employees devoted solely to procurement and supply chain management. Additionally, the lead times necessary to fulfill OEM purchase orders often require several weeks-to-months due to the time associated with tooling, testing, manufacturing, and shipping complex parts. Consequently, our OEM customers are seeking solutions that will achieve the following goals:
 - **Reduced Lead Times.** Our OEM customers experience production bottlenecks in the quoting and quick-turn/prototyping phases of the production cycle. In order to reduce overall lead times, our customers are seeking technologically-enabled solutions that eliminate inefficiencies in their procurement process.
 - **Rationalization of Suppliers.** Many of our customers have implemented company-wide initiatives to reduce the complexity of their respective supply chains. In selecting their ongoing supply partners, these customers are seeking industry leaders that offer an established market presence, financial flexibility and stability, the ability to supply multiple parts/components and an established track record of supplying technologically-advanced, highly-engineered parts/components with rapid turnaround times.

Competitive Strengths

We believe our competitive strengths include:

- **Leading Market Position in MIM, with High Barriers to Entry.** We believe we are one of the largest companies in the fragmented global MIM industry. Further, we believe our unique, proprietary production processes, metallurgical expertise, longstanding customer relationships, well-established industry reputation, and track record for quality products and services provide us with a competitive advantage over other market participants. Additionally, we have made a sizeable capital investment in MIM machinery, as well as the software and other complementary services necessary to maintain and grow our business. We believe there are a limited number of other market participants of comparable size and experience, with the vast majority of competitors substantially smaller in size, scale, capabilities, and expertise. We believe that the development of high-quality, commercially scalable MIM production would require any new competitors to invest significant capital and years of research and development before being able to commercially compete with us, thereby resulting in high barriers to entry for any new participants in the industry.

Table of Contents

- **Metal 3D Printing Part Production.** Due to the complementary nature of the MIM process and metal 3D printing, we established our 3DMT Group segment in 2014 to develop and advance our 3D printing operations. Given this early technological adoption and subsequent advancement, we believe we are well-positioned to utilize technologies associated with the emerging industrial metal 3D printing industry. Further, while additive manufacturing is still in its infancy, barriers to entry remain high, principally due to the demands of properly understanding and applying associated technology, as well as scaling and building such a business. Experience working with metal powder and producing complex metal components is critical to making quality, production-capable metal 3D parts. 3D printing services are a relatively new offering for us and currently represents a small portion of our business; however, we believe our experience and ancillary know-how are material competitive advantages to significantly grow this area of our operations during the foreseeable future.
- **Emphasis on Other Advanced Manufacturing Technologies.** In addition to our 3D printing initiatives, we believe our adoption and continued implementation of other advanced manufacturing technologies, such as robotics, RapidMIM, rapid tooling, and instant online quoting, are key competitive advantages in the fragmented market in which we operate. These technologies provide our customers with reduced order turnaround times and customized engineering solutions, while strengthening our customer relationships and enhancing our ability to market a broader and differentiated suite of products. We believe our capital investment and collective experience with these technologies would be difficult to replicate for smaller or limited-product-suite competitors.
- **Differentiated Business Model.** We believe that our business model is highly differentiated from many of our competitors. Historically, we generally manufactured some of the most critical and difficult-to-produce components for our customers' products. As such, we have been able to expand the scope of products we offer to our customers to include other value-added services including 3D printing, plastic injection molding, and rapid tool making, among others. We believe our full-service solution represents a distinct competitive advantage in the marketplace and will increasingly become an even more important value differentiator going forward.
- **Lean Manufacturing Technology and Operating Best Practices.** We manage our manufacturing operation on a decentralized basis, whereby each of our operating subsidiaries is run by a general manager. Our general managers are often recognized experts in lean manufacturing and general operating best practices. We have an orientation process whereby lean-manufacturing leaders groom our rising managers and mentor them on operating efficiency and excellence. These internal best practices are shared among our facilities and implemented when we acquire or initiate new operations.

Business Strategy

Our business strategy focuses on growing revenues through the addition of new customers, organically increasing our "wallet share" from existing customers, developing technology to improve the manufacturing process, and making strategic acquisitions to advance the scope and scale of our product offerings. In order to achieve this, we are implementing the following strategic initiatives:

- Provide Customers with Faster and Higher Quality Solutions. We believe that a key competitive differentiator in our business is utilizing technological solutions to increase customers' speed-to-market. We believe our technology-enhanced service offerings, including metal 3D printing, can reduce lead times and produce greater manufacturing efficiency. We also focus on utilizing our team of engineers and production experts to engage with customers at the design phase of their product development and endeavor to have them adopt our solutions throughout the entire manufacturing process, from prototype through large-scale commercial production, in order to create a more long term partnership.
- Cross-Sell Products and Services Across Our Customer Base. We are able to gain greater access and better serve our customers by cross-selling our full suite of products and services. We believe our customers are interested in new and complementary products and services our Company can offer, while at the same time valuing the simplification of their supply chains. Consequently, we have found cross-selling provides us with a compelling symbiotic strategy for revenue growth, and we plan to continue to capitalize on cross-selling opportunities as we add products and services to our existing capabilities.

Table of Contents

- **Expand Sales Force and Marketing.** We have a highly skilled, technically focused sales force and look to strategically expand our presence in markets and sectors as appropriate. Each ARC sales representative is generally responsible for selling our complete suite of solutions to target customers. Traditional sales methodologies are supported and complemented by our online initiatives, including improving our search engine optimization and other online marketing solutions. Further, we believe that international markets present a compelling growth opportunity for our business, and we have been exploring those opportunities.
- **Increase Market Penetration of 3D Technology.** We believe additive manufacturing, and in particular, metal 3D printing, can create growth opportunities in traditional manufacturing. Over the next several years, metal 3D printing could continue to displace traditional forms of metal fabrication. Given this opportunity, ARC has made, and will continue to make, investments in research and development in order to further develop and expand this capability. At the same time, given their complementary attributes to our MIM business, these metal 3D printing capabilities provide opportunities to further integrate with the Company's traditional fabrication processes.
- **Continue to Pursue Strategic Acquisitions.** We intend to continue to pursue acquisitions that meet our core strategic and financial criteria. In particular, we seek companies that offer complementary products and services to our existing portfolio, while at the same time, provide us with access to new customer bases to cross-sell our existing solutions. We believe there are numerous potential acquisition targets that meet our targeted criteria, and we intend to continue to pursue such acquisitions in the future.

Reporting Segments

See Note 14, Segment Information, of the accompanying Notes to Consolidated Financial Statements in Part II, Item 8, for further information on our segments.

Employees

As of June 30, 2017, our global workforce, excluding contractors, totaled approximately 576 employees. None of our U.S. employees are covered by a collective bargaining agreement. Substantially all of our international employees are members of unions or subject to workers' councils or similar statutory arrangements. Management considers its relations with all of its employees to be in good standing.

Customer Base

Our largest five customers accounted for approximately 45.0% and 42.4% of our 2017 and 2016 revenue, respectively. The concentration of our business with a relatively small number of customers may expose us to a material adverse effect if one or more of these large customers were to experience financial difficulty or were to cease being a customer for non-financial related issues.

Suppliers

We have good working relationships with our suppliers. Given our volume of purchases, we are often able to secure certain volume purchase discounts from our vendors. Each of our manufacturing facilities has a network of local partners that work very closely with us to deliver additional value-added services for manufactured components.

For certain of our raw material and component purchases, including certain polymers, copper rod, copper and aluminum tapes, fine aluminum wire, steel wire, carbon steel, and other components, we are dependent on key suppliers. While we rely upon long-term relationships, we generally do not enter into long-term contracts with our key suppliers. The timely procurement of necessary raw materials is critical to each of our operations. Consequently, poor supply capacity amid tight demand for these materials, as well as natural disasters or accidents, or other events that negatively impact our suppliers, could adversely affect their timely procurement and harm our business.

Table of Contents

Regulation

Our operations are regulated under various federal, state, local and international laws governing the environment, including laws governing the discharge of pollutants into the soil, air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We have infrastructures in place to ensure that our operations are in compliance with all applicable environmental regulations. The costs of compliance with these laws and regulations have not had a material adverse effect on our financial condition, results of operations or competitive position, and we do not believe that they will in the future. The imposition of more stringent standards or requirements under environmental laws or regulations or a determination that we are responsible for the release of hazardous substances at our sites could result in expenditures in excess of amounts currently estimated to be required for such matters. While no material exposures have been identified to date that we are aware of, there can be no assurance that additional environmental matters will not arise in the future or that costs will not be incurred with respect to sites as to which no problem is currently known.

As an exporter, we must comply with various laws and regulations relating to the export of products, services and technology from the U.S. and other countries having jurisdiction over our operations. In the U.S., these laws include, among others, the U.S. Export Administration Regulations (“EAR”) administered by the U.S. Department of Commerce, Bureau of Industry and Security, the International Traffic in Arms Regulations (“ITAR”) administered by the U.S. Department of State, Directorate of Defense Trade Controls, and trade sanctions, regulations and embargoes administered by the U.S. Department of Treasury, Office of Foreign Assets Control. Certain of our products have military or strategic applications and are on the munitions list of the ITAR or represent so-called “dual use” items governed by the EAR. As a result, these products require individual validated licenses in order to be exported to certain jurisdictions. Any failures to comply with these laws and regulations could result in civil or criminal penalties, fines, investigations, adverse publicity and restrictions on our ability to export our products, and repeat failures could carry more significant penalties. Any changes in export regulations may further restrict the export of our products. The length of time required by the licensing processes can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restrictions on the export of our products or product lines could have a material adverse effect on our competitive position, results of operations, cash flows, or financial condition.

Intellectual Property

We actively pursue development of intellectual property. We have registered and applied for the registration of U.S. and international trademarks, service marks, domain names and copyrights. Additionally, we have filed U.S. and international patent applications covering certain of our proprietary technology and processes. However, most of the technology used in our business is unpatented, but is protected by trade secrets and nondisclosure and confidentiality agreements. We are not currently engaged in any intellectual property litigation, nor are there any intellectual property claims pending either by or against us.

Available Information

Our corporate website address is <http://www.arcw.com>. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are filed with the SEC. Such reports and other information filed by ARC with the SEC are available free of charge on our website when such reports are available on the SEC's website. We intend to use our website as a regular means of disclosing material non-public information and for complying with disclosure obligations under Regulation FD promulgated by the SEC. Such disclosures will be included on the website under the heading "News" or "Investor Relations."

We also encourage investors, the media, and others interested in ARC to review the information posted on the Company's Facebook site (<https://www.facebook.com/ArcGroupWorldwide>) and the Company's LinkedIn account (<https://www.linkedin.com/company/arc-group-worldwide-inc->). Any updates to the list of social media channels ARC will use to announce material information will be posted on the "News" or "Investor Relations" page of the Company's website. Accordingly, investors should monitor such portions of our website and social media channels, in addition to following our press releases, SEC filings, public conference calls, and webcasts.

Table of Contents

The public may read and copy any materials filed by ARC with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The information on the websites referred above are not incorporated by reference and are not part of this Report. Further, our references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

In addition to the other information provided in this Report, the following risk factors should be considered when evaluating the results of our operations, future prospects and an investment in shares of our common stock ("Common Stock"). Any of these factors could cause our actual financial results to differ materially from our historical results and could give rise to events that might have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Our Business

The traditional manufacturing, advanced manufacturing, and 3D printing markets in which we compete are highly competitive and some of our competitors may have superior resources. Responding to this competition could reduce our sales and operating margins.

We sell most of our products in highly fragmented and competitive prototyping and production manufacturing and 3D printing markets, including those serviced by traditional and additive manufacturing suppliers. We believe that our principal challenges of competition in these markets are:

- ability to meet customer specifications and quantities within competitive time periods responsive to high customization demands from our customers;
- application expertise and engineering capabilities using novel materials that vary widely according to our customers' requirements;

- product quality and brand name in different industrial manufacturing areas, which may take years to develop;
- timeliness of delivery of raw materials to our plants and finished products to our customers;
- competitive pricing of our products at levels sufficient to attract and retain customers;
- quality of our aftermarket sales and support for customers utilizing our products in widely variable physical and environmental conditions;
- our ability to develop new advanced materials or related capabilities;
- our applied research and development capabilities that rely mainly on individual initiatives and experience of our employees; and
- our 3D printing services, which currently constitute only a small portion of our overall business.

In each of our major traditional manufacturing, advanced manufacturing, and 3D printing product lines, we compete with a substantial number of foreign and domestic companies, some of which have greater resources (financial or otherwise) or lower operating costs than we have. Competitors' actions, such as price reductions or introduction of new innovative products, may have a material adverse impact on our sales and profitability. In addition, the rapid technological changes occurring in the design and engineering industry could lead to the entry of new competitors in traditional manufacturing and 3D printing. We cannot provide assurance that we will continue to compete successfully with our existing competitors or with new competitors.

Table of Contents

Some of our traditional manufacturing, advanced manufacturing and 3D printing competitors are larger than us and have greater financial, technical, marketing, and other resources than we have. These larger competitors may be in a better position to withstand any significant reduction in capital spending by customers in our markets. They may have broader product lines and greater market focus and may not be as susceptible to downturns in a single market. These competitors may also be able to bundle their products together to meet the needs of a particular customer and may be capable of delivering more complete solutions than we are able to provide. To the extent large enterprises that currently do not compete directly with us choose to enter our markets by acquisition or otherwise, competition would likely intensify.

Further, some of our competitors that have greater financial resources have offered, and in the future may offer, their products at lower prices than we offer for our competing products or on more attractive financing or payment terms, which may cause us to lose sales opportunities and the resulting revenue or to reduce our prices in response to that competition. Reductions in prices for any of our products could have a material adverse effect on our operating margins and revenue. In addition, many of our competitors have been in operation longer than we have and, therefore, have more long-standing and established relationships with domestic and foreign customers, making it difficult for us to sell to those customers.

If any of our competitors' traditional manufacturing, advanced manufacturing, and 3D printing products or technologies were to become the industry standard, our business would be seriously harmed. If our competitors are successful in bringing their products to market earlier than us, or if these products are more technologically capable than ours, our revenue could be materially and adversely affected. Our competitors may decide to expand their presence in this market through mergers and acquisitions. The consolidation of our manufacturing and 3D printing competitors could have a significant negative impact on our business.

If we are unable to compete in the traditional manufacturing, advanced manufacturing, and 3D printing sectors at the same level as we have in the past, in any of our markets, or are forced to reduce the prices of our products in order to continue to be competitive, our operating results, financial condition, and cash flows would be materially and adversely affected.

In order to maintain and enhance our traditional manufacturing, advanced manufacturing, and 3D printing competitive position, we intend to continue our investment in technology, marketing, customer service, and support, and distribution networks. We may not have sufficient resources to continue to make these investments, and we may not be able to maintain our competitive position. Our competitors may develop products that are superior to our traditional manufacturing, advanced manufacturing, and 3D printing products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than us to new technologies or evolving customer requirements. We may not be able to compete successfully with our competitors. If we fail to compete successfully, the failure may have a material adverse effect on our business, financial condition, and results of operations.

We rely on a small number of customers for a large percentage of our revenues.

A relatively small number of customers have historically contributed a material percentage of our manufacturing product sales. Our five largest customers accounted for approximately 45.0% of our fiscal year 2017 revenue. Our metal 3D printing operations also rely on a small number of customers. The concentration of our business with a relatively small number of customers may expose us to a material adverse effect if one or more of these large customers were to experience financial difficulty or were to cease being customer for non-financial related issues. Through acquisitions and organic growth, we seek to diversify both our offerings and our customer base. Assuming our continued customer diversification, we do not believe the loss of any one of our core customers would have a long-term material adverse effect on our results of operations. However, there can be no assurance that the loss of any one or more of our core customers would not have a material adverse effect on our results of operations, at least in the short term.

Table of Contents

Due in part to the unpredictability of customer orders, our business is difficult to forecast with accuracy on a quarterly basis and is subject to variability.

Our manufacturing businesses have a high degree of quarterly variability, given the production lifecycle, success of our customers' products, and specific order timing, which is reliant on purchase orders rather than long-term contracts. Thus, depending on the product shipment dates for orders received, our revenue recognized for each quarter may experience variability and may vary significantly from our expectations. These potential quarterly fluctuations could have an adverse effect on our stock price as well as potentially impact our compliance under our agreements with lenders or other providers of credit to the Company.

We face customer pricing pressures.

Our customers are under pressure to reduce pricing on their products amid intense competition and pressure from their own cost-conscious customers. Weak revenue growth leads companies to reduce prices in order to boost sales, which reduces the value of those sales and further affects all participants in the supply chain. Consequently, we also face these pricing pressures. For example, our sales to the medical industry could be adversely affected by hospitals that are subject to smaller reimbursements, rising costs and a rapidly changing health-care system, which could result in hospitals reducing the size of orders and negotiating lower costs for supplies. Such events could result in hospital suppliers lowering prices in order to win business with an ultimate effect on us that would result in fewer component orders and pressure to lower our prices. Such order reductions and pricing adjustments could put pressure on our gross margins, negatively impacting the overall profitability of our businesses. Further, we and our customers also face pricing pressure from global competition, primarily from Asia and other low-cost areas. Our sales could be negatively impacted if customers move production of devices offshore.

Our future success depends on our ability to anticipate and to adapt to technological changes and develop, implement, and market product innovations.

Many of our traditional manufacturing, advanced manufacturing, and 3D printing markets are characterized by fast-moving advances in design and engineering that require ongoing improvements in our production capabilities and the competitive quality of our products. The supply chains in which we operate are subject to technological change and changes in customer requirements. We cannot provide any assurance that we will successfully develop new or modified types of traditional manufacturing, advanced manufacturing, and 3D printing products or technologies that may be required by our customers in the future. Should we not be able to maintain or enhance the competitive values of our traditional manufacturing, advanced manufacturing, and 3D printing products or develop and introduce new products or technologies successfully, or if new products or technologies fail to generate sufficient revenues to offset research and development costs, our businesses, financial condition, and operating results could be materially and adversely affected. We may not be successful in those efforts if, among other things, our traditional manufacturing, advanced manufacturing, and 3D printing products:

- are not cost effective;
- are not brought to market in a timely manner;
- are not in accordance with evolving traditional manufacturing, advanced manufacturing and 3D printing industry standards;
- fail to achieve market acceptance or meet customer requirements; and
- are in advance of the needs of their markets.

We may not fully realize anticipated benefits from past or future acquisitions or equity investments, and future acquisitions may expose us to significant unanticipated liabilities that could adversely affect our business, financial conditions, and results of operations.

We anticipate that a portion of any future growth of our business might be accomplished by acquiring existing traditional manufacturing, advanced manufacturing, and 3D printing businesses, products, or ancillary technologies. The success of any acquisition will depend upon, among other things, our ability to integrate acquired personnel, operations, products,

Table of Contents

and technologies into our organization effectively, to retain and motivate key personnel of acquired businesses and to retain their customers. In addition, we might not be able to identify suitable acquisition opportunities or obtain any necessary financing on acceptable terms. We might also invest time and money investigating and negotiating with a potential acquisition or investment target but not complete the transaction.

Our acquisitions could create unforeseen risks and liabilities that may adversely impact our results and operations. These liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements, legal claims, warranty or similar liabilities to customers, and claims made by vendors. Future acquisitions could also expose us to tax liabilities and other amounts owed by the acquired companies. The incurrence of such unforeseen or unanticipated liabilities, should they be significant, could have a material adverse effect on our business, results of operations, and financial condition.

Although we hope to realize strategic, operational, and financial benefits as a result of our past or future acquisitions and equity investments, we cannot predict whether, and to what extent, such benefits will be achieved. There are significant challenges to integrating an acquired operation into our business, including, but not limited to:

- successfully managing the operations, manufacturing facilities and technology;
- integrating the sales organizations and maintaining and increasing the customer base;
- retaining key employees, customers, suppliers, and distributors;
- integrating management information, inventory, accounting, and research and development activities; and
- addressing operating losses related to individual facilities or product lines.

Any future acquisition could involve other risks, including the assumption of additional liabilities and expenses, issuances of debt, transaction costs, and diversion of management's attention from other business concerns, and such acquisition may be dilutive to our financial results.

A material disruption at any of our manufacturing facilities could adversely affect our ability to generate sales and meet customer demand.

In case of a disruption of our operations at our manufacturing facilities due to significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes, or other reasons, our financial performance could be adversely affected as a result of our inability to meet customer demand for our products. Interruptions in production could increase our cost of sales, harm our reputation, and adversely affect our ability to attract or retain our customers. Our highly automated manufacturing equipment and 3D printers may take longer to repair or replace than conventional manufacturing systems. In addition, some of our equipment may be heavily modified over time with adaptations and customization for specific customers that may make our equipment more susceptible to malfunctions that cannot be easily repaired. In addition, our business continuity plans may not be sufficient to address disruptions attributable to all magnitudes of natural disaster risks at our geographically disparate facilities, such as hurricane risk at our Florida plant, seismic risks at our Colorado facility, and severe winter weather risks at our Colorado, Michigan, Minnesota, Ohio, and Pennsylvania facilities. Any interruption in production capability could require us to make substantial capital expenditures to remedy the situation, which could negatively affect our profitability and financial condition. We maintain property damage insurance, which we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our business, financial condition, and results of operations.

A sustained economic downturn could adversely impact our Company.

Demand for our products and components could be adversely impacted by deterioration in general economic conditions. Furthermore, a recession could result in reduced demand for our traditional manufacturing, advanced manufacturing, and 3D printing products, which would negatively impact revenues. In addition, a significant slowdown in the global economy could reduce overall demand for our products. For example, during periods of sustained economic downturn

Table of Contents

or significant supply/demand imbalances, new vehicle sales may be negatively impacted as consumers shift their purchases to used vehicles, which could result in loss of sales to our customers who supply the automobile manufacturers. The diversified customer base and product applications of our companies may help mitigate the effects of economic fluctuations, however, many of our customers and suppliers are reliant on liquidity from global credit markets and, in some cases, require external financing to purchase products or finance operations. Lack of liquidity or inability to access the credit markets by our customers could adversely affect our ability to collect the outstanding amounts due to us. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, and results of operations.

Product liability lawsuits could harm our business.

We face an inherent risk of exposure to product liability claims. We sell components for medical and dental, aerospace, firearm and defense, automotive, consumer durable, and electronic device industries, any of which may be susceptible to failure that may cause physical injury or death. We may incur significant losses due to lawsuits, including potential class actions, resulting from such adverse events. We may also incur losses from lawsuits relating to the improper use of any of our products and components. In addition, claims or lawsuits related to products that we sell or the unavailability of insurance for product liability claims, could result in the elimination of these products from our product line thus reducing revenues, possibly significantly. Although we maintain production quality controls and procedures, we cannot assure that the products sold will be free from defects. In addition, when manufacturing our products, we also use components manufactured by third parties, which may have defects. We maintain insurance coverage for product liability claims. The insurance policies have limits, however, and may not be sufficient to cover claims made. In addition, this insurance may not continue to be available at a reasonable cost. With respect to components manufactured by third-party suppliers, the contractual indemnification that we may seek from our third-party suppliers may be limited and thus insufficient to cover claims made against us. If insurance coverage or contractual indemnification is insufficient to satisfy product liability claims made against us, the claims could have an adverse effect on our business and financial condition. Even claims without merit could harm our reputation, reduce demand for our products, cause us to incur substantial legal costs and distract the attention of our management. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, and results of operations.

Our operations are subject to environmental, health, and safety regulations.

Our traditional manufacturing, advanced manufacturing, and 3D printing operations are subject to stringent and complex federal, state, local, and European Union laws and regulations, governing environmental protection, health and safety, including the discharge of materials into the environment. These laws and regulations may, among other things:

- require the acquisition of various permits before operations commence or to continue ongoing operations;

- restrict the types, quantities, and concentrations of various substances that may be employed in manufacturing operations;
- restrict the types, quantities, and concentrations of various substances that may be released into the environment or otherwise disposed of; and
- require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to remove contamination from real property, whether or not caused by past or ongoing operations.

The regulatory burden increases the cost of doing business and affects profitability. Additionally, the U.S. Congress and federal and state agencies, as well as the European Union regulatory authorities, frequently revise environmental, health and safety laws and regulations, and any changes that result in more stringent and costly health and safety, pollution control, waste handling, disposal, cleanup, and remediation requirements could have a significant negative impact on our operating costs.

Some of the existing environmental, health and safety laws and regulations to which we are subject include, among others:

- (i) regulations by the Environmental Protection Agency (“EPA”) and various state agencies regarding approved methods of disposal for certain hazardous and nonhazardous wastes;

Table of Contents

- (ii) the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”) and analogous state laws that may require the removal of previously disposed wastes (including wastes disposed of or released by prior owners or operators of real estate), the cleanup of property contamination (including groundwater contamination) and remedial plugging operations to prevent future contamination;
- (iii) the Clean Air Act and comparable state and local requirements, which establish pollution control requirements with respect to air emissions from our operations;
- (iv) the Oil Pollution Act of 1990, which contains numerous requirements relating to the prevention of, and response to, oil spills into waters of the United States;
- (v) the Federal Water Pollution Control Act, or the Clean Water Act, and analogous state laws which impose restrictions and strict controls with respect to the discharge of pollutants, including heavy metals and other substances generated by our operations, into waters of the United States, state waters, or publicly owned treatment works;
- (vi) the Resource Conservation and Recovery Act, which is the principal federal statute governing the treatment, storage and disposal of solid and hazardous wastes, and comparable state statutes;
- (vii) the federal Occupational Safety and Health Act and comparable state statutes, which require worker protection from raw materials, products, and wastes;
- (viii) the federal Toxic Substances Control Act and comparable state and local statutes and regulations requiring that we organize and/or disclose information about hazardous materials stored, used, or produced in our operations; and
- (ix) the Arms Export Control Act of 1976 (“AECA”) and the International Traffic in Arms Regulations promulgated thereunder that govern the export of firearm and defense products controlled by the AECA.

Our Company has incurred in the past, and expects to incur in the future, capital and other expenditures related to environmental compliance. Although we believe our continued compliance with existing requirements will not have a material adverse impact on our financial condition, and results of operations, there is no assurance that the passage of more stringent laws or regulations in the future will not have a negative impact on our financial position or results of operations.

As an owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various U.S. federal, state and local laws, regulations and ordinances, and, in some instances, international laws, relating to the protection of the environment, a current or former owner or operator of real property may be liable for the cost to remove or remediate contamination on, under, or released from such property and for any damage to natural resources resulting from such contamination. Similarly, a generator of waste can be held responsible for contamination resulting from the treatment or disposal of such waste at any off-site location (such as a landfill), regardless of whether the generator arranged for the treatment or disposal of the waste in compliance with applicable laws. Costs associated with liability for removal or remediation of contamination or damage to natural resources could be substantial and liability under these laws may attach without regard to whether the responsible party knew of, or was responsible for, the presence of the contaminants. In addition, the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our properties, or properties for which we are deemed responsible, may expose us to liability for property damage or personal injury, or materially adversely affect our ability to sell our real property interests or to borrow using the real property as collateral. We cannot be sure that we will not be subject to environmental liabilities in the future as a result of historic or current operations that have resulted or will result in contamination. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, and results of operations.

Table of Contents

Any failure to maintain and protect our trademarks, trade names, and technology may affect our operations and financial performance.

The market for many of our products is, in part, dependent upon the goodwill engendered by trademarks and trade names. The failure to protect our trademarks and trade names may have a material adverse effect on our business, financial condition, and results of operations. Litigation may be required to enforce our intellectual property rights, protect our trade secrets, or determine the validity and scope of proprietary rights of others. Any action we take to protect our intellectual property rights could be costly and could absorb significant management time and attention. As a result of any such litigation, we could lose any proprietary rights we have. In addition, it is possible that others will independently develop technology that will compete with our technology. The development of new technologies by competitors that may compete with our technologies could reduce demand for our products and affect our financial performance. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, and results of operations.

If suppliers that we rely on encounter production, quality, financial or other difficulties, we may experience difficulty in meeting customer demands.

We rely on unaffiliated contract manufacturers, both domestically and internationally, to produce certain of our products or key components of our products. If we are unable to arrange for sufficient production capacity among our contract manufacturers or if our contract manufacturers encounter production, quality, financial, or other difficulties, including labor disturbances or geopolitical risks, or if alternative suppliers cannot be identified, we may encounter difficulty in meeting customer demands. We have historically not had any material deficiencies arising from suppliers, however, any such difficulties or deficiencies arising in the future could have an adverse effect on our business, financial results, and results of operations, which could be material. If we do not have sufficient production capacity, either through our internal facilities and/or through suppliers, to meet customer demand for our products, we may experience lost sales opportunities and customer relations problems, which could have a material adverse effect on our business, financial condition, and results of operations.

Our business depends on effective information management systems.

We rely on our enterprise resource planning systems to support such critical business operations as processing sales orders and invoicing, inventory control, purchasing and supply chain management, human resources, and financial reporting. If we are unable to successfully implement major systems initiatives and maintain critical information systems with adequate redundancy and backup resources as well as sufficient levels of security to protect against unauthorized access or damage to our information systems, we could encounter difficulties that could have a material adverse impact on our business, internal controls over financial reporting, or our ability to timely and accurately report our financial results.

Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability.

We receive, process, store, and transmit, often electronically, the confidential data of our customers and others. Unauthorized access to our computer systems or stored data could result in the theft or improper disclosure of confidential information, the deletion or modification of records, or could cause interruptions in our operations. These cyber-security risks increase when we transmit information from one location to another, including transmissions over the Internet or other electronic networks. Despite implemented security measures, our facilities, systems, and procedures, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, software viruses, misplaced or lost data, programming and/or human errors, or other similar events which may disrupt our delivery of services or expose the confidential information of our customers and others. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our customers or others, whether by us or a third party, could: (i) subject us to civil and criminal penalties; (ii) have a negative impact on our reputation; or (iii) expose us to liability to our customers, third parties or government authorities. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

Table of Contents

We have in the past discovered, and may in the future discover, material weaknesses in our internal controls. If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.

Our management and our external auditors noted that we need to improve our information technology and accounting infrastructure. The auditors identified these material weaknesses as “reportable conditions,” which means that these were matters that, in the auditors’ judgment, could adversely affect our ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. In fiscal 2018, we will need to devote significant resources to remediate and improve our internal controls. We cannot be certain that these measures will ensure that we maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our brand and operating results or cause us to fail to meet our reporting obligations. Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our brand and operating results could be harmed. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

If our products, including material purchased from our suppliers, experience quality or performance issues, our business may suffer.

Our business depends on consistently delivering high-quality products. To this end, we and our customers periodically test our products for quality. Nevertheless, many of our products are highly complex and our testing procedures are limited to evaluating likely and foreseeable failure scenarios. Our tests may fail to detect possible failures and our products may fail to perform as expected. Performance issues could result from faulty design or problems in manufacturing. We have experienced such performance failures in the past and remain exposed to performance failures in the future. In some cases, recall of some or all affected products, product redesigns, or additional capital expenditures may be required to correct a defect. In some cases, we indemnify our customers against damages or losses that might arise from certain claims relating to our products. Future claims may have a material adverse effect on our business, financial condition, and results of operations. Any significant or systemic product failure could also result in lost future sales of the affected product and other products, as well as reputational damage.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

Certain of our products are subject to export controls and may be exported only with the required export license or through an export license exception. If we were to fail to comply with export licensing, customs regulations, economic sanctions, and other laws, we could be subject to substantial civil and criminal penalties, including fines for

us and incarceration for responsible employees and managers, and the possible loss of export or import privileges. In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary export license for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, export control laws and economic sanctions prohibit the shipment of certain products to embargoed or sanctioned countries, governments, and persons. While we train our employees to comply with these regulations, a violation may nonetheless occur, whether knowingly or inadvertently. Any such shipment could have negative consequences including government investigations, penalties, fines, civil and criminal sanctions, and reputational harm. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in our decreased ability to export or sell our products to existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products could materially adversely affect our business, financial condition, and results of operations.

Difficulties may be encountered in the realignment of manufacturing capacity and capabilities among our global manufacturing facilities that could adversely affect our ability to meet customer demands for our products.

We may realign manufacturing capacity among our global facilities in order to reduce costs by improving manufacturing efficiency and to strengthen our long-term competitive position. The implementation of these initiatives may include

Table of Contents

significant shifts of production capacity among facilities. There are significant risks inherent in the implementation of these initiatives, including, but not limited to, failing to ensure that: there is adequate inventory on hand or production capacity to meet customer demand while capacity is being shifted among facilities; there is no decrease in product quality as a result of shifting capacity; adequate raw material and other service providers are available to meet the needs at the new production locations; equipment can be successfully removed, transported and re-installed; and adequate supervisory, production and support personnel are available to accommodate the shifted production. In the event that manufacturing realignment initiatives are not successfully implemented, we could experience lost future sales and increased operating costs as well as customer relations problems, which could have a material adverse effect on our business, financial condition, and results of operations.

We may experience significant variability in our quarterly or annual effective income tax rate.

We have a large and complex tax profile in various jurisdictions. Variability in the mix and profitability of domestic and international activities, repatriation of earnings from our foreign subsidiary in Hungary, changes in tax laws, identification and resolution of various tax uncertainties, and the inability to use net operating losses and other carry forwards included in deferred tax assets, among other matters, may significantly impact our effective income tax rate in the future. A significant increase in our quarterly or annual effective income tax rate could have a material adverse impact on our results of operations.

There may be certain environmental and geological liabilities associated with our real estate, including our MIM manufacturing facility in Colorado.

Certain of our subsidiaries own real property at our Colorado facilities. However, our Colorado subsidiaries do not own the mineral rights related to this property as these rights were sold prior to our ownership. In the past, the property has been used for coal, oil, and natural gas extraction. Oil and natural gas extraction is ongoing. As the owner of the real estate, our Colorado subsidiaries and our Company could be strictly liable, jointly and severally, under CERCLA with the mineral rights owner and production well operators for any government mandated remediation of pollution related to the oil and gas production that could have a material adverse effect on our business, notwithstanding that our Colorado subsidiaries did not cause or contribute to the contamination. Coal extraction ceased on the property in 1947, and the mining entities are no longer in business. Consequently, our Colorado subsidiaries and our Company could be strictly liable for government mandated remediation of acid mine seeps or other pollution related to coal mining. As such liabilities are not insured, the payment of such remediation costs could result in an adverse effect on our business or reduced asset value and a reduction in available funds for other corporate purposes.

The Colorado Geological Survey has concluded that there may be a risk of ground subsidence due to the former mining operations on a small portion of our Colorado property where our principal facilities are located. In the event of a subsidence event, certain of our buildings, equipment and inventory which are material to our business could be damaged or rendered unusable. A subsidence event could also result in death, serious bodily harm or injury to our

employees and other persons in the vicinity, as well as materially harm our facilities. In addition, our Colorado subsidiaries and our Company could be liable for possible collateral damage or harm, such as possible release of any hazardous waste into the environment. As such, liabilities are not insured, the payment of any personal injury damages and facility remediation and equipment replacement costs, as well as lost revenues attributable to interruption of our ability to conduct business, could result in a material adverse effect on our business or reduced asset value and reduction in funds available for other corporate purposes.

Semi-volatile organic compounds and chlorinated solvents are present in the soil and groundwater at the facility of GF&F (although such contamination was caused off-site, and not by GF&F). GF&F has an indemnity from its landlord covering environmental liabilities pre-dating GF&F's use of the facility. GF&F does not believe that it has any liability related to the facility, however, in the event of a government-mandated remediation, GF&F and our Company could become jointly and severally strictly liable as an operator of the facility under CERCLA for the costs. As such liabilities are not insured, if for any reason the indemnity covering GF&F by its landlord is not enforceable, the non-indemnified and/or unreimbursed costs of remediation could result in an adverse effect on our business or reduced asset value and reduction in funds available for other corporate purposes.

Table of Contents

Political instability in international markets and interruptions in timely and cost-efficient delivery of raw materials from our overseas suppliers could have a negative effect on our Company.

Significant amounts of raw material purchases by the Company are made from overseas suppliers located in Germany, South Korea, India, United Kingdom, and Japan. Consequently, we may encounter risks associated with these countries and regions. Such risks include political instability, changes in legal regulations relating to trade, export and employment, as well as deterioration in underlying economic conditions.

In particular, domestic policy changes in our overseas suppliers' countries could negatively impact pricing of components purchased from manufacturers in those countries, and any increase in the prices we pay for raw materials could have a negative impact on our margins. Products purchased from our overseas suppliers may also be dependent upon vessel shipping schedules and port availability. In addition, certain of our overseas suppliers may currently operate near capacity, resulting in some of the raw materials we source from them being subject to limitations and there could be restrictions placed on the amount of our orders or timing of deliveries of such materials to us. An inability to secure the raw materials used in the manufacturing of our products or to transport such raw materials in both a cost-effective and timely manner could have a material adverse effect on our operations.

Risks associated with overseas suppliers will also apply to our subsidiary AFT-Hungary, which conducts its manufacturing in Hungary. The AFT-Hungary business is susceptible to the political and legal climate in Hungary and Europe in general. Any instability in those areas could directly and adversely impact the business prospects of the AFT-Hungary business.

Labor unrest could have a material adverse effect on our business, results of operations and financial condition.

While none of our U.S. employees are represented by unions, substantially all of our international employees are members of unions or subject to workers' councils or similar statutory arrangements. In addition, many of our direct and indirect customers and vendors have unionized work forces. Strikes, work stoppages, or slowdowns experienced by these customers or vendors, contract manufacturers or their other suppliers could result in slowdowns. Organizations responsible for shipping our products may also be impacted by strikes. Any interruption in the delivery of our products could reduce demand for our products and could have a material adverse effect on us.

In general, we consider our labor relations with our employees to be in good standing. However, in the future, we may be subject to labor unrest. The inability to reach a new agreement could delay or disrupt our operations in the affected regions, including the acquisition of raw materials and components, the manufacture, sales, and distribution of products and the provision of services. Occurrences of strikes, work stoppages, or lock-outs at our facilities or at the facilities of our vendors or customers could have a material adverse effect on our business, financial condition, and results of operations.

Our future research and development projects may not be successful.

The successful development of our future products can be affected by many factors. Products that appear to be promising at their early phases of research and development may fail to be commercialized for various reasons, including possible failure to obtain any required regulatory approvals. There is no assurance that any of our future research and development projects will be successful or completed within the anticipated time frame or budget or that we will receive the necessary approvals from relevant authorities for the production of these newly developed products, or that these newly developed products will achieve commercial success. Even if such products can be successfully commercialized, they may not achieve the level of market acceptance that we expect.

We have incurred, and will continue to incur, increased costs as a result of operating as a publicly traded company, and our management devotes substantial time to compliance initiatives.

As a publicly traded company, we have incurred, and will continue to incur, additional legal, accounting and other expenses that we did not previously incur prior to becoming a publicly traded company. In addition, the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules of the SEC and The NASDAQ Capital Market, impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to these compliance initiatives as well as investor relations. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more

Table of Contents

time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we have incurred additional costs to maintain such coverage. Furthermore, if we are not able to comply with certain requirements of the Sarbanes-Oxley Act in a timely manner, the market price of our common stock could decline and we could be subject to potential delisting by NASDAQ and review by such exchange, the SEC, or other regulatory authorities, which would require the expenditure by us of additional financial and management resources. As a result, our stockholders could lose confidence in our financial reporting, which would harm our business and the market price of our common stock. If we fail to maintain adequate internal controls or fail to implement required new or improved controls, as such control standards are modified, supplemented, or amended from time to time, we may not be able to assert that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Effective internal controls are necessary for us to produce reliable financial reports. If we cannot produce reliable financial reports, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and there could be a material adverse effect on our stock price.

Increases in the prices of raw materials would have an adverse effect on our profitability.

Our profitability may be materially affected by changes in the market price and availability of certain raw materials, most of which are linked to the commodity markets. The principal raw materials we purchase may become very expensive. Prices for copper, steel, aluminum, and certain polymers, derived from oil and natural gas, have experienced significant volatility as a result of changes in the levels of global demand, supply disruptions, and other factors. As a result, we have adjusted our prices for certain products and may have to adjust prices again in the future. Delays in implementing price increases or a failure to achieve market acceptance of price increases has in the past and could in the future have a material adverse impact on our results of operations. Any significant increase in raw material prices could have a significant adverse effect on our businesses. In particular, metal powders, especially nickel and chrome, are subject to volatile pricing on world commodity markets. Significant increases in prices of metal powders may negatively impact our MIM companies' profitability if those increases cannot be passed along to customers. Decisions made by major mining companies as to increasing or reducing capacities for mining and refinement of these metals could also significantly affect supplies. In addition, pricing and availability of steel and steel scrap in the world market has a large impact on pricing of these products and, thus, impacts both our metal stamping and flange and fittings businesses. Our margins may be adversely subject to price increases by our suppliers that we may not be able to pass along to customers because of competitive decisions by our larger competitors. There is no assurance that we will be able to obtain reasonably priced supply sources in the future.

We are dependent on a limited number of key suppliers for certain raw materials and components.

For certain of our raw material and component purchases, including certain polymers, copper rod, copper and aluminum tapes, fine aluminum wire, steel wire, optical fiber, circuit boards, and other components, we are dependent on a limited number of key suppliers. We have not to date experienced any serious disruptions in deliveries of raw materials from our key suppliers or been unable to obtain materials from alternate suppliers at comparable prices; however, there is a risk that such disruptions could occur in the future at any time and have a material adverse effect on our business. While we rely upon long-term relationships, we generally do not enter into long-term contracts with

our key suppliers. The timely procurement of necessary raw materials is critical to each of our operations. In addition, some raw materials are available only from certain suppliers. Consequently, poor supply capacity amid tight demand for these materials, as well as natural disasters or accidents, or other events that negatively impact our suppliers, could adversely affect their timely procurement. Our key suppliers have in the past and could in the future experience production, operational or financial difficulties, or there may be global shortages of the raw materials or components we use, and our inability to find sources of supply on reasonable terms could have a material adverse effect on our ability to manufacture products in a cost-effective way.

Table of Contents

A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition.

We maintain insurance covering our normal business operations, including property and casualty protection that we believe is adequate. We do not generally carry insurance covering wars, acts of terrorism, earthquakes, or other similar catastrophic events. We may not be able to obtain adequate insurance coverage on financially reasonable terms in the future. A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition. In addition, the financial health of our insurers may deteriorate which could result in non-payment of our claims.

The overall global manufacturing industry, and certain of its sectors in particular, tend to be cyclical and/or seasonal. A downturn or weakness in any particular sector, or in overall economic activity, could have a material adverse effect on our financial condition, and operating results.

Historically, the global manufacturing industry has been subject to cyclical fluctuations. These fluctuations, which have affected different sectors of the market at different times and to different degrees, can result from sector-specific dynamics, such as changes in technology, government regulation, and end-consumer preference, as well as from changes in general economic conditions. The Company derives a significant portion of its revenues from the automotive and firearm sectors of the manufacturing industry. Both sectors have experienced significant volatility in recent years. Cyclical fluctuations in other business sectors in which we operate, such as the automotive sector, which has also seen significant volatility, could also materially adversely affect our financial condition, and results of operations. In addition, seasonality, including the variability of shipments under large contracts, customers' seasonal orders and variations in product mix and in profitability of individual orders, affects many aspects of our business and negative seasonal factors could have a material adverse effect on our financial condition, and results of operations for the entire year. Our quarterly results of operations also may fluctuate based upon other factors, including production life cycles and product maturity.

Significant movements in foreign currency exchange rates may adversely affect our financial results.

Our operating results and financial position could be affected by fluctuations in foreign currency exchange markets. Significant fluctuations in the exchange rate may adversely impact the values of foreign currency-denominated product sales, materials costs, and production costs in factories overseas. In addition, conversion of foreign currency-denominated assets and liabilities, and the foreign currency-denominated financial statements of overseas subsidiaries into U.S. dollar for disclosure may also affect our companies' assets and liabilities, as well as earnings and expenses. In particular, our AFT operations in Hungary could be subject to liabilities and obligations that must be paid in the Hungarian currency of Forints. The value of the forint has been subject to substantial volatility against the U.S. dollar over the past several years. If the forint increases in value against the dollar, the costs of our prospective Hungarian operations may increase and adversely affect the anticipated results expected to be derived from the Hungarian business. In addition, increases and/or decreases in value of other

currencies on which we have predicated our business model may also adversely affect our results of operations.

We may experience problems moving funds out of the countries in which the funds were earned and difficulties in collecting accounts receivable in foreign countries where the usual accounts receivable payment cycle is longer. We may hedge certain currency transactions which might protect us against certain fluctuations in currency value, but such actions might also correspondingly increase our costs of doing business which could adversely affect our competitiveness. There can be no assurance that our risk management strategies will be effective.

We are dependent on the retention of key executives and certain senior operating personnel.

Our success is dependent upon the retention of our experienced executives and certain senior operating personnel. We currently have a small team of senior executives and the loss of our key executives or certain senior operating personnel could have a material adverse effect on our business.

Table of Contents

Any impairment in the value of our intangible assets, including goodwill, could negatively affect our operating results and total capitalization.

Our total assets as of June 30, 2017 reflect net intangible assets of \$19.6 million and goodwill of \$6.4 million. The goodwill results from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge, or if market conditions for businesses acquired declines, we could incur, under current applicable accounting rules, a non-cash charge to operating earnings for impairment of our goodwill or intangible assets. Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually in June of each fiscal year, or more frequently if a triggering event occurs between impairment testing dates. Any determination requiring the write-off of a significant portion of goodwill or unamortized intangible assets could adversely affect our business, financial condition, results of operations and total capitalization, the effect of which could be material.

During the fourth quarter of fiscal 2017, we impaired the goodwill of our ATC and Kecy subsidiaries as these businesses performed below expectations and had a corresponding decline in their future estimated discounted cash flows. We recorded a non-cash impairment charge of \$3.3 million to eliminate the carrying value of goodwill for these entities.

We are subject to the laws and regulations of the United States and many foreign countries.

We are subject to a variety of laws regarding our international operations, including the U.S. Foreign Corrupt Practices Act and regulations issued by U.S. Customs and Border Protection, the U.S. Bureau of Industry and Security, and the regulations of various foreign governmental agencies. We cannot predict the nature, scope or effect of future regulatory requirements to which our international sales and manufacturing operations might be subject or the manner in which existing laws might be administered or interpreted. Future regulations could limit the countries in which we manufacture or sell some of our products, and increase the cost of obtaining products from foreign sources. In addition, actual or alleged violations of these laws could result in enforcement actions and financial penalties that could result in substantial costs. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, and results of operations.

Risks Related to Our Indebtedness

Leverage and debt service obligations may adversely affect us.

As of June 30, 2017, we had approximately \$45.6 million of indebtedness on a consolidated basis. This level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on, or other amounts due with respect to our indebtedness. Our senior credit facility bears interest at floating rates related to LIBOR, Eurodollar Rates, Eurocurrency Rates, Federal Funds Rate, and Prime Rates. As a result, our interest payment obligations on such indebtedness will increase if such interest rates increase. Our leverage could have negative consequences on our financial condition, and results of operations, including:

- impairing our ability to meet one or more of the financial ratios contained in our senior and subordinated credit facilities or to generate cash sufficient to pay interest or principal, including periodic principal payments;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional debt or equity financing;
- requiring the dedication of a portion of our cash flow from operations to service our debt, thereby reducing the amount of our cash flow available for other purposes, including capital expenditures;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete; and

Table of Contents

- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

The credit agreements governing our senior and subordinated credit facilities require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios in certain situations and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we were to default on the credit agreements or other debt instruments, our financial condition would be adversely affected.

If we default on any of the Financial Ratio Covenants required by our Credit Facilities, all of our outstanding loans would become due and payable, which would be materially adverse to our Company.

The terms and conditions of the respective agreements governing the Senior ABL Credit Facility and the Subordinated Loan Agreement (together, our “Credit Facilities”) each contain covenants requiring the Company to maintain certain financial ratios. Non-compliance by the Company with any of the financial ratio covenants would constitute events of default under both of the Credit Facilities pursuant to cross-default provisions and result in acceleration of payment obligations for all outstanding principal and interest for loans made under both of the Credit Facilities, unless such defaults were waived or subject to forbearance by the respective creditors.

Despite current indebtedness levels and restrictive covenants, we and our subsidiaries may incur additional indebtedness or we may pay dividends in the future. This could further exacerbate the risks associated with our substantial financial leverage.

We and our subsidiaries may incur significant additional indebtedness in the future under the agreements governing our indebtedness. Although the credit agreements governing our credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of thresholds, qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be material. Additionally, these restrictions also will not prevent us from incurring obligations that, although preferential to our common stock in terms of payment, may not constitute indebtedness.

In addition, if new debt is added to our Company’s and/or our subsidiaries’ debt levels, the related risks that we now face as a result of our leverage would intensify.

To service our indebtedness, we will require significant amounts of cash, and our ability to generate cash depends on many factors beyond our control.

Our operations are conducted through our subsidiaries. Our ability to make cash payments on and to refinance our indebtedness, to fund planned capital expenditures and to meet other cash requirements will depend on our financial condition and operating performance of our subsidiaries, which are subject to prevailing economic and competitive conditions and to financial, business, legislative, regulatory, and other factors beyond our control. We might not be able to maintain a level of cash flow from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Our business may not generate sufficient cash flow from operations and future borrowings may not be available under our credit facilities in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. In such circumstances, we may need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments, and alliances. Such actions, if necessary, may not be effected on commercially reasonable terms or at all. Our indebtedness will restrict our ability to sell assets and use the proceeds from such sales.

If we are unable to generate sufficient cash flow or are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to

Table of Contents

declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our credit facilities to avoid being in default. If we breach our covenants under our credit facilities and seek waivers, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our credit facilities, and the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

We are dependent upon our lenders for financing to execute our business strategy and meet our liquidity needs. If our lenders are unable to fund borrowings under their credit commitments or we are unable to borrow, it could negatively impact our business.

During periods of volatile credit markets, there is a risk that any lenders, even those with strong balance sheets and sound lending practices, could fail or refuse to honor their legal commitments and obligations under existing credit commitments, including, but not limited to, extending credit up to the maximum permitted by our credit agreement. If our lenders are unable to fund borrowings or we are unable to borrow (such as having insufficient capacity under our borrowing base), it could be difficult in such environments to obtain sufficient liquidity to meet our operational needs.

Our ability to obtain additional capital on commercially reasonable terms may be limited.

Although we believe our cash and cash equivalents as well as cash we expect to generate from operations and availability under our credit facilities provide adequate resources to fund ongoing operating requirements, we may need to seek additional financing to compete effectively. If we are unable to obtain capital on commercially reasonable terms, it could:

- reduce funds available to us for purposes such as working capital, capital expenditures, research and development, strategic acquisitions, and other general corporate purposes;
- restrict our ability to introduce new products or exploit business opportunities;
- increase our vulnerability to economic downturns and competitive pressures in the markets in which we operate; and
- place us at a competitive disadvantage.

Difficult and volatile conditions in the capital, credit, and commodities markets, and in the overall economy, could have a material adverse effect on our financial position, results of operations, and cash flows.

A worsening of global economic conditions, including concerns about sovereign debt and significant volatility in the capital, credit, and commodities markets could have a material adverse effect on our financial position, results of operations, and cash flows. Difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

- in the event of volatility in commodity prices, we may encounter difficulty in achieving sustained market acceptance of past or future price increases, which could have a material adverse effect on our financial position, results of operations and cash flows;
- under difficult market conditions there can be no assurance that borrowings under our credit facilities would be available or sufficient, and in such a case, we may not be able to successfully obtain additional financing on reasonable terms, or at all;
- in order to respond to market conditions, we may need to seek waivers from various provisions in our credit facilities. There can be no assurance that we can obtain such waivers at a reasonable cost, if at all;
- market conditions could cause the counterparties to the derivative financial instruments we may use to hedge our exposure to interest rate, commodity, or currency fluctuations to experience financial difficulties and, as a

Table of Contents

result, our efforts to hedge these exposures could prove unsuccessful and, furthermore, our ability to engage in additional hedging activities may decrease or become more costly; and

- market conditions could result in our key customers experiencing financial difficulties and/or electing to limit spending, which in turn could result in decreased sales and earnings for us.

Risks Related to Ownership of our Common Stock

One holder of our common stock exerts significant influence over our Company and may make decisions with which other stockholders may disagree that could reduce the value of our stock.

Everest Hill Group owns 9,068,122 shares, or 49.9%, of our total 18,171,626 outstanding shares as of June 30, 2017. As a result, Everest Hill Group has the ability to exert significant influence over our business and may make decisions with which other stockholders may disagree, including, among other things, the appointment of officers and directors, changes in our business plan, delaying, discouraging or preventing a change of control of our Company or a potential merger, consolidation, tender offer, takeover or other business combination.

The price of our Common Stock may fluctuate significantly, and investors could lose all or part of their investment.

The market price of our Common Stock has been highly volatile. During the twelve months ended June 30, 2017, the closing price of our common stock fluctuated significantly from a high of \$5.95 to a low of \$2.17 per share. The market price of our common stock may continue to be volatile in the future. Volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price investors paid for such common stock. The market price of our common stock could fluctuate significantly for various reasons, including:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in, or failure to meet, earnings estimates or recommendations by research analysts who track our common stock or the stock of other companies in our industry;

- the failure of research analysts to cover our common stock;
- strategic actions by us, our customers or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- the impact on our profitability temporarily caused by the time lag between when we experience cost increases until these increases flow through cost of sales because of our method of accounting for inventory, or the impact from our inability to pass on such price increases to our customers;
- material litigations or government investigations;
- changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism, or responses to such events;
- changes in key personnel;
- sales of common stock by us, Everest Hill Group, or members of our management team;
- the implementation of our employee stock purchase plan or the granting or exercise of employee stock options;

Table of Contents

- volume of trading in our common stock; and
- the realization of any risks described under this “Risk Factors” section.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a class action lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business.

In addition, volatility or lack of performance in the trading price of our common stock may also affect our ability to attract and retain qualified personnel. If we are unable to retain our employees, our business, financial condition, and results of operations would be harmed.

We do not currently intend to pay dividends on our common stock and, consequently, the ability to achieve a return on your investment in our common stock will depend on appreciation in the price of our common stock. If our common stock does not appreciate in value, investors could suffer losses in their investment in our common stock.

We do not currently expect to pay cash dividends on our common stock. Any future dividend payments are within the absolute discretion of our Board of Directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, contractual restrictions, business opportunities, potential acquisition opportunities, anticipated cash needs, provisions of applicable law, and other factors that our Board of Directors may deem relevant. We may not generate sufficient cash from operations in the future to pay dividends on our common stock. As a result, the success of any investment in our common stock will depend on future appreciation in its value. The price of our common stock may not appreciate in value or even maintain the price at which the shares were purchased. If our common stock does not appreciate in value, investors could suffer losses in their investment in our common stock.

Investors may experience dilution of their ownership interests due to the future issuance of additional shares of our common stock which could be materially adverse to the value of our common stock.

As of the end of the period covered by this Report, we have 18,171,626 shares of our common stock outstanding. We are authorized to issue up to 250,000,000 shares of Common Stock and 2,000,000 shares of preferred stock. We, or our shareholders, including Everest Hill Group, may sell additional shares of common stock in subsequent offerings or

we may issue shares of our common stock as consideration in the future acquisitions. Our Board of Directors may authorize the issuance of additional common or preferred shares under applicable state law without shareholder approval. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for common stock in connection with the hiring of personnel, future acquisitions, future private placements of our securities for capital raising purposes or for other business purposes. If we need to raise additional capital to expand or continue operations, it may be necessary for us to issue additional equity or convertible debt securities. If we issue equity or convertible debt securities, the net tangible book value per share may decrease, the percentage ownership of our current stockholders may be diluted and such equity securities may have rights, preferences, or privileges senior or more advantageous than those of our common stockholders. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Table of Contents

We may issue additional common shares or other securities to finance our growth.

We may finance the development of our products and services or generate additional working capital through additional equity financing. Therefore, subject to the rules of NASDAQ, we may issue additional shares of our common stock and other equity securities of equal or senior rank, with or without stockholder approval, in a number of circumstances from time to time. The issuance by us of shares of our common stock or other equity securities of equal or senior rank will have the following effects:

- the proportionate ownership interest in us held by our existing stockholders will decrease;
- the relative voting strength of each previously outstanding share of common stock may be diminished; and
- the market price of our common stock may decline.

If our shares become subject to the penny stock rules, it would become more difficult to trade our shares.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If we do not retain a listing on NASDAQ and if the price of our shares of common stock is less than \$5.00, our common stock will be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive: (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stockholders may have difficulty selling their shares.

We will be required to meet NASDAQ's continued listing requirements and other NASDAQ rules, or we may risk delisting. Delisting could negatively affect the price of our common stock, which could make it more difficult for us to sell securities in a future financing or for purchasers to sell their common stock.

We are required to meet the continued listing requirements of NASDAQ and other NASDAQ rules, including those regarding minimum stockholders' equity, minimum share price, and certain other corporate governance requirements. In particular, we are required to maintain a minimum bid price for our listed common stock of \$1.00 per share. If we do not meet these continued listing requirements, our common stock could be delisted. Delisting from NASDAQ would cause us to pursue eligibility for trading of these securities on other markets, exchanges, or over-the-counter quotation systems. In such case, our stockholders' ability to trade, or obtain quotations of the market value of, our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices of these securities. There can be no assurance that the offered securities, if delisted from NASDAQ in the future, would be listed on a national securities exchange, a national quotation service, the over-the-counter markets or the pink sheets. Delisting from NASDAQ, or even the issuance of a notice of potential delisting, would also result in negative publicity, make it more difficult for us to raise additional capital, adversely affect the market liquidity of the offered securities, decrease securities analysts' coverage of us or diminish investor, supplier, and employee confidence.

There can be no assurance that we will ever provide liquidity to our investors through a sale of our Company.

While acquisitions of companies like ours are not uncommon, potential investors are cautioned that no assurances can be given that any form of merger, combination, or sale of our Company will take place, or that any merger, combination, or sale, even if consummated, would provide liquidity or a profit for our investors. Investors should not purchase common stock in our Company with the expectation that we will be able to sell the business in order to provide liquidity or a profit for our investors.

Table of Contents

Reports published by analysts, including projections in those reports that exceed our actual results, could adversely affect our common stock price and trading volume.

We currently expect that securities research analysts will publish their own periodic projections for our business. These projections may vary widely and may not accurately predict the results we actually achieve. Our stock price may decline if our actual results do not match the projections of these securities research analysts. Similarly, if one or more of the analysts who write reports on us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our stock price or trading volume could decline. While we expect continued research analyst coverage, if no analysts continue coverage of us, the trading price for our stock and the trading volume could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At June 30, 2017, we operated in the following locations:

| Segment/Entity | Location | Use | Approximate Square Feet |
|-----------------------------------|------------------------|---|-------------------------|
| Precision Components Group | | | |
| FloMet LLC | Deland, Florida | MIM manufacturing and general offices | 40,000 owned |
| Advanced Forming Technology, Inc. | Firestone, Colorado | MIM manufacturing, plastic injection molding, general offices | 105,000 owned |
| AFT-Hungary Kft. | Retsag, Hungary | MIM manufacturing | 70,000 leased |
| Advance Tooling Concepts, LLC | Longmont, Colorado | Specialized tool making | 34,000 leased |
| Thixoforming LLC | Longmont, Colorado | Magnesium injection molding | 23,000 owned |
| 3DMT Group | | | |
| 3D Material Technologies, LLC | Daytona Beach, Florida | Metal 3D printing | 30,000 leased |

Stamping Group

| | | | |
|-------------------------|------------------|--|--------------|
| ARC Metal Stamping, LLC | Hudson, Michigan | Precision metal stamping and general offices | 84,000 owned |
|-------------------------|------------------|--|--------------|

| | | | |
|-------------------------|---------------|--|---------------|
| ARC Metal Stamping, LLC | Wauseon, Ohio | Precision metal stamping and general offices | 94,000 leased |
|-------------------------|---------------|--|---------------|

Flanges and Fittings Group

| | | | |
|----------------------------|---------------------------------|---|---------------|
| General Flange & Forge LLC | Huntington Valley, Pennsylvania | Flanges manufacturing and general offices | 24,000 leased |
|----------------------------|---------------------------------|---|---------------|

We believe that our existing facilities are well-maintained and are sufficient to meet our current and projected needs.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We are not presently a party to any legal proceedings the resolution of which, we believe, would have a material adverse effect on our business, operating results, financial condition, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None

26

Table of Contents

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 10, 2007, our common stock began trading on the NASDAQ Capital Market Exchange under the symbol ARCW. Because trading in our shares is limited, prices can be highly volatile.

The table below represents the high and low sales prices of our common stock on the NASDAQ during each of the quarters in the past two fiscal years.

| | Common Stock | |
|----------------------------------|--------------|---------|
| | High | Low |
| Fiscal Year Ended June 30, 2017: | | |
| First Quarter | \$ 3.83 | \$ 2.17 |
| Second Quarter | 5.95 | 3.50 |
| Third Quarter | 4.97 | 4.00 |
| Fourth Quarter | 4.25 | 2.80 |
| Fiscal Year Ended June 30, 2016: | | |
| First Quarter | \$ 5.41 | \$ 1.65 |
| Second Quarter | 2.35 | 1.51 |
| Third Quarter | 3.50 | 1.05 |
| Fourth Quarter | 2.86 | 1.95 |

Holders of Record

On September 8, 2017, there were 136 stockholders of record of our common stock and the closing price of our common stock was \$2.40 per share as reported on the NASDAQ Capital Market Exchange. Many shares of our common stock are held in street or nominee name by brokers and other institutions on behalf of stockholders; therefore, we are unable to accurately estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have not declared or paid any cash dividends on our common stock since our formation and do not presently anticipate paying any cash dividends on our common stock in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

Securities authorized for issuance under our equity compensation plans as of June 30, 2017 are as follows:

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders | 1,187,580 | \$2.68 | 1,414,687 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 1,187,580 | \$2.68 | 1,414,687 |

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Table of Contents

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company's Board of Directors authorized the repurchase of up to 250,000 shares of the Company's common stock on October 9, 2013. The stock repurchase program does not obligate ARC to acquire any particular amount of stock. This authorization has no expiration date and may be limited or terminated by the Board of Directors at any time without notice. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. There were no repurchases of the Company's shares during the year ended June 30, 2017. As of June 30, 2017, the Company was authorized to repurchase approximately 241,599 shares.

The balance of the information required by Item 201 of Regulation S-K is omitted in accordance with the regulatory relief available to smaller reporting companies.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, the Company is not required to provide information for this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in understanding our business and the results of our operations. It should be read in conjunction with the Consolidated Financial Statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data". Certain statements made in our discussion may be forward-looking. Forward-looking statements involve risks and uncertainties and a number of factors could cause actual results or outcomes to differ materially from our expectations. See "Cautionary Statement Concerning Forward-Looking Statements" at the beginning of this Report for additional discussion of some of these risks and uncertainties. Unless the context requires otherwise, when we refer to "we," "us" and "our," we are describing ARC Group Worldwide, Inc. and its subsidiaries on a consolidated basis.

Overview

ARC Group Worldwide, Inc. is a global advanced manufacturer offering a full suite of products and services to our customers, with specific expertise in metal injection molding ("MIM") and metal 3D printing (also referred to herein as additive manufacturing or "AM"). To further advance and support these core capabilities, the Company also offers

complementary services associated with: (i) precision metal stamping; (ii) traditional and clean room plastic injection molding; and (iii) advanced rapid and conformal tooling. Through our diverse product offering, we provide our customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication. We further differentiate ourselves from our competitors by providing innovative, custom capabilities, which improve high-precision manufacturing efficiency and speed-to-market for our customers.

During fiscal 2017, we sold our non-core subsidiaries, Tekna Seal and ARC Wireless. Separately, we classified GF&F as held for sale as of June 30, 2017, which was subsequently sold on September 15, 2017. The completed and planned divestiture of these non-core businesses, along with the growth in our 3D metal printing business, has changed the way in which we evaluate performance and allocate resources. As a result, during the quarter ended June 30, 2017, we revised our business segments, consistent with our management of the business and internal financial reporting structure. Specifically, the Precision Components Group now includes the results of our plastic injection molding operations and our tooling product line, which were previously included within the 3DMT Group. Results depicted in our 3DMT Group business unit now solely reflect those operations associated with metal 3D printing and associated services. In addition, our precision metal stamping operations are now reported within the newly created Stamping Group, which were previously included in the Precision Components Group.

Table of Contents

Results of Operations for the Fiscal Year Ended June 30, 2017 compared to the Fiscal Year Ended June 30, 2016

The following tables present information about our reportable segments for the respective periods:

| | Year Ended June 30, 2017 | | June 30, 2016 | |
|----------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | Amount (in thousands) | Percent of Total | Amount (in thousands) | Percent of Total |
| Sales: | | | | |
| Precision Components Group | \$ 75,053 | 75.8% | \$ 68,573 | 72.8% |
| Stamping Group | 21,061 | 21.3% | 22,383 | 23.8% |
| 3DMT Group | 2,528 | 2.5% | 1,659 | 1.8% |
| Wireless Group | 427 | 0.4% | 1,509 | 1.6% |
| Total | \$ 99,069 | 100.0% | \$ 94,124 | 100.0% |
| \$ Change | \$ 4,945 | | | |
| % Change | 5.25% | | | |
| Gross Profit: | | | | |
| | Gross Profit | Gross Margin | Gross Profit | Gross Margin |
| Precision Components Group | \$ 7,963 | 10.6% | \$ 13,624 | 19.9% |
| Stamping Group | 1,750 | 8.3% | 2,544 | 11.4% |
| 3DMT Group | 4 | 0.2% | 310 | 18.7% |
| Wireless Group | 105 | 24.6% | 385 | 25.5% |
| Total | \$ 9,822 | 9.9% | \$ 16,863 | 17.9% |
| \$ Change | \$ (7,041) | | | |
| % Change | -41.75% | | | |

Sales

The change in sales by reportable segment was as follows:

- Precision Components Group sales during fiscal year 2017 increased by \$6.5 million, or 9.5%, due to higher MIM sales of \$7.2 million partially offset by lower plastic and tooling sales at ATC of \$0.7 million. MIM sales increased primarily as a result of higher sales to customers in most of the industries we serve.
- Stamping Group sales during fiscal year 2017 decreased by \$1.3 million, or 6.0%, primarily due to fewer new customer product launches, and \$0.4 million related to a wind-generated power disruption, which was insured.

- 3DMT sales during fiscal year 2017 increased by \$0.9 million, or 52.4%, primarily due to higher sales to aerospace and defense customers.
- The Company sold its wireless business effective March 31, 2017.

Gross Profit and Gross Margin

Gross profit is affected by a number of factors including product mix, cost of labor and raw materials, unit volumes, pricing, competition, new products and services as a result of acquisitions and new customer programs, and capacity utilization. In the case of acquisitions and new customer programs, profitability normally lags revenue growth due to product start-up costs, lower manufacturing volumes in the start-up phase, operational inefficiencies, and under-absorbed overhead. Gross margin can improve over time if manufacturing volumes increase, as our utilization rates and overhead absorption improves. As a result of these various factors, our gross margin varies from period to period.

The change in gross profit and gross margin by reportable segment was as follows:

- Precision Components Group gross profit during fiscal year 2017 decreased \$5.7 million, or 41.6%, and gross margin in fiscal year 2017 decreased 9.3%. The Company made a decision in the fourth quarter of fiscal 2017

Table of Contents

to exit products and projects that were low margin or unprofitable, resulting in several one-time charges. These charges were the primary drivers of decreases in gross profit and gross margin during the period. First, the Company incurred non-cash charges of \$3.1 million related to higher inventory reserves for excess and obsolete inventory, including write-offs of inventory deemed to be scrap. In addition, the Company wrote off tools, inventory, and associated parts totaling \$1.9 million. The increase in reserves and write-offs was primarily due to a fourth quarter fiscal 2017 business strategy change related to pricing, returned parts that the Company determined could not be profitably re-worked and sold, and increased reserves for slow moving inventory.

- Stamping Group gross profit during fiscal year 2017 decreased \$0.8 million, or 31.2%, and gross margin in fiscal year 2017 decreased 3.1%. The primary reasons for the decreases in gross profit and gross margin were lower sales, and a wind-generated power disruption at the facility in late fiscal 2017, resulting in decreased utilization of plant and equipment. Results were also impacted, to a lesser extent, by higher labor costs, the result of tightening labor market trends among certain skilled trades.
- 3DMT gross profit during fiscal year 2017 decreased \$0.3 million, and gross margin in fiscal year 2017 decreased 18.5%. 3DMT is transitioning from development to production, which required an increase in leased equipment. Expenses were realized prior to full production ramp up in revenue.
- The Company sold its wireless business effective March 31, 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expense from continuing operations, or SG&A, during fiscal year 2017 totaled \$19.3 million, or 19.4% of sales, compared with \$16.4 million, or 17.4% of sales during the prior year period. The increase in SG&A expense during fiscal year 2017 of \$2.8 million was primarily due to higher labor and labor related costs of \$1.7 million, which includes higher share-based compensation expense of \$0.6 million, severance of \$0.3 million, and allocated costs to research and development of \$0.2 million. Other increases include higher bank fees of \$0.4 million, which includes costs related to debt modifications, and higher travel costs of \$0.2 million.

Goodwill Impairment Charges

During the fourth quarter of fiscal 2017, the Company concluded that goodwill was impaired for its ATC and Keyc subsidiaries as these businesses performed below expectations and had a corresponding decline in their future estimated discounted cash flows. As a result of our analysis, we recorded a non-cash impairment charge of \$3.3 million to eliminate the carrying value of goodwill for these entities. For further discussion of goodwill impairment charges, see Note 6, Goodwill and Intangible Assets, of the accompanying Notes to Consolidated Financial Statements in Part II, Item 8.

Other Income, Net

Other income, net for the year ended June 30, 2017 was \$0.7 million, compared to \$0.2 million in the prior year period. The increase in expense was primarily due to a gain of \$0.4 million related to a reduction in the Key Escrow.

Interest Expense, Net

Interest expense, net during fiscal year 2017 was \$4.0 million, compared to \$4.5 million in the prior year period. The decrease in expense was primarily due to a reduction in the principal balances outstanding under our Senior ABL Credit Facility and our Subordinated Loan Agreement resulting from proceeds from the sale of Tekna Seal in September 2016.

Loss on Extinguishment of Debt

During the first quarter of fiscal 2017, approximately \$0.7 million of unamortized deferred financing costs were expensed as a result of the extinguishment of our First Amended and Restated Credit Agreement.

Table of Contents

Discontinued Operations

In September 2016, the Company sold its subsidiary Tekna Seal LLC pursuant to the terms and conditions of a Membership Interests Purchase Agreement. The sale covered all of the membership interests of Tekna Seal, including 95.7% owned by the Company and 4.3% held by the Tekna Seal minority stakeholders. As a result of this transaction, income from continuing operations for the year ended June 30, 2017 excludes the income from discontinued operations, before tax of \$0.1 million and the gain on disposition of this business, after tax of \$3.7 million.

During the quarter ended June 30, 2017, the Company decided to divest its subsidiary GF&F. The assets and liabilities of this subsidiary are classified as assets and liabilities held for sale in the consolidated balance sheets and as discontinued operations in the consolidated statements of operations. The Company completed the sale of GF&F in September 2017. Income from continuing operations for the year ended June 30, 2017 excludes the income from discontinued operations, before tax, of \$0.5 million.

Income Tax Expense

Income tax benefit from continuing operations was \$2.6 million in the fiscal year ended June 30, 2017, as compared with a benefit of \$0.5 million in the prior year period. The primary reason for the increase in tax benefit from continuing operations was our higher net operating loss in fiscal year 2017, which offset the tax expense recognized in discontinued operations. Our tax provision for each period varies from our pretax income (loss) due to the existence of a deferred tax asset valuation allowance. This circumstance generally results in a zero net tax provision since the income tax expense or benefit that would otherwise be recognized is offset by the change to the valuation allowance. Our fiscal year 2016 tax benefit included the accrual of non-cash tax expense of approximately \$0.4 million in connection with the tax amortization of our indefinite-lived intangible assets that were not available to offset existing deferred tax assets (termed a “naked credit”). As a result of goodwill impairments recognized in fiscal 2017, we no longer have a naked credit, which resulted in a tax benefit of \$0.9 million.

We recognized tax expense of \$1.9 million and \$0.6 million related to discontinued operations in fiscal 2017 and 2016, respectively. The increase in tax expense in fiscal 2017 was primarily due to the gain recognized on the sale of Tekna Seal.

Liquidity and Capital Resources

As of June 30, 2017, we had cash and cash equivalents of \$0.6 million. Cash held in financial institutions outside the United States totaled \$0.6 million and \$1.6 million as of June 30, 2017 and 2016, respectively. Our Hungarian

subsidiary, where these funds are held, is taxed in a similar manner to our domestic subsidiaries. Thus, we would not incur a material tax obligation should we decide to repatriate these funds.

Under our Senior ABL Credit Facility with Citizens Bank, N.A., we will not maintain any cash on hand in our domestic bank accounts by design. Instead, we maintain a \$25.0 million asset-based revolver loan, which includes an automatic cash sweep feature that identifies any cash available in our bank accounts at the end of a banking business day and then applies that cash to reduce our outstanding revolver loan balance. The automatic cash sweep feature serves to decrease our daily interest expense. Disbursements are paid daily from cash being made available under our revolver loan based on a borrowing base calculation.

We anticipate our cash on hand and cash flows from operations will be sufficient to finance our operations for the next twelve months. In order to provide additional liquidity in the future and to help support our strategic goals, we have a \$25.0 million senior secured revolving loan. As of June 30, 2017, \$10.1 million of borrowings were outstanding under the senior secured revolving loan. Any additional borrowings under the senior secured revolving loan are subject to compliance with the terms of our Senior ABL Credit Facility.

Table of Contents

Operating Activities

Cash provided by operating activities decreased \$3.6 million to \$2.9 million for fiscal 2017 as compared to \$6.5 million in fiscal 2016, primarily due to the following:

- Decline in earnings of \$8.0 million, which includes a pre-tax gain of \$5.5 million recognized on the sale of subsidiaries, partially offset by goodwill impairment charges of \$3.3 million and a decrease in deferred income taxes of \$1.0 million, which related to the reduction of our deferred tax liability due to the goodwill impairments recognized in the current year; and
- Increase in cash provided from changes in working capital items of \$6.2 million, primarily due to a decrease in accounts receivable of \$2.6 million, due in part to lower sales in the fourth quarter of fiscal 2017 and better collection efforts; and lower inventory of \$1.1 million as the company reduced inventory due to increased reserves for excess and obsolete and write-offs of inventory deemed to be scrap totaling approximately \$3.1 million.

Investing Activities

Cash provided by investing activities increased \$6.5 million to \$3.9 million for fiscal 2017 as compared to net cash used in investing activities of \$2.6 million in fiscal 2016, primarily due to the following:

- Proceeds received from the sale of our subsidiary of \$10.5 million; and
- Partially offset by cash used to purchase property and equipment of \$6.6 million.

A portion of our capital expenditures were for tools built for internal ownership. Some of these tools were technically complex and were not either functionally or economically viable, which resulted in their write-off during the fourth quarter of fiscal 2017 totaling approximately \$1.1 million.

Financing Activities

Cash used in financing activities increased \$4.9 million to \$9.9 million for fiscal 2017 as compared to \$5.0 million in fiscal 2016, primarily due to the following:

- Higher net principal payments on our long-term debt primarily due to cash received of \$10.5 million from the sale of our subsidiary, partially offset by borrowings;
- Purchase of the non-controlling membership interest in FloMet and payments for the non-controlling interest in connection with the sale of Tekna Seal totaling \$0.7 million; and

- Receipt of \$0.1 million from the issuance of stock through our employee stock purchase plan.

Debt and Credit Arrangements

For a discussion of our long-term debt, see Note 8, Debt, of the accompanying Notes to Consolidated Financial Statements in Part II, Item 8.

The descriptions of the Senior ABL Credit Facility and the Subordinated Loan Agreement (together, our “Credit Facilities”) do not purport to be complete and are subject to, and are qualified in their entirety by, the full text of the respective documents.

Financial Ratio Covenants

The terms and conditions of the Credit Facilities require us to comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios in certain situations and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we were to default on the credit agreements or other debt instruments, our financial condition would be adversely affected.

Non-compliance by us with any of the covenants would constitute events of default under both of the Credit Facilities pursuant to cross-default provisions and could result in acceleration of payment obligations for all outstanding principal

Table of Contents

and interest for loans made under both of the Credit Facilities, unless such defaults were waived or subject to forbearance by the respective creditors.

Senior ABL Credit Facility Financial Ratios. Our Senior ABL Credit Facility contains a financial ratio covenant, summarized as follows:

Fixed Charge Coverage Ratio. We may not permit the Fixed Charge Coverage Ratio, as of the last day of any period of four consecutive fiscal quarters to be less than the greater of (i) the ratio set forth in the table below and (ii) the maximum fixed charge coverage ratio or equivalent ratio permitted under the Subordinated Loan Agreement. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Consolidated EBITDA minus the unfinanced portion of capital expenditures, excluding certain tooling investments, minus expense for taxes paid in cash; to (b) fixed charges, all calculated on a consolidated basis in accordance with GAAP.

| Period Ending | Fixed Charge Coverage Ratio |
|----------------------------------|-----------------------------|
| June 30, 2017 | 0.85:1.00 |
| October 1, 2017 | 0.90:1.00 |
| December 31, 2017 and thereafter | 1.10:1.00 |

The summary calculation of our Senior ABL Credit Facility Fixed Charge Coverage Ratio as of June 30, 2017 is as follows:

| (in thousands, except ratio) | Amount |
|---|-----------|
| Consolidated EBITDA | \$ 8,138 |
| Less unfinanced portion of capital expenditures | (1,543) |
| Less expense for taxes paid in cash | (18) |
| Coverage Amount (a) | \$ 6,577 |
| Fixed Charges (b) | \$ 6,204 |
| Fixed Charge Coverage Ratio (a:b) | 1.06:1.00 |

Subordinated Loan Agreement Financial Ratios. Our Subordinated Loan Agreement contains the following financial ratio covenants, summarized as follows:

Minimum Fixed Charge Coverage Ratio. We may not permit the Minimum Fixed Charge Coverage Ratio, as of the last day of any fiscal quarter ending during any period set forth in the table below, to be less than the ratio set forth opposite such period in the table below. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Consolidated EBITDA minus the unfinanced portion of capital expenditures, excluding tooling, minus expense for taxes paid in cash (other than certain federal and state taxes excluded under the McLarty Second Amendment); to (b) fixed charges, all calculated on a consolidated basis in accordance with GAAP.

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| Period | Fixed Charge Coverage Ratio |
|---|-----------------------------|
| March 27, 2016 through September 24, 2016 | 1.00:1.00 |
| September 25, 2016 through March 25, 2017 | 1.00:1.00 |
| March 26, 2017 through September 23, 2017 | 1.05:1.00 |
| September 24, 2017 through March 24, 2018 | 1.10:1.00 |
| March 25, 2018 through September 29, 2018 | 1.15:1.00 |
| September 30, 2018 and thereafter | 1.20:1.00 |

Table of Contents

The summary calculation of our Subordinated Loan Agreement Fixed Charge Coverage Ratio as of June 30, 2017 is as follows:

| | |
|---|-----------|
| (in thousands, except ratio) | Amount |
| Consolidated EBITDA | \$ 16,461 |
| Less unfinanced portion of capital expenditures | (2,991) |
| Less expense for taxes paid in cash | (18) |
| Coverage Amount (a) | \$ 13,452 |
| Fixed Charges (b) | \$ 6,204 |
| Fixed Charge Coverage Ratio (a:b) | 2.17:1.00 |

Maximum Total Leverage Ratio. We may not have a Total Leverage Ratio, as of the last day of any fiscal quarter ending during any period set forth in the table below, to exceed the ratio set forth opposite such period in the table below. The Total Leverage Ratio means the ratio of (a) our funded indebtedness as of such date, to (b) Consolidated EBITDA for the Test Period ended as of such date.

| | |
|--|----------------------|
| Period | Total Leverage Ratio |
| March 27, 2016 through September 24, 2016 | 5.50:1.00 |
| September 25, 2016 through December 24, 2016 | 5.00:1.00 |
| December 25, 2016 through March 25, 2017 | 4.50:1.00 |
| March 26, 2017 through June 29, 2017 | 4.25:1.00 |
| June 30, 2017 through June 30, 2018 | 4.00:1.00 |
| July 1, 2018 and thereafter | 3.50:1.00 |

The summary calculations of our Subordinated Loan Agreement Total Leverage Ratio as of June 30, 2017 is as follows:

| | |
|------------------------------------|-----------|
| (in thousands, except ratio) | Amount |
| Funded Indebtedness (a) | \$ 48,922 |
| Consolidated EBITDA (b) | \$ 16,461 |
| Maximum Total Leverage Ratio (a:b) | 2.97:1.00 |

Compliance with Financial Ratio Covenants

As of June 30, 2017, we were in compliance with our debt covenants under our Senior Credit Facility and Subordinated Loan Agreement.

GAAP to Non-GAAP Reconciliation

Fixed Charges and Consolidated EBITDA used in our debt covenant calculations are non-GAAP financial measures. We have provided this non-GAAP financial information to aid in better understanding of our financial ratios as used in our debt covenant calculation. The methodology used is defined in our debt agreements. Non-GAAP financial measures are not in accordance with, or an alternative for, GAAP. The non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

Fixed Charges consist of interest payments, principal payments on our debt, and capital lease payments for the prior four quarters. Consolidated EBITDA used in our debt covenant calculations is based on the sum of the prior four quarter actual amounts.

Table of Contents

The reconciliation of GAAP net income to Consolidated EBITDA under our Senior ABL Credit Facility is as follows (in thousands):

| | June 30, 2017 |
|--|------------------|
| For the twelve months ended: | |
| Net loss | \$ (10,173) |
| Share-based compensation | 752 |
| Impairments | 3,302 |
| Inventory write offs | 4,982 |
| Interest expense, net | 4,031 |
| Income taxes | (674) |
| Depreciation and amortization | 9,846 |
| Transaction related expenses (1) | 1,226 |
| Restructuring and severance expenses | 732 |
| Other non-recurring expenses (2) | 237 |
| Other non-recurring income or gains (3) | (132) |
| Pro-forma EBITDA adjustment to exclude discontinued subsidiaries | (5,991) |
| Consolidated EBITDA (4) | \$ 8,138 |

-
- (1) Transaction related expenses relate to legal fees incurred to amend certain debt agreements, loss on extinguishment of debt and charges related to the sale of our non-core subsidiaries.
- (2) Other non-recurring expenses primarily relates to costs incurred to relocate our plastic injection molding operations.
- (3) Other non-recurring income or gains relates to the gain on termination of an operating lease.
- (4) Consolidated EBITDA excludes interest expense, net and income taxes because these items are associated with our capitalization and tax structures. Consolidated EBITDA excludes depreciation and amortization expense because these non-cash expenses reflect the impact of prior capital expenditure decisions which may not be indicative of future capital expenditure requirements. Share-based compensation, transaction related costs, restructuring and severance expenses, non-recurring gains, and pro-forma EBITDA adjustment to exclude discontinued subsidiaries are adjustments made in accordance with our bank debt covenants.

The reconciliation of GAAP net income to Consolidated EBITDA under our Subordinated Loan Agreement is as follows (in thousands):

| | June 30, 2017 |
|--------------------------------------|------------------|
| For the twelve months ended: | |
| Net income | \$ (10,173) |
| Share-based compensation | 752 |
| Impairments | 3,302 |
| Inventory write offs | 4,982 |
| Interest expense, net | 4,031 |
| Income taxes | (674) |
| Depreciation and amortization | 9,846 |
| Transaction related expenses | 1,463 |
| Restructuring and severance expenses | 732 |
| Other non-recurring expenses (1) | 8,323 |

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | |
|--|-----------|
| Other non-recurring income or gains | (132) |
| Pro-forma EBITDA adjustment to exclude discontinued subsidiaries | (5,991) |
| Consolidated EBITDA | \$ 16,461 |

- (1) Other non-recurring expenses relate to certain capitalized tooling costs, an insurance claim for lost production at our Kegy facility, costs incurred to relocate our plastic injection molding operations, and certain projected cost reductions allowed as an adjustment to EBITDA.

Table of Contents

Off Balance Sheet Arrangements

We had no off-balance sheet arrangements that would have a material effect on our financial position, results of operations, or cash flows as of June 30, 2017.

Contractual Obligations and Commitments

We have various contractual obligations impacting our liquidity. The following table represents our contractual payment obligations as of June 30, 2017 (in thousands):

| Contractual Cash Obligations | Total | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
|--------------------------------|-----------|----------|----------|-----------|----------|--------|------------|
| Long-term debt (1) | \$ 45,564 | \$ 1,787 | \$ 1,787 | \$ 41,077 | \$ 913 | \$ — | \$ — |
| Capital lease obligations | 3,602 | 1,581 | 1,373 | 354 | 150 | 48 | 96 |
| Operating lease obligations | 5,139 | 1,846 | 1,679 | 1,106 | 434 | 74 | — |
| Escrow payment obligations (2) | 2,396 | 1,212 | 1,184 | — | — | — | — |
| Total | \$ 56,701 | \$ 6,426 | \$ 6,023 | \$ 42,537 | \$ 1,497 | \$ 122 | \$ 96 |

- (1) For further information, refer to Note 8, Debt, of the Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.
- (2) Escrow payment obligations consist of cash payments due to the sellers of ATC and Keyc, to the extent that the escrow has not been drawn upon. For further information, refer to Note 7, Accrued Escrow Obligations, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

We have unrecognized tax benefits of \$1.0 million at June 30, 2017, recorded as other long-term liabilities. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the above table.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the consolidated financial statements, reported amounts of revenues and expenses during the

reporting period, and related disclosures. Our estimates are evaluated on an ongoing basis and are drawn from historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ under other assumptions or conditions. We believe the following items in our consolidated financial statements require more significant estimates and judgments:

Valuation of Inventories

Inventories are valued at the lower of average cost or market using the first-in, first-out (FIFO) method. It is our practice to provide a valuation allowance for inventories to account for actual market pricing deflation and inventory shrinkage. Management actively reviews this inventory to determine that all materials are for products still in production to determine any potential obsolescence issues. Inventory write-downs, if required, could have a significant impact on the value of our inventories and reported operating results.

Table of Contents

Business Combinations, Valuation of Goodwill, and Other Acquired Intangibles Assets

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

We test goodwill for impairment at least annually or more frequently if events or changes in circumstances would more likely than not reduce the fair value of our reporting units below their carrying values. We determined fair values for each of the reporting units using the income approach. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each business. Actual results may differ from those assumed in our forecasts. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. We evaluate the recoverability of our intangible assets for possible impairment annually or whenever events or circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value.

In addition to the recoverability assessment, we routinely review the remaining estimated useful lives of our finite-lived intangible assets. If we reduce the estimated useful life assumption for any asset, the remaining unamortized balance would be amortized over the revised estimated useful life.

Income Taxes

Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial

Table of Contents

condition and operating results. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

Share-based Compensation

We account for share-based employee compensation under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options, to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award.

Share-based compensation expense is recorded net of estimated forfeitures in our consolidated statements of operations and as such is recorded for only those share-based awards that we expect to vest. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide information for this item.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|---|----|
| <u>Report of Independent Registered Public Accounting Firm</u> | 40 |
| <u>Consolidated Statements of Operations</u> | 41 |
| <u>Consolidated Statements of Comprehensive Loss</u> | 42 |
| <u>Consolidated Balance Sheets</u> | 43 |
| <u>Consolidated Statements of Changes in Stockholders' Equity</u> | 44 |
| <u>Consolidated Statements of Cash Flows</u> | 45 |
| <u>Notes to Consolidated Financial Statements</u> | 46 |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

ARC Group Worldwide, Inc.

We have audited the accompanying consolidated balance sheets of ARC Group Worldwide, Inc. and subsidiaries (the “Company”) as of June 30, 2017 and 2016, and the related statements of operations, comprehensive loss, stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2017 and 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ARC Group Worldwide, Inc. and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 of the consolidated financial statements, the Company adopted Accounting Standards Update 2015-03, resulting in a reclassification of deferred offering costs in the June 30, 2016 balance sheet.

/s/ Hein & Associates LLP

Denver, Colorado

September 26, 2017

Table of Contents

ARC Group Worldwide, Inc.

Consolidated Statements of Operations

(in thousands, except for share and per share amounts)

| | For the year ended June 30, | |
|---|-----------------------------|------------|
| | 2017 | 2016 |
| Sales | \$ 99,069 | \$ 94,124 |
| Cost of sales | 89,247 | 77,261 |
| Gross profit | 9,822 | 16,863 |
| Selling, general and administrative | 19,263 | 16,401 |
| Goodwill impairment charges | 3,303 | — |
| (Loss) income from operations | (12,744) | 462 |
| Other income (expense), net | 670 | 171 |
| Interest expense, net | (4,008) | (4,449) |
| Loss on extinguishment of debt | (723) | — |
| Loss before income taxes | (16,805) | (3,816) |
| Income tax benefit (expense) | 2,631 | 491 |
| Net loss from continuing operations | (14,174) | (3,325) |
| Gain on sale of subsidiary and income (loss) from discontinued operations, net of tax | 4,001 | 1,119 |
| Net loss | (10,173) | (2,206) |
| Net income attributable to non-controlling interest | | |
| Continuing operations | (22) | (58) |
| Discontinued operations | (4) | (50) |
| Net income attributable to non-controlling interest | (26) | (108) |
| Net loss attributable to ARC Group Worldwide, Inc. | \$ (10,199) | \$ (2,314) |
| Net loss per common share, basic and diluted: | | |
| Continuing operations | \$ (0.78) | \$ (0.19) |
| Discontinued operations | \$ 0.22 | \$ 0.06 |
| Attributable to ARC Group Worldwide, Inc. | \$ (0.56) | \$ (0.13) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 18,142,719 | 18,123,883 |

See accompanying notes to consolidated financial statements.

Table of Contents

ARC Group Worldwide, Inc.

Consolidated Statements of Comprehensive Loss

(in thousands)

| | For the year ended June 30, | |
|--|-----------------------------|------------|
| | 2017 | 2016 |
| Net loss | \$ (10,173) | \$ (2,206) |
| Foreign currency translation adjustment, net | 79 | 52 |
| Comprehensive loss | (10,094) | (2,154) |
| Comprehensive income attributable to non-controlling interests | (26) | (108) |
| Comprehensive loss attributable to ARC Group Worldwide, Inc. | \$ (10,120) | \$ (2,262) |

See accompanying notes to consolidated financial statements.

42

Table of Contents

ARC Group Worldwide, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

| | As of June 30, | |
|--|----------------|------------|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 593 | \$ 3,620 |
| Accounts receivable, net | 10,488 | 13,677 |
| Inventories, net | 14,369 | 15,500 |
| Deferred income tax assets | — | 498 |
| Prepaid expenses and other current assets | 3,152 | 3,836 |
| Current assets of discontinued operations | 1,452 | 3,505 |
| Total current assets | 30,054 | 40,636 |
| Property and equipment, net | 41,349 | 41,644 |
| Goodwill | 6,412 | 9,715 |
| Intangible assets, net | 19,624 | 23,066 |
| Other | 291 | 28 |
| Long-term assets of discontinued operations | 1,893 | 5,423 |
| Total assets | \$ 99,623 | \$ 120,512 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,681 | \$ 8,469 |
| Accrued expenses and other current liabilities | 3,273 | 2,458 |
| Deferred revenue | 1,165 | 1,457 |
| Bank borrowings, current portion of long-term debt | 1,701 | 15,648 |
| Capital lease obligations, current portion | 1,470 | 837 |
| Accrued escrow obligations, current portion | 1,212 | 2,842 |
| Current liabilities of discontinued operations | 283 | 989 |
| Total current liabilities | 17,785 | 32,700 |
| Long-term debt, net of current portion | 42,822 | 36,769 |
| Deferred income tax liabilities | — | 803 |
| Capital lease obligations, net of current portion | 1,888 | 1,930 |
| Accrued escrow obligations, net of current portion | 1,184 | 966 |
| Other long-term liabilities | 1,017 | 2,115 |
| Long-term liabilities of discontinued operations | 260 | 686 |
| Total liabilities | 64,956 | 75,969 |
| Commitments and contingencies (Note 13) | | |
| Equity: | | |
| | — | — |

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | | |
|---|-----------|------------|
| Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, \$0.0005 par value, 250,000,000 shares authorized; 18,180,027 shares issued and 18,171,626 shares issued and outstanding at June 30, 2017, and 18,803,910 shares issued and 18,795,509 shares issued and outstanding at June 30, 2016 | 10 | 10 |
| Treasury stock, at cost; 8,401 shares at June 30, 2017 and June 30, 2016 | (94) | (94) |
| Additional paid-in capital | 31,109 | 29,702 |
| Retained earnings | 3,569 | 13,771 |
| Accumulated other comprehensive income (loss) | 73 | (6) |
| Total ARC Group Worldwide, Inc. stockholders' equity | 34,667 | 43,383 |
| Non-controlling interest | — | 1,160 |
| Total equity | 34,667 | 44,543 |
| Total liabilities and equity | \$ 99,623 | \$ 120,512 |

See accompanying notes to consolidated financial statements.

Table of Contents

ARC Group Worldwide, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(in thousands)

For the Years Ended June 30, 2017 and 2016

| | Common Stock | | Treasury Stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Non- controlling interests | Total equity |
|---|--------------|-----------------------------------|----------------|---------------------|----------------------------------|----------------------|---|----------------------------------|-----------------|
| | Shares | Amount (Par value \$0.0005) | Shares | Amount (at cost) | | | | | |
| Balance, June 30, 2015 | 18,539 | 5 | (8) | (94) | 29,751 | 15,931 | (58) | 1,206 | 46,741 |
| Net (loss) income | — | — | — | — | — | (2,314) | — | 108 | (2,206) |
| Purchase of membership interest | — | — | — | — | (195) | 154 | — | (154) | (195) |
| Cancellation of escrow shares | (234) | — | — | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 177 | — | — | — | 177 |
| Shares issued to escrow in connection with previous acquisition | 499 | — | — | — | — | — | — | — | — |
| Offering costs | — | — | — | — | (26) | — | — | — | (26) |
| Currency translation adjustment | — | — | — | — | — | — | 52 | — | 52 |
| Other | — | 5 | — | — | (5) | — | — | — | — |
| Balance, June 30, 2016 | 18,804 | \$ 10 | (8) | \$ (94) | \$ 29,702 | \$ 13,771 | \$ (6) | \$ 1,160 | \$ 44,543 |
| Net (loss) income | — | — | — | — | — | (10,199) | — | 26 | (10,173) |
| Purchase of membership interest | — | — | — | — | 557 | — | — | (793) | (236) |
| Payment of distributions to | — | — | — | — | — | — | — | (393) | (393) |

| | | | | | | | | | |
|--|--------|-------|-----|---------|-----------|----------|-------|------|-----------|
| membership interests | | | | | | | | | |
| Cancellation of escrow shares | (672) | — | — | — | — | — | — | — | — |
| Share-based compensation expense | — | — | — | — | 752 | — | — | — | 752 |
| Shares issued under employee stock purchase plan | 48 | — | — | — | 98 | — | — | — | 98 |
| Currency translation adjustment | — | — | — | — | — | — | 79 | — | 79 |
| Other | — | — | — | — | — | (3) | — | — | (3) |
| Balance, June 30, 2017 | 18,180 | \$ 10 | (8) | \$ (94) | \$ 31,109 | \$ 3,569 | \$ 73 | \$ — | \$ 34,667 |

See accompanying notes to consolidated financial statements.

Table of Contents

ARC Group Worldwide, Inc.

Consolidated Statements of Cash Flows

(in thousands)

| | For the Year Ended June 30, | |
|--|-----------------------------|------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$ (10,173) | \$ (2,206) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,930 | 9,529 |
| Share-based compensation expense | 752 | 177 |
| Loss on disposal of assets | 293 | — |
| Gain on sale of subsidiaries | (5,485) | — |
| Goodwill impairment charges | 3,303 | — |
| Bad debt expense and other | 173 | 98 |
| Deferred income taxes | (407) | 565 |
| Changes in working capital: | | |
| Accounts receivable | 2,597 | 400 |
| Inventory | 1,120 | (1,227) |
| Prepaid expenses and other assets | 480 | (1,621) |
| Accounts payable | 1,068 | 1,708 |
| Accrued expenses and other current liabilities | (509) | (1,423) |
| Deferred revenue | (292) | 466 |
| Net cash provided by operating activities | 2,850 | 6,466 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (6,641) | (2,633) |
| Proceeds from sale of subsidiary and other assets | 10,538 | 8 |
| Net cash provided by (used in) investing activities | 3,897 | (2,625) |
| Cash flows from financing activities: | | |
| Proceeds from debt issuance | 118,124 | 5,543 |
| Repayments of long-term debt and capital lease obligations | (127,468) | (10,542) |
| Payment of distributions to non-controlling membership interests from the sale of subsidiary | (453) | — |
| Purchase of non-controlling membership interests | (235) | — |
| Issuance of common stock under employee stock purchase plan | 98 | — |
| Net cash used in financing activities | (9,934) | (4,999) |
| Effect of exchange rates on cash | 160 | (43) |
| Net decrease in cash | (3,027) | (1,201) |
| Cash, beginning of year | 3,620 | 4,821 |
| Cash, end of year | \$ 593 | \$ 3,620 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 3,303 | \$ 4,058 |

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | | |
|--|----------|--------|
| Cash paid for income taxes, net of refunds | \$ (849) | \$ 599 |
|--|----------|--------|

See accompanying notes to consolidated financial statements.

45

Table of Contents

ARC Group Worldwide, Inc.

Notes to Consolidated Financial Statements

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

ARC Group Worldwide, Inc. (the “Company” or “ARC”) is a global advanced manufacturer offering a full suite of products and services to our customers, with specific expertise in metal injection molding (“MIM”) and metal 3D printing (also referred to herein as additive manufacturing or “AM”). To further advance and support these core capabilities, the Company also offers complementary services associated with: (i) precision metal stamping; (ii) traditional and clean room plastic injection molding; and (iii) advanced rapid and conformal tooling. Through its diverse product offering, the Company provides its customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication. The Company further differentiates itself from its competitors by providing innovative, custom capabilities, which improve high-precision manufacturing efficiency and speed-to-market for its customers.

Basis of Presentation

The Company’s fiscal year begins July 1 and ends June 30, and the quarters for interim reporting consist of thirteen weeks; therefore, the quarter end will not always coincide with the date of the calendar month-end.

Principles of Consolidation

The consolidated financial statements include the amounts of ARC and its controlled subsidiaries. All material intercompany transactions have been eliminated in consolidation.

NOTE 2 – Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Due to the inherent uncertainties in making estimates, actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation.

Concentration of Credit Risk

The Company places its cash with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash. At times, such cash amounts may exceed FDIC limits.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the original invoiced amount due from the Company’s customers less an allowance for any potential uncollectible amounts. ARC controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring processes. In making the determination of the appropriate allowance for doubtful accounts, management considers prior experience with customers, analysis of accounts receivable aging reports, changes in customer payment patterns, and historical write-offs. The allowance for doubtful accounts totaled \$0.1 million and \$0.2

Table of Contents

million as of June 30, 2017 and 2016, respectively. The amounts charged to operations and write-offs were immaterial for the periods presented.

Inventories

Inventories are stated at the lower of average cost using the first-in, first-out (FIFO) method or market. It is the Company's practice to provide a valuation allowance for inventories to account for actual market pricing deflation and inventory shrinkage. Management actively reviews this inventory to determine that all materials are for products still in production to determine any potential obsolescence issues.

Assets and Liabilities Held for Sale and Discontinued Operations

Assets to be disposed of that meet all of the criteria to be classified as held for sale are reported at the lower of their carrying amounts or fair values less cost to sell. Assets are not depreciated while they are classified as held for sale. Assets held for sale that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company's assets are reported in discontinued operations when it is determined that the operations and cash flows of the assets will be eliminated from the Company's ongoing operations and the Company will not have any significant continuing involvement in the operations of the assets after the disposal transaction.

As the divestitures of Tekna Seal LLC and General Flange & Forge LLC represented a strategic shift that had and will have a significant effect on the Company's operations and financial results, the results of operations of these business are presented separately as discontinued operations for the years ended June 30, 2017 and 2016 in accordance with the authoritative guidance.

The divestiture of ARC Wireless, LLC did not represent a strategic shift and is not expected to have a significant effect on the Company's operations or financial results; therefore, the disposal did not meet the criteria to be classified as discontinued operations.

Property and Equipment

Property and equipment are stated at cost or acquisition date fair value less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of the related assets and is allocated between cost of

sales and selling, general and administrative expenses. Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred.

Assets held under capital leases are included in property and equipment and are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the lease term and is recorded in depreciation and amortization expense.

Goodwill, Intangible Assets and Other Long-lived Assets

Goodwill is tested for impairment at least annually in June of each fiscal year, or more frequently if a triggering event occurs between impairment testing dates, and the Company is required to record any necessary impairment adjustments.

During the fourth quarter of 2017, we performed our annual impairment test of goodwill for all of our reporting units. The Company determined fair values for each of the reporting units using a discounted cash flow methodology. Based on the results of our testing, the carrying values of certain reporting units exceeded their fair values and goodwill was impaired by \$3.3 million (see Note 6, Goodwill and Intangible Assets, for more information). There were no other indicators of impairment for the Company's remaining reporting units.

Table of Contents

Intangible assets (identified as patents, tradenames, customer relationships, and non-compete agreements) are recorded at fair value at the time of acquisition. Finite-lived intangibles are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method, which approximates the expected pattern of economic benefit, over the estimated lives of the assets.

The Company reviews the carrying value of its finite-lived intangible and long-lived tangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. Factors that would require an impairment assessment include, among other things, a significant change in the extent or manner in which an asset is used, a continual decline in the Company's operating performance, or as a result of fundamental changes in a subsidiary's business condition.

Recoverability of long-lived assets is measured by comparing their carrying amount to the projected undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the finite-lived intangible assets exceeds fair value. There were no impairments of finite-lived intangible or long-lived assets during the years ended June 30, 2017 or 2016.

Non-Controlling Interest

During the first quarter of fiscal 2016, the Company purchased approximately 1.9% of the outstanding non-controlling membership interests of Tekna Seal LLC. On September 30, 2016, the Company sold Tekna Seal LLC, which included 95.7% owned by the Company and 4.3% held by minority stakeholders (see Note 3, Divestitures, for more information). Effective October 3, 2016, the Company purchased 3.8% of the outstanding non-controlling membership interests of FloMet LLC, increasing the Company's ownership to 100%. As a result of these transactions, there is no non-controlling interest on the consolidated balance sheet as of June 30, 2017. The Company has recognized the carrying value of the non-controlling interests as a component of equity for the applicable periods presented.

In connection with the purchase of the outstanding non-controlling membership interests of FloMet LLC, we entered into a Consent and Agreement with the seller that provides that if there is any sale of FloMet LLC within three years from October 3, 2016, and if such sale price is higher than the sale of the interests by the Seller, the Seller shall receive a proportionate gross-up payment reflecting such higher price.

Accrued Expenses

As of June 30, 2017 and 2016, accrued expenses that exceeded 5% of current liabilities consisted of approximately \$1.9 million and \$1.4 million, respectively, of payroll related costs.

Fair Value Measurements

The carrying value of the Company's accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these items. The carrying value of the Company's debt outstanding approximates fair value as interest rates on these instruments approximate current market rates.

Deferred Revenue

Deferred revenue consists of customer deposits for the development of molds used in the manufacturing process. As of June 30, 2017 and 2016, deferred revenue was \$1.2 million and \$1.5 million, respectively. The Company recognizes revenue and the related expenses when the customer approves the mold for production. Accordingly, as of June 30, 2017 and 2016, the Company has incurred costs of \$1.2 million and \$1.0 million, respectively, related to molds in the process of being developed which have been deferred and are included as part of the total current assets on the accompanying balance sheets.

Table of Contents

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable net of sales tax, trade discounts and customer returns. The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to the customer in accordance with the contract or purchase order, ownership and risk of loss have passed to the customer, collectability is reasonably assured, and pricing is fixed and determinable. In instances where title does not pass to the customer upon shipment, the Company recognizes revenue upon delivery or customer acceptance, depending on terms of the sales agreement. Service sales, representing maintenance and engineering activities, are recognized as services are performed. Products are generally shipped free-on-board from our facilities, the customer pays freight costs and assumes all liability.

Research and Development Costs

Research and development costs are expensed as incurred. The majority of these expenditures consist of salaries for engineering and manufacturing personnel and outside services. For the years ended June 30, 2017 and 2016, the Company incurred \$0.5 million and \$0.3 million, respectively, for research and development, which is included in selling, general and administrative expenses on the accompanying statements of operations. The Company is generally compensated by customers for items related to process and material development, thereby reducing our research and development costs.

Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method of computing income taxes. The objective of this method is to establish deferred tax assets and liabilities for any temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

The Company also provides for the accounting for uncertainty in income taxes recognized in financial statements and the impact of a tax position in the financial statements if that position is more likely than not of being sustained by the taxing authority.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. Interest and penalties related to uncertain tax positions of \$0.1 million were recognized during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, accrued interest and penalties were \$0.4 million and \$0.3 million, respectively.

In general, the tax returns for the years ending June 30, 2014 through 2017 are open to examination by federal and state authorities. Tax years 2003 and forward are open for certain of the Company's subsidiaries due to the carryforward of unutilized net operating losses.

Foreign Currency

The financial position and results of operations of AFT-Hungary Kft. (“AFT-Hungary”), a wholly owned subsidiary of the Company, are measured using the Euro. Accordingly, all assets and liabilities of AFT-Hungary are translated into U.S. dollars at the currency exchange rates as of the respective balance sheet dates. Revenue and expense items are translated at the average exchange rates prevailing during the period. Resulting translation adjustments, net of applicable deferred income taxes, are recorded in accumulated other comprehensive income. Foreign currency transaction gains and losses are included in other income (expense), net in our consolidated statements of operations. Such gains and losses were not material for any period presented.

Accounting Pronouncements Adopted in the Current Period

In November 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). This update requires an entity to classify deferred tax assets and

Table of Contents

liabilities as non-current within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, but early adoption is permitted. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company adopted the provisions of ASU 2015-17 on a prospective basis as of July 1, 2016; therefore, the prior period was not retrospectively adjusted. The adoption of ASU 2015-17 did not have an impact on our consolidated results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835, Interest - Imputation of Interest (“ASU 2015-03”). ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015.

The Company adopted the provisions of ASU 2015-03 on July 1, 2016, which required retroactive application and represented a change in accounting principle. The deferred financing costs of approximately \$1.3 million associated with a portion of our outstanding debt, which were previously included in prepaid expenses and other current assets and other assets on the consolidated balance sheet as of June 30, 2016, are reflected as a reduction to the carrying liability of the Company’s outstanding debt. As a result of this change in accounting principle, the consolidated balance sheet as of June 30, 2016 was adjusted as follows (in thousands):

| | June 30, 2016 | | |
|--|---------------|--|-------------|
| | Previously | Effect of Adoption of Accounting Principle | As Adjusted |
| | Reported | | |
| Assets: | | | |
| Prepaid expenses and other current assets | \$ 4,378 | \$ (429) | \$ 3,949 |
| Other assets | \$ 948 | \$ (920) | \$ 28 |
| Total assets | \$ 121,798 | \$ (1,349) | \$ 120,449 |
| Liabilities: | | | |
| Bank borrowings, current portion of long-term debt | \$ 15,909 | \$ (261) | \$ 15,648 |
| Long-term debt, net of current portion | \$ 37,857 | \$ (1,088) | \$ 36,769 |
| Total liabilities | \$ 77,255 | \$ (1,349) | \$ 75,906 |

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”), that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the financial statements are issued or available to be issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company’s ability to continue as a going concern. ASU 2014-15 is effective for all entities for the annual period ending after December 15, 2016, and for annual and interim periods thereafter, with early adoption permitted. The Company adopted ASU 2014-15 as of June 30, 2017, and its adoption did not have any significant impact on the Company’s financial statements.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses Topic 326 (“ASU 2016-13”), which requires entities to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within that year. Early adoption is permitted. The adoption of ASU 2016-03 is not expected to have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases: Topic 842 (“ASU 2016-02”), to supersede nearly all existing lease guidance under GAAP. ASU 2016-02 requires the recognition of lease assets and lease liabilities on the

Table of Contents

balance sheet by lessees for those leases currently classified as operating leases. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its consolidated financial position, results of operations and cash flows; however, the Company's current operating lease commitments are disclosed in Note 13, Commitments and Contingencies.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is 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 for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 which defers the effective date for one year beyond the originally specified effective date. ASU 2014-09 is effective in the Company's first quarter of fiscal 2019 and may transition to the standard using either the full retrospective approach or retrospectively with a cumulative effect of initially applying the amendments recognized at the date of initial application. The Company has completed its initial assessment of the effect of adoption. Based on this initial assessment, the majority of the Company's revenues will not be affected upon adoption. The Company is still analyzing the disclosure requirements of this new standard.

NOTE 3 – Divestitures

General Flange & Forge LLC ("GF&F")

During the quarter ended June 30, 2017, the Company decided to divest its flanges and fittings operations, which comprises the Flanges and Fittings segment. The assets and liabilities of the segment are classified as assets and liabilities held for sale in the consolidated balance sheets and the operations are classified as discontinued operations in the consolidated statements of operations.

The operating results of GF&F classified as discontinued operations are summarized below (in thousands):

For the year ended

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | June 30, 2017 | June 30, 2016 |
|--|------------------|------------------|
| Sales | \$ 4,782 | \$ 4,757 |
| Cost of sales | (3,619) | (3,480) |
| Gross profit | 1,163 | 1,277 |
| Selling, general and administrative | (671) | (764) |
| Income from discontinued operations, before income taxes | 492 | 513 |
| Income tax expense on discontinued operations | (168) | (172) |
| Income from discontinued operations, net of tax | \$ 324 | \$ 341 |

51

Table of Contents

The following table presents the carrying amount as of June 30, 2017 and 2016, of GF&F's major classes of assets and liabilities held for sale in the consolidated balance sheets (in thousands):

| | June 30, 2017 | June 30, 2016 |
|--|------------------|------------------|
| Current assets: | | |
| Accounts receivable, net | \$ 687 | \$ 509 |
| Inventories, net | 717 | 1,085 |
| Prepaid expenses and other current assets | 48 | 67 |
| Total current assets | 1,452 | 1,661 |
| Property and equipment, net | 181 | 184 |
| Goodwill | 1,712 | 1,712 |
| Total assets of discontinued operations | \$ 3,345 | \$ 3,557 |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 283 | \$ 266 |
| Total current liabilities | 283 | 266 |
| Other long-term liabilities | 260 | 225 |
| Total liabilities of discontinued operations | \$ 543 | \$ 491 |

On September 15, 2017, the Company sold substantially all of the assets of GF&F to GFFC Holdings, LLC ("GFFC") for \$3.0 million. GFFC is owned in part by Quadrant Management Inc., which is an affiliate of the Company. The sale of GF&F is therefore a related party transaction. The GF&F sale was made pursuant to an industry-wide auction undertaken on behalf of the Company by a registered investment banking organization that managed the sale process with prospective bidders. GFFC entered into the bidding for the GF&F assets only after the first rounds of the auction indicated uncertainty both in respect to the timing for closing any prospective sale and achieving the Company's valuation objectives. Mr. Alan Quasha, CEO of Quadrant and Chairman of the Company's Board of Directors, recused himself from any deliberations or voting by the Board of Directors in respect of the sale of the GF&F assets to GFFC. The Board of Directors appointed a special committee consisting solely of independent directors to oversee and negotiate the sale process. The special committee engaged its own independent legal counsel to advise the special committee in respect of the drafting of the asset sale agreement and ancillary transaction documents in accordance with customary terms and conditions for transactions of this type. In this manner, the special committee was able to conclude that the sale price and the terms and conditions for the transaction were superior to any other offers, as well as fair and reasonable to the Company and its shareholders.

Tekna Seal LLC

On September 30, 2016, the Company sold its non-core subsidiary, Tekna Seal LLC ("Tekna Seal"), to Winchester Electronics Corporation ("Winchester") pursuant to a Membership Interests Purchase Agreement for \$10.5 million in cash. The sale to Winchester covered all of the membership interests of Tekna Seal, including 95.7% owned by the Company and 4.3% held by the Tekna Seal minority stakeholders. The proceeds of the sale, after giving effect to any working capital adjustments, were allocated among the Company and the minority sellers proportionate to their respective ownership of pre-closing membership interests. The Company used the net cash proceeds of the sale to

repay principal outstanding under the Company's revolving loan. During the second quarter of 2017, the Company finalized the working capital adjustments with Winchester and paid the former minority stakeholders.

Table of Contents

Below is a summary of the gain on sale of discontinued operations (in thousands):

| | |
|--|-----------|
| Gross proceeds | \$ 10,538 |
| Less: | |
| Property and equipment, net | 218 |
| Accounts receivable | 918 |
| Inventory | 1,268 |
| Other current assets | 54 |
| Accounts payable and accrued expenses | (936) |
| Working capital adjustment | (184) |
| Total net assets disposed | 1,338 |
| Goodwill | 3,374 |
| Transaction costs | 393 |
| Minority interests | (393) |
| Payments to minority stakeholders | 452 |
| Gain on sale of discontinued operations, before income taxes | \$ 5,374 |

In connection with the sale, the Company recorded a pre-tax gain of approximately \$5.4 million, which includes a non-cash charge of \$3.4 million related to goodwill associated with Tekna Seal, and transaction costs of approximately \$0.4 million. The income from operations of Tekna Seal attributable to the Company was approximately \$0.1 million and \$1.1 million for the years ended June 30, 2017 and 2016, respectively.

The consolidated statements of operations for the year ended June 30, 2017 include the results of operations of Tekna Seal through the sale date of September 30, 2016 and the gain on the sale of Tekna Seal. Financial information for discontinued operations for the years ended June 30, 2017 and 2016 is as follows (in thousands):

| | For the year ended | |
|--|--------------------|------------------|
| | June 30, 2017 | June 30, 2016 |
| Sales | \$ 1,277 | \$ 4,959 |
| Cost of sales | (943) | (2,935) |
| Gross profit | 334 | 2,024 |
| Selling, general and administrative | (242) | (846) |
| Income from discontinued operations, before income taxes | 92 | 1,178 |
| Gain on sale of discontinued operations | 5,374 | — |
| Total income from discontinued operations, before income taxes | 5,466 | 1,178 |
| Income tax expense on discontinued operations | (1,789) | (400) |
| Income from discontinued operations, net of tax | \$ 3,677 | \$ 778 |

Table of Contents

The following table presents the carrying amount as of June 30, 2016, of Tekna Seal's major classes of assets and liabilities held for sale in the consolidated balance sheet (in thousands):

| | June 30, 2016 |
|--|------------------|
| Current assets: | |
| Accounts receivable, net | \$ 727 |
| Inventories, net | 1,028 |
| Prepaid expenses and other current assets | 89 |
| Total current assets | 1,844 |
| Property and equipment, net | 153 |
| Goodwill | 3,374 |
| Total assets of discontinued operations | \$ 5,371 |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 714 |
| Capital lease obligations | 9 |
| Total current liabilities | 723 |
| Capital lease obligations | 19 |
| Other long-term liabilities | 442 |
| Total liabilities of discontinued operations | \$ 1,184 |

Cash flows from Tekna Seal for the years ended June 30, 2017 and 2016 are combined with the cash flows from operations within each of the categories presented on the consolidated statements of cash flows. There were no significant operating or investing activities from discontinued operations during the years ended June 30, 2017 and 2016.

ARC Wireless, LLC

On March 31, 2017, the Company divested its wireless business and sold the majority of its assets. The proceeds and related gain were immaterial.

NOTE 4 – Inventory

Inventories consisted of the following (in thousands):

| | June 30, 2017 | June 30, 2016 |
|----------------------------|------------------|------------------|
| Raw materials and supplies | \$ 5,357 | \$ 6,299 |
| Work-in-process | 7,767 | 7,505 |
| Finished goods | 4,113 | 4,664 |
| | 17,237 | 18,468 |

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | | |
|--------------------------------------|-----------|-----------|
| Reserve for obsolescence | (2,151) | (855) |
| Inventory of discontinued operations | (717) | (2,113) |
| | \$ 14,369 | \$ 15,500 |

During the fourth quarter of fiscal year 2017, the Company increased its inventory reserves for excess and obsolete inventory due to a change in business strategy related to the Company's pricing structure, returned parts that the Company determined could not be profitably re-worked and sold, and increased reserves for slow moving inventory as a result of lower forecasted demand from certain customers, primarily related to firearms industry.

Table of Contents

NOTE 5 – Property and Equipment

Property and equipment consisted of the following (in thousands):

| | Depreciable Life (in years) | June 30, 2017 | June 30, 2016 |
|---|-----------------------------------|------------------|------------------|
| Land | — | \$ 1,264 | \$ 1,264 |
| Building and improvements | 7 - 40 | 18,125 | 17,460 |
| Machinery and equipment | 3 - 12 | 40,715 | 39,350 |
| Office furniture and equipment | 3 - 10 | 1,280 | 1,050 |
| Construction-in-process | — | 2,462 | 1,838 |
| Assets acquired under capital lease | | 7,235 | 5,482 |
| | | 71,081 | 66,444 |
| Accumulated depreciation | | (27,201) | (23,018) |
| Accumulated amortization on capital leases | | (2,350) | (1,445) |
| Property and equipment of discontinued operations | | (181) | (337) |
| | | \$ 41,349 | \$ 41,644 |

Depreciation expense totaled \$6.6 million and \$6.2 million in the years ended June 30, 2017 and 2016, respectively.

In June 2016, the Company entered into an agreement to purchase two 3D printers valued at \$2.2 million. As of June 30, 2016, the Company received one 3D printer valued at \$0.6 million, which was included in machinery and equipment, and made payments totaling \$1.1 million on the second 3D printer, which was included in construction-in-process. Also in June 2016, the Company entered into a Master Lease Agreement with Citizens Asset Finance, Inc. for \$1.7 million of secured financing related to these 3D printers. As of June 30, 2016, the Company had received approximately \$1.5 million in cash advances under this financing agreement. The lease commenced upon receipt of the second 3D printer, which was in the first quarter of fiscal year 2017.

NOTE 6 – Goodwill and Intangible Assets

The following table summarizes the activity in the Company's goodwill account by segment during the years ended 2017 and 2016 (in thousands):

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | Precision Components Group | 3DMT Group | Flanges and Fittings Group | Consolidated |
|------------------------|----------------------------------|---------------|-------------------------------------|--------------|
| Balance, June 30, 2015 | \$ 10,285 | \$ 2,804 | \$ 1,712 | \$ 14,801 |
| Held for sale | (3,374) | — | (1,712) | (5,086) |
| Balance, June 30, 2016 | 6,911 | 2,804 | — | 9,715 |
| Adjustments (1) | 2,804 | (2,804) | — | — |
| Impairments (2) | (3,303) | — | — | (3,303) |
| Balance, June 30, 2017 | \$ 6,412 | \$ — | \$ — | \$ 6,412 |

-
- (1) During the fiscal fourth quarter of 2017, the Company revised its business segments, which resulted in transferring the goodwill related to its ATC subsidiary from the 3DMT Group to the Precision Components Group.
- (2) The Company reviewed its future projections during the fourth quarter of 2017. By utilization of a discounted cash flow analysis, which takes into account projected revenues and expenses, the Company determined that the goodwill of ATC and Kegy were impaired, resulting in a charge of \$3.3 million.

Table of Contents

The following table summarizes the Company's intangible assets as follows (in thousands):

| | As of June 30, 2017 | | | As of June 30, 2016 | | |
|------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets: | | | | | | |
| Patents and tradenames | \$ 3,418 | (717) | \$ 2,701 | \$ 3,773 | \$ (766) | \$ 3,007 |
| Customer relationships | 24,077 | (8,429) | 15,648 | 24,077 | (6,021) | 18,056 |
| Non-compete agreements | 3,642 | (2,367) | 1,275 | 3,642 | (1,639) | 2,003 |
| Total | \$ 31,137 | \$ (11,513) | \$ 19,624 | \$ 31,492 | \$ (8,426) | \$ 23,066 |

Intangible assets are amortized over estimated useful lives ranging from five to fifteen years. Amortization expense totaled \$3.4 million for other identifiable intangible assets for the years ended June 30, 2017 and 2016. Estimated future amortization expense for the next five years as of June 30, 2017, is as follows (in thousands):

| Fiscal Years | Amount |
|--------------|-----------|
| 2018 | \$ 3,364 |
| 2019 | 3,182 |
| 2020 | 2,636 |
| 2021 | 2,636 |
| 2022 | 2,636 |
| Thereafter | 5,170 |
| Total | \$ 19,624 |

NOTE 7 – Accrued Escrow Obligations

On April 7, 2014, the Company acquired the membership interests of Advance Tooling Concepts, LLC (“ATC”) for approximately \$24.3 million, of which: (i) \$21.9 million was paid in cash and (ii) \$2.4 million, consisting of 233,788 newly issued shares of common stock of the Company, was to be held in escrow for a period of 12 months (“ATC Escrow”) to satisfy certain working capital adjustments and/or indemnification obligations. In July 2014, the ATC Escrow was reduced by \$0.7 million following the completion of a working capital adjustment. In October 2015, the Company entered into an agreement to settle and terminate the ATC Escrow in cash. The cash settlement is accrued in current and long-term liabilities. The ATC Escrow shares were returned to the Company and retired in February 2016.

On June 25, 2014, the Company acquired substantially all of the assets of Keczy Corporation (“Keczy”) and 411 Munson Holding, LLC for approximately \$26.8 million, of which: (i) \$24.2 million was paid in cash; and (ii) \$2.6 million, consisting of 172,450 newly issued shares of common stock of the Company, was to be held in escrow for a period of 18 months (“Keczy Escrow”) to satisfy certain working capital adjustments and/or indemnification obligations. In August 2015, and in connection with the decline in the Company’s stock price since the date of acquisition, the Company issued 499,176 additional shares for security of the escrow. In December 2016, the Company entered into an agreement to settle and terminate the Keczy Escrow for \$2.2 million. The cash settlement is accrued in current and long-term liabilities. The Keczy Escrow shares were returned to the Company and retired in February 2017.

Table of Contents

NOTE 8 – Debt

Long-term debt payable consists of the following (in thousands):

| | Balance as of | |
|---|------------------|------------------|
| | June 30, 2017 | June 30, 2016 |
| Senior secured revolving loan | \$ 10,071 | \$ 7,560 |
| Senior secured mortgage-based term loans | 20,493 | 4,449 |
| Senior secured term loan | — | 16,248 |
| Senior secured delayed draw term loan | — | 5,509 |
| Subordinated term loan | 15,000 | 20,000 |
| Total debt | 45,564 | 53,766 |
| Unamortized deferred financing costs | (1,041) | (1,349) |
| Total debt, net | 44,523 | 52,417 |
| Current portion of long-term debt, net of unamortized deferred financing costs | (1,701) | (15,648) |
| Long-term debt, net of current portion and unamortized deferred financing costs | \$ 42,822 | \$ 36,769 |

Senior Credit Agreement

On September 29, 2016, the Company and certain of its subsidiaries, entered into a new senior asset-based lending credit agreement with Citizens Bank, N.A. (the “Senior ABL Credit Facility”).

The Senior ABL Credit Facility provides the Company with the following extensions of credit and loans: (1) a Revolving Commitment in the principal amount of \$25.0 million (the “Revolving Loan”) and (2) a mortgage-based Term Loan Commitment in the principal amount of \$17.5 million (the “Term Loan”). The loans under the Senior ABL Credit Facility are secured by liens on substantially all domestic assets of the Company and guaranteed by the Company’s domestic subsidiaries who are not borrowers under the Senior ABL Credit Facility.

The aggregate amount of revolving loans permitted under the Senior ABL Credit Facility may not exceed a borrowing base consisting of: (i) the sum of 85% of certain eligible accounts receivable, plus (ii) the lesser of 65% of the value of certain eligible inventory and 85% of the net orderly liquidation value of certain eligible inventory, plus (iii) an amount not to exceed \$4.2 million, which amount will be adjusted based on the face amount of certain letters of credit issued to Citizens Bank, N.A. in connection with certain operating leases and capitalized leases, minus (iv) reserves for any amounts which the lender deems necessary or appropriate.

Borrowings under the Senior ABL Credit Facility may be made as Base Rate Loans or Eurodollar Rate Loans. The Base Rate loans will bear interest at the fluctuating rate per annum equal to (i) the highest of (a) the Federal Funds Rate plus 1/2 of 1.00%, (b) Citizens own prime rate; and (c) the adjusted Eurodollar rate on such day for an interest period of one (1) month plus 1.00%; and (ii) plus the Applicable Rate, as described below. Eurodollar Rate Loans will bear interest at the rate per annum equal to (i) the ICE Benchmark Administration LIBOR Rate; plus (ii) the Applicable Rate. The "Applicable Rate" will be (a) 2.50% with respect to Base Rate Loans that are Term Loans and 3.50% with respect to Eurodollar Rate Loans that are Term Loans, and (b) 2.50% with respect to Base Rate Loans that are Revolving Loans and 3.50% with respect to Eurodollar Rate Loans that are Revolving Loans, in each case until December 31, 2016, and thereafter the Applicable Rate will be adjusted quarterly, responsive to the Company's Quarterly Average Availability Percentage, ranging from 1.25% to 1.75% with respect to Base Rate Loans that are Revolving Loans and from 2.25% to 2.75% with respect to Eurodollar Rate Loans that are Revolving Loans. In addition to interest payments on the Senior ABL Credit Facility loans, the Company will pay commitment fees to the lender of 0.375% per quarter on undrawn Revolving Loans. The Company will also pay other customary fees and reimbursements of costs and disbursements to the lender.

The Maturity Date with respect to the Revolving Loan and the Term Loan is August 11, 2019, provided, however, upon repayment of Company subordinated indebtedness the maturity date will automatically extend to five years after the Closing Date for Revolving Loans and Revolving Commitments, and with respect to the Term Loans, the earlier of the date that is (i) ten years after the Closing Date and (ii) the maturity date of the Revolving Loans. The Senior ABL Credit

Table of Contents

Facility contains certain mandatory prepayment provisions, including mandatory prepayments due in respect of sales of assets, sales of equity securities, events of default and other customary events, with exceptions for non-core business dispositions.

The Senior ABL Credit Facility contains customary covenants and negative covenants regarding operation of the Company's business, including maintenance of certain financial ratios, as well as restrictions on dispositions of Company assets.

In connection with the Senior ABL Credit Facility, the Company and the Borrowers together with certain subsidiaries (collectively, the "Guarantors"), have entered into an Amended and Restated Guarantee and Collateral Agreement with Citizens Bank, N.A. dated as of September 29, 2016, which secures all of the loans and credits drawn from the Senior ABL Credit Facility by the Borrowers. The security interests established under the Amended and Restated Guarantee and Collateral Agreement include senior secured liens on substantially all of the assets of the Guarantors. The Guarantors have agreed to guarantee the unconditional payment and performance to the lender of all obligations of the Borrowers under the Senior ABL Credit Facility.

On March 21, 2017, the Company entered into a first amendment to the Senior ABL Credit Facility to modify various definitions, including Consolidated EBITDA and the fixed charge coverage ratio, and amend prepayment provisions.

On May 12, 2017, the Company entered into a second amendment to the Senior ABL Credit Facility to amend the definition of capital expenditures and amend the fixed charge coverage ratio effective with the fiscal quarter ending April 2, 2017.

On September 21, 2017, the Company entered into a third amendment to the Senior ABL Credit Facility and is in compliance with its fixed charge coverage ratio at June 30, 2017, as modified.

Prior Amended & Restated Credit Agreement

On September 29, 2016, the Company refinanced all of the existing long-term debt obligations with Citizens Bank, N.A. into the Senior ABL Credit Facility described above. The Company accounted for the refinancing as an extinguishment of debt and wrote off \$0.7 million of previously deferred financing fees.

Subordinated Term Loan Credit Agreement

On November 10, 2014, the Company and certain of its subsidiaries entered into a \$20.0 million, five-year Subordinated Term Loan Credit Agreement ("Subordinated Loan Agreement") with McLarty Capital Partners SBIC, L.P. ("McLarty"), which bears interest at 11% annually. Upon an event of default under the Subordinated Loan

Agreement, the interest rate increases automatically by 2.00% annually. The proceeds were used to repay certain outstanding loans under the Company's senior credit facility. ARC's Chairman is indirectly related to McLarty; therefore, the Board of Directors appointed a special committee consisting solely of independent directors to assure that the Subordinated Loan Agreement is fair and reasonable to the Company and its shareholders.

On April 20, 2016, the Company entered into a second amendment to the Subordinated Loan Agreement, as previously amended on December 29, 2014, to modify certain terms including:

- (1) Allows for the exclusion from the fixed charge coverage ratio \$1.3 million of certain federal and state taxes paid related to prior years, effective March 27, 2016;
- (2) Modifies the minimum fixed charge coverage ratio and maximum total leverage ratio in line with the Company's current financial expectations, effective March 27, 2016; and
- (3) Establishes mandatory prepayments that will be required upon the completion of asset sales or sale-leaseback transactions, with the amount of the prepayments to be determined based upon achievement of certain leverage ratios.

On March 31, 2017, the Company entered into a third amendment to the Subordinated Loan Agreement to amend the Consolidated EBITDA definition to increase the amount of permitted add-backs related to a number of items such as tooling investments and certain non-recurring income and expenses and revise the fixed charge coverage ratio definition.

Table of Contents

The Subordinated Loan Agreement has been subordinated to the Senior ABL Credit Facility pursuant to a First Lien Subordination Agreement. The Subordinated Loan Agreement contains customary representations and warranties, events of default, affirmative covenants, negative covenants, and prepayment terms that are similar to those contained in the senior ABL Credit Facility described above.

On September 22, 2017, the Company entered into a fourth amendment to the Subordinated Loan Agreement and is in compliance with its fixed charge coverage ratio at June 30, 2017, as modified.

Loan Contract

On March 23, 2016, AFT-Hungary Kft (“AFT-Hungary”) entered into a Loan Contract with Erste Bank Hungary Zrt. in an amount equal to €4.0 million (“Loan Contract”). Approximately \$3.0 million of the net proceeds from the Loan Contract were used to partially repay obligations outstanding under the Company’s senior credit facility, with the remaining net proceeds used for capital expenditures and other investments to facilitate the export of goods and services provided by AFT-Hungary.

The loan matures on March 7, 2021, and bears interest at a fixed rate of 0.98% per annum. The Company is required to make semi-annual principal payments in an amount equal to approximately €400,000 along with monthly interest payments. The Loan Contract is secured by certain of AFT-Hungary’s assets, including the real estate and selected machinery and equipment located in Retsag, Hungary.

Future Debt Payments

The following schedule represents the Company’s future debt payments as of June 30, 2017 (in thousands):

| | |
|-------|-----------|
| 2018 | \$ 1,787 |
| 2019 | 1,787 |
| 2020 | 41,077 |
| 2021 | 913 |
| 2022 | — |
| Total | \$ 45,564 |

NOTE 9 - Income Taxes

The components of loss before income taxes are as follows (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---------------|------------------|------------------|
| United States | \$ (16,560) | \$ (3,053) |
| Foreign | (245) | (763) |
| Total | \$ (16,805) | \$ (3,816) |

Table of Contents

The benefit for income taxes from continuing operations consisted of the following (in thousands):

| | June 30, 2017 | June 30, 2016 |
|----------------------------------|------------------|------------------|
| Current: | | |
| Federal | \$ (2,272) | \$ (967) |
| State | 15 | 62 |
| Foreign | 166 | 122 |
| Total current benefit | (2,091) | (783) |
| Deferred: | | |
| Federal | (496) | 267 |
| State | (44) | 25 |
| Total deferred (benefit) expense | (540) | 292 |
| Income tax benefit | \$ (2,631) | \$ (491) |

A reconciliation of the federal statutory rate to the effective income tax rate follows:

| | June 30, 2017 | | June 30, 2016 | |
|--------------------------------------|---------------|---|---------------|---|
| Federal income taxes | 34.0 | % | 34.0 | % |
| State income taxes | 2.1 | % | 1.7 | % |
| Foreign income inclusions | — | % | (1.3) | % |
| Share-based compensation | (0.7) | % | (1.5) | % |
| Permanent items | (0.1) | % | — | % |
| Research and development tax credits | 0.8 | % | 7.0 | % |
| Foreign taxes | (1.0) | % | (3.2) | % |
| Uncertain tax positions | (0.1) | % | (1.4) | % |
| Valuation allowance and other | (19.3) | % | (22.4) | % |
| Effective rate | 15.7 | % | 12.9 | % |

Changes in the effective tax rate from the prior year to the current year are due to the allocation of tax expense between continuing operations and discontinued operations when applying intraperiod allocation rules.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis, as well as from net operating loss and tax credit carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets and liabilities represent amounts available to reduce or increase taxes payable on taxable income in future years. Management evaluates the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including carrybacks (if applicable), reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. To the extent the Company does not consider it

more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Goodwill recorded as part of an asset purchase agreement is deductible for tax purposes and only recorded as a book charge if it is impaired. A deferred tax liability is recorded as the tax deduction is realized, which will not be reversed unless and until the goodwill is disposed of or impaired. Due to the goodwill impairments recognized during fiscal year 2017, there was no deferred tax liability at June 30, 2017.

Significant components of the Company's deferred tax assets at June 30, 2017 and 2016 are shown below. A valuation allowance has been established as realization of such deferred tax assets has not met the more likely-than-not threshold requirement. The Company has recognized a valuation allowance to an amount it expects to realize via carry back based on fiscal year 2017 operations and the reversal of existing temporary differences. The increase in the valuation allowance in fiscal year 2017 represents the increase in deferred tax assets that the Company has determined is not more likely than not of being recovered. If the Company's judgment changes and it is determined that the Company will be

Table of Contents

able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be accounted for as a reduction to income tax expense.

Components of our deferred tax assets and liabilities were as follows (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|------------------|------------------|
| Deferred tax assets arising from: | | |
| Accrued liabilities and reserves | \$ 492 | \$ 216 |
| Deferred revenue | 95 | 9 |
| Bad debt reserves | 52 | 93 |
| Tangible property | 127 | 117 |
| Inventory reserve | 756 | 343 |
| Intangible assets | 2,381 | 1,323 |
| Other | 43 | 44 |
| Share-based compensation | 161 | 4 |
| Unrealized foreign currency gain | — | 2 |
| Foreign tax credit carryforward | 288 | 122 |
| Research and development tax credits | 311 | 201 |
| Alternative minimum tax credits | 318 | 319 |
| Tax effects of net operating loss carryforwards | 3,855 | 2,117 |
| Less valuation allowances | (4,933) | (1,925) |
| Deferred tax assets | 3,946 | 2,985 |
| Deferred tax liabilities arising from: | | |
| Property and equipment | (3,533) | (3,136) |
| Prepaid expenses | (126) | (154) |
| Unrealized foreign currency gain | (27) | — |
| Deferred tax liabilities | (3,686) | (3,290) |
| Net deferred tax asset (liability) | \$ 260 | \$ (305) |

As of June 30, 2017 and 2016, the income tax receivable was \$0.5 million and \$1.6 million, respectively, which were recorded in other current assets. As of June 30, 2017, the deferred tax asset of \$0.3 million is included in other long-term assets.

As of June 30, 2017, the Company had federal net operating loss carryforwards of approximately \$10.3 million expiring beginning in 2027 and state net operating loss carryforwards of approximately \$10.7 million expiring beginning in 2023.

Pursuant to the Internal Revenue Code Sections 382 and 383, use of the Company's U.S. federal and state net operating loss carryforwards may be limited in the event of a cumulative change in ownership of more than 50% within a three-year period. The Company had an ownership change in 2012 and, as a result, certain of the Company's net operating loss carryforwards are subject to an annual limitation, reducing the amount available to offset income tax liabilities absent the limitation.

As of June 30, 2017, the Company had research and development tax credit carryforwards of approximately \$0.3 million, foreign tax credit carryforwards of approximately \$0.3 million, and alternative minimum tax credit carryforwards of approximately \$0.3 million. If unused, the research and development tax credit carryforwards will begin to expire in 2035 and the foreign tax credit carryforwards will expire in 2026. The alternative minimum tax credits can be carried forward indefinitely.

Table of Contents

The following table summarizes the changes in the Company's unrecognized tax benefits during the year ended June 30, 2017 and 2016 (in thousands). The Company expects no material changes to unrecognized tax positions within the next twelve months. If recognized, all of these benefits would favorably impact the Company's income tax expense, before considerations of any related valuation allowance.

| | June 30, 2017 | June 30, 2016 |
|-----------------------------------|---------------|---------------|
| Balance, beginning of year | \$ 783 | \$ 924 |
| Increase in current year position | 40 | 131 |
| Decrease in prior year position | — | (272) |
| Balance, end of year | \$ 823 | \$ 783 |

NOTE 10 – Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income available to common stockholders by the diluted weighted-average shares of common stock outstanding during each period. In connection with the acquisitions of ATC and Keyc, the Company issued a total of 905,414 shares of common stock, which were placed in escrow to satisfy certain working capital adjustments and/or indemnification obligations. As these escrow shares were expected to be returned to the Company, the escrow shares had been excluded from the basic and diluted earnings per share computations. In February 2016, the 233,788 shares of common stock previously issued for the ATC acquisition were returned to the Company and retired. In February 2017, the remaining 671,626 shares of common stock previously issued for the Keyc acquisition were returned to the Company and retired.

As a result of the Company's net loss for the fiscal year ended June 30, 2017 and 2016, potentially dilutive stock options of approximately 376,755 and 8,563 were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

NOTE 11 – Related Party Transactions

Everest Hill Group Inc.

Everest Hill Group Inc. (“Everest Hill Group”) is the controlling shareholder of ARC, owning approximately 49.9% of its shares outstanding as of June 30, 2017. Everest Hill Group also owns 100% of Quadrant Management Inc. (“QMI”), which indirectly owned 74% of the membership interests of Quadrant Metals Technologies LLC (“QMT”) prior to ARC’s acquisition of QMT in August 2012. ARC and QMI are under common control of Everest Hill Group.

In addition, the following individuals are also affiliated with QMI and Everest Hill Group:

- Mr. Alan Quasha, the Company’s Chairman and an officer of QMI, and Mr. Jason Young, the Company’s former Chief Executive Officer, each served on the Board of Directors of QMT during fiscal 2016 and received fees for such services.
- Mr. Eli Davidai, the Company’s General Manager of Operations as of May 2017, has been a Managing Director at QMI since 1992, where he is responsible for making investments and overseeing companies at the firm.

NOTE 12 – Share-Based Compensation and Employee Benefit Plans

In November 2015, the Company’s stockholders approved the ARC Group Worldwide, Inc. 2015 Equity Incentive Plan (“2015 Plan”), which is administered by the Compensation Committee (“Committee”) of the Board of Directors. The 2015 Plan reserves for issuance a total of 950,000 shares of common stock, which may be in the form of incentive stock options, non-qualified stock options, restricted stock, restricted stock units, or other types of awards as authorized under the plan. As of June 30, 2017, there were approximately 178,126 shares of common stock available to be granted under the 2015 Plan. In the case of stock options, the exercise price of the options granted may not be less than the fair market

Table of Contents

value of a share of common stock at the date of grant. The Committee determines the vesting conditions of awards; however, the performance period for an award subject to the satisfaction of performance measures may not exceed five years. The 2015 Plan will terminate ten years after its adoption, unless terminated earlier by the Company's Board of Directors.

In November 2016, the Company's stockholders approved the 2016 ARC Group Worldwide, Inc. Equity Incentive Plan ("2016 Plan"), which reserves for issuance a total of 950,000 shares of common stock. The 2016 Plan contains terms and conditions substantially similar to the 2015 Plan. As of June 30, 2017, there were 534,295 shares of common stock available to be granted under the 2016 Plan.

A summary of stock option activity under the 2015 Plan and 2016 Plan as of June 30, 2017 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) |
|---|-----------|---------------------------------------|--|
| Outstanding as of June 30, 2016 | 759,050 | \$ 1.51 | - |
| Granted | 1,065,030 | \$ 4.06 | |
| Forfeited | (636,500) | \$ 3.59 | |
| Outstanding as of June 30, 2017 | 1,187,580 | \$ 2.68 | 7.07 |
| Vested and exercisable as of June 30, 2017 | 451,754 | \$ 1.90 | 5.78 |
| Vested and expected to vest as of June 30, 2017 | 1,093,214 | \$ 2.65 | 7.02 |

The vesting of 415,705 shares granted under the 2016 Plan is contingent upon the achievement of a market condition. If vesting occurs, the compensation expense related to the vested awards that has not been previously amortized will be recognized upon vesting. As of June 30, 2017, the market-based condition has not been achieved.

Stock options granted during the year ended June 30, 2017 have contractual lives of seven to ten years. The weighted-average grant date fair value of stock options granted during the years ended June 30, 2017 and 2016 was \$2.17 and \$0.98, respectively. The total fair value of shares vested during the years ended June 30, 2017 and 2016 was \$0.4 million and \$0.1 million, respectively.

Determining Fair Value

The Company estimated the fair value of stock options granted under the 2015 Plan using the Black-Scholes method. The Company estimated the fair value and derived service period of stock options granted under the 2016

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

Plan with market-based vesting conditions on the date of grant using a Monte Carlo simulation, with assumptions comparable to those used under the Black-Scholes method. The assumptions used to determine the value of the Company's stock options granted to employees during the years ended June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|-------------------------|-------------------|------------------|
| Expected term | 3.50 - 4.75 years | 4.5 - 4.75 years |
| Expected volatility | 78.8% - 85.0% | 84.0% - 85.1% |
| Expected dividend yield | - % | - % |
| Risk-free interest rate | 1.02% - 2.41% | 1.37% - 1.41% |

Expected Term – The expected term represents the period of time the options are expected to be outstanding. The Company uses the simplified method, as permitted by the SEC, to calculate the expected term, as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected life in years. The simplified method is calculated as the average of the time-to-vesting and the contractual life of the options.

Expected Volatility – Expected volatility is based on the historical volatility of the Company's common stock, which we believe will be indicative of future experience.

Table of Contents

Expected Dividends – The Company has never paid dividends on its common stock and currently does not intend to do so in the near term, and accordingly, the dividend yield percentage is zero.

Risk-Free Interest Rate - The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with a term equal to the expected term of the stock option granted.

Share-Based Compensation Expense

Compensation expense recognized during the years ended June 30, 2017 and 2016 was \$0.7 million and \$0.2 million, respectively, and is included in selling, general and administrative expense. As of June 30, 2017, there was \$0.8 million of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.7 years. The Company estimated expected forfeitures and is recognizing compensation expense only for those option grants expected to vest. The Company's estimate of forfeitures may be adjusted throughout the requisite service period based on the extent to which actual forfeitures differ, or are likely to differ, from the Company's previous estimates. At the end of the service period, compensation cost will have been recognized only for those awards for which the employee has provided the requisite service.

401(k) Plan

The Company sponsors a safe harbor 401(k) plan that covers employees in the United States. The Company matches employee contributions based upon the amount of the employees' contributions subject to certain limitations and may make a discretionary contribution. Company matching contributions to the 401(k) plan totaled \$0.6 million for the years ended June 30, 2017 and 2016.

Employee Stock Purchase Plan

Under the terms of the Company's employee stock purchase plan ("ESPP"), eligible employees may authorize payroll deductions up to 10% of their base pay to purchase shares of the Company's common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each six-month purchase period. A total of 750,000 shares were authorized under the ESPP. The purchase period began on August 1, 2016. As of June 30, 2017, there were 702,266 shares available for issuance.

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

During the year ended June 30, 2017, 47,734 shares were purchased under the ESPP at a price of \$2.05 and a grant date fair value of \$2.42. The assumptions used to value the shares under the ESPP using the Black-Scholes method were as follows:

| | | |
|-------------------------|----------|---|
| Expected term | 6 months | |
| Expected volatility | 77.7 | % |
| Expected dividend yield | - | % |
| Risk-free interest rate | 0.40 | % |

NOTE 13 – Commitments and Contingencies

Leases

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through 2022, and contain various renewal options. Rent expense was \$1.4 million and \$0.9 million for the years ended June 30, 2017 and 2016, respectively. The Company also leases equipment and a building under non-cancellable capital lease agreements expiring through 2024. The capital leases have interest rates ranging from 3.0% to 6.3%.

Table of Contents

At June 30, 2017, approximate future rental commitments were as follows (in thousands):

| June 30, | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| 2018 | \$ 1,581 | \$ 1,846 |
| 2019 | 1,373 | 1,679 |
| 2020 | 354 | 1,106 |
| 2021 | 150 | 434 |
| 2022 | 48 | 74 |
| Thereafter | 96 | — |
| Total minimum lease payments | 3,602 | \$ 5,139 |
| Amount representing interest | (244) | |
| Present value of total minimum lease payments | 3,358 | |
| Current portion | (1,470) | |
| Capital lease obligation, net of current portion | \$ 1,888 | |

Business Interruption Claim

During the third quarter of fiscal 2017, Kecy experienced a wind-generated power disruption that temporarily halted production for several days and severely damaged key equipment. The Company is insured for these business interruption and equipment repair costs and filed an insurance claim with its insurance provider. The estimated loss of \$0.8 million was covered by insurance and \$0.4 million was collected during the fourth quarter of fiscal 2017. The remaining \$0.4 million is recorded as an insurance claim receivable at June 30, 2017.

Legal Proceedings

From time to time, the Company is a party to various litigation matters incidental to the conduct of its business. The Company is not presently a party to any legal proceedings, the resolution of which, management believes, would have a material adverse effect on its business, operating results, financial condition or cash flows.

NOTE 14 – Segment Information

During fiscal 2017, the Company sold its non-core subsidiaries, Tekna Seal and ARC Wireless. Separately, the Company classified its Flanges and Fittings Group segment as held for sale as of June 30, 2017. The completed and planned divestiture of these non-core businesses, along with the growth in its 3D metal printing business, has changed the way in which management and its chief operating decision maker evaluate performance and allocate resources. As a result, during the quarter ended June 30, 2017, the Company revised its business segments, consistent with its

management of the business and internal financial reporting structure. Specifically, the Precision Components Group now includes the results of its plastic injection molding operations and its tooling product line, which were previously included within the 3DMT Group. Results depicted in its 3DMT Group business unit now solely reflect those operations associated with metal 3D printing and associated services. In addition, its precision metal stamping operations are now reported within the newly created Stamping Group, which were previously included in the Precision Components Group.

As a result of the above transactions, the Company will report three segments as part of continuing operations: Precision Components Group, Stamping Group, and 3DMT Group.

- The Precision Components Group companies provide highly engineered, precision metal components using processes consisting of metal injection molding. It also includes our tooling product line and plastic injection molding. Industries served include aerospace, automotive, consumer durables, electronic devices, firearms and defense, and medical and dental devices.
- The Stamping Group consists of our precision metal stamping operations.

Table of Contents

- The 3DMT Group consists of 3D Material Technologies, LLC (“3DMT”), our metal 3D printing and additive manufacturing operations.

The historical results of Tekna Seal, which were included in the Precision Components Group segment, and the historical results of the Flanges and Fittings Group segment have been reflected as discontinued operations. Historical segment information has been restated. Summarized segment information for the years ended June 30, 2017 and 2016 is as follows (in thousands):

| | Fiscal Year Ended June 30, | |
|--|----------------------------|------------|
| | 2017 | 2016 |
| Sales: | | |
| Precision Components Group | \$ 75,053 | \$ 68,573 |
| Stamping Group | 21,061 | 22,383 |
| 3DMT Group | 2,528 | 1,659 |
| Wireless Group | 427 | 1,509 |
| Consolidated sales | \$ 99,069 | \$ 94,124 |
| Operating costs: | | |
| Precision Components Group | \$ 80,133 | \$ 64,364 |
| Stamping Group | 21,766 | 21,751 |
| 3DMT Group | 3,963 | 2,541 |
| Wireless Group | 554 | 1,390 |
| Consolidated operating costs | \$ 106,416 | \$ 90,046 |
| Segment operating income (loss): | | |
| Precision Components Group | \$ (5,080) | \$ 4,209 |
| Stamping Group | (705) | 632 |
| 3DMT Group | (1,435) | (882) |
| Wireless Group | (127) | 119 |
| Corporate (1) | (5,397) | (3,616) |
| Total segment operating income (loss) | \$ (12,744) | \$ 462 |
| Interest expense, net | (4,008) | (4,449) |
| Loss on extinguishment of debt | (723) | — |
| Other income, net | 670 | 171 |
| Non-operating expense | (4,061) | (4,278) |
| Consolidated loss before income taxes and non-controlling interest | \$ (16,805) | \$ (3,816) |

-
- (1) Corporate expense includes compensation and benefits, insurance, legal, accounting, consulting, and board of directors fees.

Fiscal Year Ended June 30,

Edgar Filing: ARC Group Worldwide, Inc. - Form 10-K

| | 2017 | 2016 |
|-----------------------------------|----------|----------|
| Capital expenditures: | | |
| Precision Components Group | \$ 4,710 | \$ 2,016 |
| Stamping Group | 1,292 | 477 |
| 3DMT Group | 568 | 119 |
| Flanges and Fittings Group | 71 | 21 |
| Consolidated capital expenditures | \$ 6,641 | \$ 2,633 |

Table of Contents

Depreciation and amortization expense:

| | | |
|--|----------|----------|
| Precision Components Group | \$ 6,750 | \$ 6,698 |
| Stamping Group | 2,323 | 2,249 |
| 3DMT Group | 765 | 490 |
| Flanges and Fittings Group | 73 | 71 |
| Wireless Group | 19 | 21 |
| Consolidated depreciation and amortization expense | \$ 9,930 | \$ 9,529 |

| | As of June 30, | |
|----------------------------|----------------|------------|
| | 2017 | 2016 |
| Total assets: | | |
| Precision Components Group | \$ 50,641 | \$ 69,623 |
| Stamping Group | 19,944 | 21,841 |
| 3DMT Group * | (3,033) | (725) |
| Flanges and Fittings Group | 1,182 | 1,279 |
| Wireless Group | — | 1,006 |
| Corporate | 30,889 | 27,488 |
| Consolidated total assets | \$ 99,623 | \$ 120,512 |

*Negative assets reflect intersegment accounts eliminated in consolidation.

Geographic information for the Company is as follows (in thousands):

| | Fiscal Year Ended June 30, | |
|---------------|----------------------------|-----------|
| | 2017 | 2016 |
| Sales: | | |
| U.S. | \$ 90,607 | \$ 86,776 |
| International | 8,462 | 7,348 |
| | \$ 99,069 | \$ 94,124 |

| | As of June 30, | |
|------------------------------|----------------|-----------|
| | 2017 | 2016 |
| Property and equipment, net: | | |
| U.S. | \$ 33,398 | \$ 33,445 |
| International | 7,951 | 8,199 |
| | \$ 41,349 | \$ 41,644 |

Table of Contents

NOTE 15 – Significant Customers

The concentration of the Company's business with a relatively small number of customers may expose it to a material adverse effect if one or more of these large customers were to experience financial difficulty or were to cease being a customer for non-financial related issues. The Company's revenue concentrations of 5% or greater are as follows:

| Customer | Percentage of Sales | | | |
|----------|---------------------|---|------|---|
| | 2017 | | 2016 | |
| 1 (a) | 13.8 | % | 10.2 | % |
| 2 (a) | 10.6 | % | 9.4 | % |
| 3 (a) | 7.2 | % | 8.1 | % |
| 4 (b) | 6.7 | % | 5.9 | % |
| 5 (b) | 6.7 | % | 8.8 | % |
| Total | 45.0 | % | 42.4 | % |

(a) Revenue from this customer is generated through our Precision Components Group segment.

(b) Revenue from this customer is generated through our Stamping Group segment.

The Company's accounts receivable concentrations of 5% or greater for the above-listed customers are as follows:

| Customer | Percentage of Receivables | | | |
|----------|---------------------------|---|------|---|
| | 2017 | | 2016 | |
| 1 | 11.6 | % | 10.5 | % |
| 2 | ** | % | 8.3 | % |
| 3 | ** | % | 8.3 | % |
| 4 | 6.8 | % | ** | % |
| 5 | ** | % | 5.2 | % |
| Total | 18.4 | % | 32.3 | % |

**Customer represented less than 5% of accounts receivable for the years presented.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Under the supervision of and with the participation of management, including our interim Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2017. Based on this evaluation, and the identification of a material weakness in our control over financial reporting described in “Management’s Report on Internal Control over Financial Reporting” below, our interim Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2017.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ARC’s Consolidated Financial Statements for external purposes in accordance with GAAP.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control - Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission as of June 30, 2017. Based upon that evaluation, management identified the following material weaknesses as of June 30, 2017 in the Company’s internal control over financial reporting:

- Insufficient Information Technology and Accounting Infrastructure. Management did not maintain a sufficient complement of information technology personnel with appropriate systems knowledge, experience, and training,

which resulted in inadequate segregation of duties, access to computer systems, documentation of policies and procedures, and system maintenance. Management noted that the Company's computer systems are often running on older versions of accounting software with limited functionality that hindered our ability to automate controls. Additionally, at certain of our manufacturing facilities there are a relatively small number of professionals employed by our Company in bookkeeping and accounting functions, which has resulted in instances of inadequate segregation of duties within our internal control systems and delays in performing certain reviews. The insufficient information technology and accounting infrastructure resulted in deficiencies in the design and operating effectiveness over financial reporting that are considered a material weakness because they could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews at a level of precision necessary to identify a material error.

Plan for Remediation of the Material Weaknesses in Internal Control over Financial Reporting

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, which was filed with the Securities and Exchange Commission on September 9, 2016, we concluded that, as of June 30, 2016, we had material weaknesses in our internal control over financial reporting existed as we had an insufficient information technology and accounting infrastructure that could lead to the untimely identification and resolution of accounting and disclosure matters.

Table of Contents

During fiscal year 2017, we delayed implementing certain portions of our information technology infrastructure and staffing enhancements necessary to remediate our material weakness. However, we continued improvement of our internal control environment by implementing the following changes in our internal control over financial reporting:

- we sold Tekna Seal and ARC Wireless, which were two of our smaller entities that had weak segregation of duties;
- we began the implementation of new consolidation software to improve the efficiency and control over our consolidation process;
- we improved the operation of our enterprise resource planning system at ATC, which established better access controls, segregation of duties, timely reporting and more efficient processes and operations; and
- we reviewed weaknesses in internal controls with our plant general managers and controllers to implement improved controls over information technology, segregation of duties, and policies and procedures.

To address the material weaknesses associated with the Company's information technology infrastructure, planned actions in fiscal year 2018 include:

- complete the implementation of our consolidation software package;
- upgrade to the latest version of the enterprise resource planning system used at AFT;
- ensure adequate staffing in the information technology and accounting departments to enhance the segregation of duties; and
- strengthen the documentation of processes, procedures, and the review and approval of financial activities at our facilities.

The Audit Committee has directed management to develop a detailed plan and timetable for the implementation of the foregoing remedial measures and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of our internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and other procedures that will be implemented will largely remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. However, the implementation of certain mitigating processes and procedures will be dependent on certain factors, including, but not limited to, financial performance, and as such, the timing and effectiveness cannot be accurately forecasted at present time. Management is committed to continuous improvement of our internal control processes and will continue to diligently review our financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

(b) Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our existing internal control structure over financial reporting during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Internal control over financial reporting may not prevent or detect all errors and all fraud. Also, projection of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included under the captions “Information Regarding the Board of Directors and Executive Officers,” and “Corporate Governance” in our Proxy Statement for the 2017 Annual Meeting of Stockholders (“2017 Proxy Statement”) to be filed with the SEC within 120 days of the fiscal year ended June 30, 2017 and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2017 Proxy Statement and is incorporated herein by reference.

Our Board of Directors has adopted an Amended & Restated Code of Ethics (“Code of Ethics”) applicable to all officers, directors and employees, which is available on our website, www.arcw.com, under “Investor Relations.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Ethics by posting such information on our website within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included under the captions “Director Compensation,” “Executive Compensation,” “Corporate Governance” and “Compensation Committee Interlocks and Insider Participation” in the 2017 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included under the captions “Security Ownership of Certain Beneficial Owners and Management,” “Outstanding Equity Awards at Fiscal Year-End,” and “Grants of Plan-Based Awards” in the 2017 Proxy Statement and is incorporated herein by reference. Additional information required by this Item is set

forth under the caption “Securities Authorized for Issuance under Equity Compensation Plans” in Item 5, above, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be included under the captions “Certain Transactions with Management and Principal Shareholders” and “Corporate Governance” in the 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be included under the caption “Independent Registered Public Accounting Firm” in the 2017 Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this annual report on Form 10-K:

(1) Consolidated Financial Statements. See the Index to Financial Statements in Part II, Item 8 of this report.

(2) Financial Statement Schedules

Schedules have been omitted since the required information is not significant or is included in the Notes to Consolidated Financial Statements.

(b) Exhibits

The exhibit list required by this Item is incorporated by reference to the Exhibit Index filed as part of this report.

| Exhibit Number | Description |
|----------------|---|
| 2.1 | <u>Membership Interest Purchase Agreement, dated September 30, 2016, between Quadrant Metals Technologies LLC, Doug McCarron and Dianna Quasha and Winchester Electronics Corporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on November 10, 2016). Schedules to the Membership Interest Purchase Agreement have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.</u> |
| 3.2 | <u>Bylaws of the Company as amended and restated on March 25, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K, filed on March 31, 1998).</u> |
| 3.3 | <u>Amended and Restated Articles of Incorporation dated August 7, 2012 (incorporated by reference to the Company's Annual Report on Form 10-K, filed on October 4, 2013).</u> |
| 10.1 | <u>Amended and Restated Credit Agreement, among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K, filed on November 12, 2014).</u> |
| 10.2 | |

Credit Agreement, among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, and McLarty Capital Partners SBIC, L.P., dated as of November 10, 2014 (incorporated by reference to Exhibit 10.39 to the Company's Current Report on Form 8-K, filed on November 12, 2014).

10.3 First Amendment, dated December 23, 2014, to the Amended and Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.40 to the Company's Current Report on Form 8-K, filed on December 30, 2014).

10.4 First Amendment to the Credit Agreement, dated December 29, 2014, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, and McLarty Capital Partners SBIC, L.P., dated as of November 10, 2014 (incorporated by reference to Exhibit 10.41 to the Company's Current Report on Form 8-K, filed on December 30, 2014).

Table of Contents

| Exhibit Number | Description |
|-------------------|--|
| 10.5 | <u>Schedules and Exhibits to the Amended and Restated Credit Agreement, dated November 10, 2014, by and among ARC Group Worldwide, Inc., Advanced Forming Technology, Inc., ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, and Quadrant Metals Technologies, LLC, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders from time to time party thereto (incorporated by reference to Exhibit 10.42 to the Company's Current Report on Form 8-K, filed on January 14, 2015).</u> |
| 10.6 | <u>Schedules and Exhibits to the Credit Agreement, dated November 10, 2014, by and among ARC Group Worldwide, Inc., Advanced Forming Technology, Inc., ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, and Quadrant Metals Technologies, LLC, McLarty Capital Partners SBIC, L.P., as administrative agent, and other lenders from time to time party hereto (incorporated by reference to Exhibit 10.43 to the Company's Current Report on Form 8-K, filed on January 14, 2015).</u> |
| 10.7 | <u>Land Lease, dated August 7, 2014, by and between City of Deland, a Florida municipal corporation, and Flomet LLC (incorporated by reference to Exhibit 10.44 to the Company's Amendment 1 to Registration Statement on Form S-1, filed on January 20, 2015).</u> |
| 10.8 | <u>Second Amendment, dated as of May 11, 2015, to the Amended & Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K, filed on September 25, 2015).</u> |
| 10.9 | <u>2015 ARC Group Worldwide, Inc. Equity Incentive Plan (incorporated by reference to Annex A to the Company's definitive proxy statement, Form DEF 14A, filed on September 29, 2015).</u> |
| 10.10 | <u>Fourth Amendment to Amended and Restated Credit Agreement, dated April 20, 2016, by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A and Capital One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 22, 2016).</u> |
| 10.11 | <u>Second Amendment to the Subordinated Loan Agreement, dated April 20, 2016, by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and McLarty Capital Partners SBIC, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on April 22, 2016).</u> |
| 10.12 | <u>Loan Contract between Erste Bank Hungary Zrt. and AFT-Hungary Kft. dated as of March 23, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on May 4, 2016).</u> |
| 10.13 | <u>Third Amendment, dated March 29, 2016, to the Amended and Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on May 4, 2016).</u> |
| 10.14 | <u>2016 ARC Group Worldwide, Inc. Equity Incentive Plan (incorporated by reference to Annex A to the Company's definitive proxy statement, Form DEF 14A, filed on September 23, 2016).</u> |
| 10.15 | <u>Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of September 29, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 3, 2016).</u> |
| 10.16 | |

Amended and Restated Guarantee and Collateral Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as guarantors, and Citizens Bank, N.A., dated September 29, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 3, 2016).

Table of Contents

| Exhibit Number | Description |
|-------------------|--|
| 10.17 | <u>First Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of March 21, 2017 (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q, filed on May 15, 2017).</u> |
| 10.18 | <u>Third Amendment to the Subordinated Loan Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and McLarty Capital Partners SBIC, L.P., dated as of March 31, 2017 (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q, filed May 15, 2017).</u> |
| 10.19 | <u>Second Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of May 12, 2017 (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q, filed May 15, 2017).</u> |
| 10.20* | <u>Separation Agreement dated June 30, 2017 with Jason T. Young.</u> |
| 14.1* | <u>Amended and Restated Code of Ethics.</u> |
| 21.1* | <u>Subsidiaries of the Registrant.</u> |
| 23.1* | <u>Consent of Hein & Associates LLP.</u> |
| 31.1* | <u>Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2* | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1& | <u>Written Statement of the Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Schema |
| 101.CAL* | XBRL Taxonomy Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Label Linkbase |
| 101.PRE* | XBRL Taxonomy Presentation Linkbase |

*Filed with this Form 10-K.

&This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ARC Group
Worldwide, Inc.

Date: September 26, 2017 By: /s/ Drew M. Kelley
Drew M. Kelley, Interim
Chief Executive Officer
(Principal Executive
Officer), Chief Financial
Officer (Principal
Financial Officer and
Principal Accounting
Officer), Director

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Date | Signatures |
|--------------------|--|
| September 26, 2017 | /s/ Alan G. Quasha Alan G. Quasha, Chairman of the Board |
| September 26, 2017 | /s/ Drew M. Kelley Drew M. Kelley, Interim Chief Executive Officer, Chief Financial Officer, Director |
| September 26, 2017 | /s/ Todd A. Grimm Todd A. Grimm, Director |
| September 26, 2017 | /s/ Gregory D. Wallis Gregory D. Wallis, Director |
| September 26, 2017 | /s/ Eddie W. Neely Eddie W. Neely, Director |