ARC Group Worldwide, Inc.
Form 10-Q
February 09, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended December 31, 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	87-0454148
(Commission File Number)	(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)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	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 February 5, 2018, the Registrant had 18,305,982 shares outstanding of its $.0005 par value common stock.

ARC Group Worldwide, Inc.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Statements of Operations

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

	For the three months ended		For the six months ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Sales	$ 18,354	$ 27,009	$ 38,304	$ 52,722
Cost of sales	18,724	22,505	37,251	43,539
Gross profit	(370)	4,504	1,053	9,183
Selling, general and administrative	3,552	4,660	7,038	9,517
Loss from operations	(3,922)	(156)	(5,985)	(334)
Other income, net	167	837	130	804
Interest expense, net	(927)	(1,030)	(1,939)	(2,137)
Loss on extinguishment of debt	—	—	—	(723)
Loss before income taxes	(4,682)	(349)	(7,794)	(2,390)
Income tax benefit (expense)	366	(30)	194	1,301
Net loss from continuing operations	(4,316)	(379)	(7,600)	(1,089)
(Loss) gain on sale of subsidiaries and income (loss) from discontinued operations, net of tax	(6)	(331)	(276)	3,986
Net (loss) income	(4,322)	(710)	(7,876)	2,897
Net income attributable to non-controlling interest				
Continuing operations	—	—	—	(22)
Discontinued operations	—	—	—	(4)
Net income attributable to non-controlling interest	—	—	—	(26)
Net (loss) income attributable to ARC Group Worldwide, Inc.	$ (4,322)	$ (710)	$ (7,876)	$ 2,871
Net (loss) income per common share, basic and diluted:				
Continuing operations	$ (0.24)	$ (0.02)	$ (0.42)	$ (0.06)

Discontinued operations	$ —	$ (0.02)	$ (0.01)	$ 0.22
Attributable to ARC Group Worldwide, Inc.	$ (0.24)	$ (0.04)	$ (0.43)	$ 0.16
Weighted average common shares outstanding:				
Basic and diluted	18,265,323	18,123,883	18,229,320	18,123,883

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash	$ 387	$ 593
Accounts receivable, net	10,769	10,488
Inventories, net	14,342	14,369
Prepaid expenses and other current assets	2,382	3,152
Current assets of discontinued operations	—	1,452
Total current assets	27,880	30,054
Property and equipment, net	39,417	41,349
Goodwill	6,412	6,412
Intangible assets, net	17,942	19,624
Other	356	291
Long-term assets of discontinued operations	—	1,893
Total assets	$ 92,007	$ 99,623
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 10,160	$ 8,681
Accrued expenses and other current liabilities	2,153	3,273
Deferred revenue	1,387	1,165
Bank borrowings, current portion of long-term debt	1,747	1,701
Capital lease obligations, current portion	1,455	1,470
Accrued escrow obligations, current portion	1,212	1,212
Current liabilities of discontinued operations	—	283
Total current liabilities	18,114	17,785
Long-term debt, net of current portion	43,358	42,822
Capital lease obligations, net of current portion	1,196	1,888
Accrued escrow obligations, net of current portion	942	1,184
Other long-term liabilities	927	1,017
Long-term liabilities of discontinued operations	—	260
Total liabilities	64,537	64,956
Commitments and contingencies (Note 11)		
Equity:		
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; 18,282,681 shares issued and 18,274,280 shares issued and outstanding at December 31, 2017, and 18,180,027 shares issued and 18,171,626 shares issued and outstanding at June 30, 2017	10	10
Treasury stock, at cost; 8,401 shares at December 31, 2017 and June 30, 2017	(94)	(94)
Additional paid-in capital	31,675	31,109
Retained earnings (accumulated deficit)	(4,321)	3,569
Accumulated other comprehensive income	200	73
Total equity	27,470	34,667
Total liabilities and equity	$ 92,007	$ 99,623

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	For the six months ended	
	December 31, 2017	January 1, 2017
Cash flows from operating activities:		
Net (loss) income	$ (7,876)	$ 2,897
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	5,051	4,889
Share-based compensation expense	397	375
Loss (gain) on sale of subsidiaries	109	(5,418)
Bad debt expense and other	84	49
Deferred income taxes	—	(286)
Changes in working capital:		
Accounts receivable	(137)	(621)
Inventory	(138)	(2,374)
Prepaid expenses and other assets	609	(306)
Accounts payable	1,486	1,628
Accrued expenses and other current liabilities	(1,472)	(700)
Deferred revenue	222	(629)
Net cash used in operating activities	(1,665)	(496)
Cash flows from investing activities:		
Purchases of property and equipment	(1,500)	(2,901)
Proceeds from sale of subsidiary	3,000	10,538
Net cash provided by investing activities	1,500	7,637
Cash flows from financing activities:		
Proceeds from debt issuance	49,533	48,773
Repayments of long-term debt and capital lease obligations	(50,040)	(57,397)
Payment of distributions to non-controlling membership interests from the sale of subsidiary	—	(438)
Purchase of non-controlling membership interests	—	(200)
Issuance of common stock under employee stock purchase plan and exercise of stock options	155	—
Net cash used in financing activities	(352)	(9,262)
Effect of exchange rates on cash	311	(284)
Net decrease in cash	(206)	(2,405)
Cash, beginning of period	593	3,620
Cash, end of period	$ 387	$ 1,215
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,244	$ 1,913

Cash paid for income taxes, net of refunds	$ 48	$ (877)

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Notes to Unaudited Condensed 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). To further advance and support these core capabilities, the Company also offers complementary services including: (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.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The consolidated balance sheet as of June 30, 2017, was derived from the audited financial statements as of that date, but does not include all disclosures, including notes required by GAAP. As such, this quarterly report should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The Company follows the same accounting policies for preparing quarterly and annual reports.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts 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 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.

Comprehensive Income (Loss)

For each of the quarters and six months ended December 31, 2017 and January 1, 2017, there were no material differences between net income (loss) and comprehensive income (loss).

Recent Accounting Pronouncements

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

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 operating lease commitments are disclosed in Note 13, Commitments and Contingencies, of the Company's Form 10-K for the fiscal year ended June 30, 2017.

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")

On September 15, 2017, the Company sold substantially all of the assets of GF&F to GFFC Holdings, LLC ("GFFC") for $3.0 million in cash. 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 Management Inc. 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.

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

Gross proceeds	$ 3,000
Less:	
Property and equipment, net	181
Accounts receivable	561
Inventory	882
Other current assets	42
Accounts payable and accrued expenses	(269)
Total net assets disposed	1,397
Goodwill	1,712
Transaction costs	394
Loss on sale of discontinued operations, before income taxes	$ (503)

The condensed consolidated statement of operations for the six months ended December 31, 2017, includes the results of operations of GF&F through the sale date of September 15, 2017 and the loss on the sale of GF&F. Financial information for discontinued operations for the three and six months ended December 31, 2017 and January 1, 2017 is as follows (in thousands):

	For the three months ended		For the six months ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Sales	$ —	$ 1,191	$ 726	$ 2,304
Cost of sales	—	(903)	(615)	(1,695)
Gross profit	—	288	111	609
Selling, general and administrative	—	(128)	(108)	(320)
Income from discontinued operations, before income taxes	—	160	3	289
Loss on sale of discontinued operations	(21)	—	(503)	—
Total income (loss) from discontinued operations, before income taxes	(21)	160	(500)	289
Income tax benefit on discontinued operations	15	—	224	—
Income (loss) from discontinued operations, net of tax	$ (6)	$ 160	$ (276)	$ 289

The following table presents the carrying amount as of June 30, 2017, of the major classes of assets and liabilities held for sale in the condensed consolidated balance sheet (in thousands):

	June 30, 2017
Current assets:	
Accounts receivable, net	$ 687
Inventories, net	717
Prepaid expenses and other current assets	48
Total current assets	1,452
Property and equipment, net	181
Goodwill	1,712
Total assets of discontinued operations	$ 3,345
Current liabilities:	
Accounts payable and accrued expenses	$ 283
Total current liabilities	283
Other long-term liabilities	260
Total liabilities of discontinued operations	$ 543

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The following table presents depreciation and purchases of property and equipment of the discontinued operations related to GF&F (in thousands):

	For the six months ended December 31, 2017	January 1, 2017
Depreciation of property and equipment	$ —	$ 34
Purchases of property and equipment	—	(47)

NOTE 4– Inventory

Inventories consisted of the following (in thousands):

	December 31, 2017	June 30, 2017
Raw materials and supplies	$ 5,331	$ 5,357
Work-in-process	7,325	7,767
Finished goods	3,534	4,113
	16,190	17,237
Reserve for obsolescence	(1,848)	(2,151)
Inventory of discontinued operations	—	(717)
	$ 14,342	$ 14,369

As part of the Company’s plan to reduce selected inventory to match current market conditions, the Company decreased inventory within certain business units comprising the Precision Components Group segment by $1.3 million during the six months ended December 31, 2017. See Note 12, Segment Information, for a discussion about the Company’s segments.

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NOTE 5 – Property and Equipment

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

	Depreciable Life (in years)	December 31, 2017	June 30, 2017
Land	—	$ 1,264	$ 1,264
Building and improvements	7 - 40	18,210	18,125
Machinery and equipment	3 - 12	41,871	40,715
Office furniture and equipment	3 - 10	1,249	1,280
Construction-in-process	—	2,016	2,462
Assets acquired under capital lease		7,274	7,235
		71,884	71,081
Accumulated depreciation		(29,678)	(27,201)
Accumulated amortization on capital leases		(2,789)	(2,350)
Property and equipment of discontinued operations		—	(181)
		$ 39,417	$ 41,349

Depreciation expense totaled $1.7 million for the three months ended December 31, 2017 and January 1, 2017, respectively, and $3.4 million and $3.2 million for the six months ended December 31, 2017 and January 1, 2017, respectively.

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NOTE 6 – Goodwill and Intangible Assets

Goodwill

Total goodwill of $6.4 million is assigned to the Company's Precision Components Group. The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the fiscal quarter ended December 31, 2017, the Company assessed whether any such indicators of impairment existed and concluded there were none.

Intangible Assets

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

	As of December 31, 2017			As of June 30, 2017		
Intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and tradenames	$ 3,418	(832)	$ 2,586	$ 3,418	$ (717)	$ 2,701
Customer relationships	24,077	(9,632)	14,445	24,077	(8,429)	15,648
Non-compete agreements	3,642	(2,731)	911	3,642	(2,367)	1,275
Total	$ 31,137	$ (13,195)	$ 17,942	$ 31,137	$ (11,513)	$ 19,624

Intangible assets are amortized using the straight-line method over estimated useful lives ranging from five to fifteen years. Amortization expense for identifiable intangible assets totaled $0.8 million for the three months ended December 31, 2017 and January 1, 2017, and $1.7 million for the six months ended December 31, 2017 and January 1, 2017. Estimated future amortization expense for the next five years as of December 31, 2017, is as follows (in thousands):

Fiscal Years	Amount
2018	$ 1,682

2019	3,182
2020	2,636
2021	2,636
2022	2,636
Thereafter	5,170
Total	$ 17,942

There were no impairments of long-lived assets during the three and six months ended December 31, 2017 and January 1, 2017.

NOTE 7 – Debt

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

	Balance as of December 31, 2017	June 30, 2017
Senior secured revolving loan	$ 11,226	$ 10,071
Senior secured mortgage-based term loans	19,761	20,493
Subordinated term loan	15,000	15,000
Total debt	45,987	45,564
Unamortized deferred financing costs	(882)	(1,041)
Total debt, net	45,105	44,523
Current portion of long-term debt, net of unamortized deferred financing costs	(1,747)	(1,701)
Long-term debt, net of current portion and unamortized deferred financing costs	$ 43,358	$ 42,822

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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"); subsequently the Company entered into amendments one through four.

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 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 September 21, 2017, the Company entered into a third amendment to the Senior ABL Credit Facility to amend the definition of Consolidated EBITDA.

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On November 12, 2017, the Company entered into the Fourth Amendment to the Senior ABL Credit Facility (the "Fourth Amendment"). The Fourth Amendment suspends the Company's fixed charge coverage ratio covenant through December 31, 2018. The suspension of the fixed charge coverage ratio covenant was effective as of October 1, 2017. The Fourth Amendment also adds a minimum revolving credit availability financial covenant. The Fourth Amendment also permits the Company to make infusions of junior capital, which may consist of subordinated debt and/or equity issuances. The junior capital infusions made under the Fourth Amendment will not be subject to mandatory prepayment of the Senior ABL Credit Facility, but subject to certain limitations in respect of outstanding subordinated indebtedness. Under the terms of the Fourth Amendment, the initial infusion of junior capital in amount of not less than $5.0 million must be completed by the Company no later than January 31, 2018. The minimum revolving credit availability covenant requires the Company to maintain the following availability: (a) at least $1,250,000 in revolving credit availability until the earlier of (i) the initial closing of the infusion of $5.0 million in junior capital and (ii) January 31, 2018; and (b) thereafter, at least $3,500,000 in such revolving credit availability. The Fourth Amendment also reduces the Line Cap (consisting of the lesser of the aggregate revolving credit commitment and the borrowing base) in respect of certain prepayment obligations and conditions precedent to borrowing, by reducing the borrowing base by $1,250,000. The Fourth Amendment contains customary representations and warranties regarding the status of the Company and compliance with all terms and conditions of the Senior ABL Credit Facility.

On February 9, 2018, the Company received a waiver from Citizens Bank, N.A. for any noncompliance with the minimum revolving credit availability covenant during the second fiscal quarter of 2018 and for not closing on the junior capital infusion prior to January 31, 2018. The waiver is effective through February 28, 2018.

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; subsequently the Company entered into amendments one through five. 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 previous 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.

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 to amend the definition of Consolidated EBITDA and the Maximum Total Leverage Ratio.

On February 9, 2018, the Company entered into a fifth amendment to the Subordinated Loan Agreement to authorize discretionary omission by the administrative agent of certain non-cash items from the definition of Consolidated EBITDA and to include cash proceeds from the rights offering as excluded contributions of capital that will not be subject to mandatory prepayment under the terms of the Subordinated Loan Agreement.

As of December 31, 2017, the Company was in compliance with its debt covenants under the Subordinated Credit Facility, after giving effect to the fifth amendment discussed above.

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Loan Contract

On March 23, 2016, AFT-Hungary Kft. (“AFT Hungary”), a wholly owned subsidiary of the Company, entered into a Loan Contract with Erste Bank Hungary Zrt. in an amount equal to €4.0 million (“Loan Contract”). The initial funding of €4.0 million drawn on the Loan Contract occurred on March 31, 2016. Approximately $3.0 million of the net proceeds from the Loan Contract were used to partially repay obligations outstanding under the Amended & Restated Credit Agreement, with the remaining net proceeds to be 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 December 31, 2017 (in thousands):

2018 (1)	$ 990
2019	1,834
2020	42,205
2021	958
2022	—
Total	$ 45,987

(1) Represents long-term debt principal payments for the six months ending June 30, 2018.

NOTE 8 – Income Taxes

The income tax receivable was $0.7 million and $0.5 million at December 31, 2017 and June 30, 2017, respectively, which are included in other current assets. The long-term income tax receivable was $0.3 million at December 31, 2017, which is included in other non-current assets. The Company had unrecognized tax benefits for uncertain tax positions of $0.9 million and $1.0 million on December 31, 2017 and June 30, 2017, respectively, which are included

in other long-term liabilities.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Reform Act”) was signed into law by the President of the United States. The Tax Reform Act significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. As a result of the Tax Reform Act, the Company recorded tax expense of $1.4 million due to a remeasurement of deferred tax assets and liabilities at a blended rate in the three months ended December 31, 2017, which is fully offset by a reduction in valuation allowance. In addition, the Company recorded a tax benefit of $0.3 million due to reduction in the valuation allowance previously recognized on alternative minimum tax (“AMT”) credit carryforwards. Under the Tax Reform Act, AMT credit carryforwards are refundable credits. The tax expense and benefit are provisional amounts and the Company’s current best estimate. Any adjustments recorded to the provisional amounts will be included in income from operations as an adjustment to tax expense, net of any related valuation allowance. The provisional amount incorporates assumptions made based upon the Company’s current interpretation of the Tax Reform Act and may change as the Company receives additional clarification and implementation guidance.

NOTE 9 – Earnings Per Share

Net Income (Loss) Per Share – Basic and Diluted

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

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during each period. As a result of the Company's net loss from continuing operations, for the three months ended December 31, 2017 and January 1, 2017, approximately 69,357 and 437,804 shares, respectively, and for the six months ended December 31, 2017 and January 1, 2017, approximately 105,857 and 275,779 shares, respectively, were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

Rights Offering

On December 8, 2017, the Company filed a registration statement on Form S-1 with the SEC for a proposed rights offering to its existing shareholders. The proposed rights offering consists of a public offering of non-transferable subscription rights to purchase shares of ARC common stock. The basic subscription right will grant to each shareholder a proportionate number of the rights offered allocated by reference to the shareholder's percentage ownership of the Company on the record date. The rights offering also contains an over-subscription right. The over-subscription right will allow a shareholder to participate if they have exercised their basic subscription rights in full and other shareholders do not fully exercise their basic subscription rights. If the number of remaining shares is not sufficient to satisfy all of the over subscriptions, the available remaining shares will be prorated among those subscribers who exercise over subscription rights in proportion to their respective basic subscription rights subject to certain limitations and subject to allotment. The Company has entered into backstop agreements with certain existing shareholders, including its majority shareholder Everest Hill Group Inc., to purchase any and all shares not purchased in the rights offering by other shareholders. The gross proceeds from the Company's rights offering is expected to reach $10.0 million.

The purpose of the rights offering is to raise equity capital for general corporate purposes.

NOTE 10 – Share-Based Compensation

The Company's share-based compensation arrangements include grants of stock options under the ARC Group Worldwide, Inc. 2015 Equity Incentive Plan and the 2016 ARC Group Worldwide, Inc. Equity Incentive Plan and the Employee Stock Purchase Plan. The share-based compensation expense recognized during the three months ended December 31, 2017 and January 1, 2017 was $0.1 million and during the six months ended December 31, 2017 and January 1, 2017 was $0.4 million and is included in selling, general and administrative expense. As of December 31, 2017, there was $0.5 million of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.4 years.

NOTE 11 – Commitments and Contingencies

During the third quarter of fiscal 2017, the Company's stamping operations located in Michigan 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 ongoing loss of approximately $1.0 million is expected to be fully covered by insurance, and $0.9 million was collected through the second quarter of fiscal 2018. The remaining $0.1 million is recorded as an insurance claim receivable at December 31, 2017.

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through 2022, which contain various renewal options. 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%.

From time to time, the Company is a party to various litigation matters incidental to the conduct of its business. As of December 31, 2017, 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 12 – Segment Information

During fiscal 2017, the Company sold its non-core subsidiaries, Tekna Seal and ARC Wireless. Subsequently, in September 2017, the Company sold its non-core subsidiary, GF&F, which comprised the Flanges and Fittings Group segment. The completed 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,

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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, primarily servicing the automotive industry.

- The 3DMT Group consists of 3D Material Technologies, LLC (“3DMT”), our metal 3D printing and additive manufacturing operations, primarily servicing the medical and dental, and firearms and defense industries.

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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 three and six months ended December 31, 2017 and January 1, 2017 is as follows (in thousands):

	Three months ended		Six months ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Sales:				
Precision Components Group	$ 13,069	$ 20,773	$ 27,402	$ 40,778
Stamping Group	4,359	5,511	9,112	10,690
3DMT Group	926	568	1,790	856
Wireless Group	—	157	—	398
Consolidated sales	$ 18,354	$ 27,009	$ 38,304	$ 52,722
Operating costs:				
Precision Components Group	$ 15,353	$ 19,531	$ 30,622	$ 38,134
Stamping Group	4,746	5,431	9,748	10,400
3DMT Group	1,193	1,027	1,999	1,713
Wireless Group	—	180	—	425
Consolidated operating costs	$ 21,292	$ 26,169	$ 42,369	$ 50,672
Segment operating income (loss):				
Precision Components Group	$ (2,284)	$ 1,242	$ (3,220)	$ 2,644
Stamping Group	(387)	80	(636)	290
3DMT Group	(267)	(459)	(209)	(857)
Wireless Group	—	(23)	—	(27)
Corporate (1)	(984)	(996)	(1,920)	(2,384)
Total segment operating loss	$ (3,922)	$ (156)	$ (5,985)	$ (334)
Interest expense, net	(927)	(1,030)	(1,939)	(2,137)
Loss on extinguishment of debt	—	—	—	(723)
Other income, net	167	837	130	804
Non-operating expense	(760)	(193)	(1,809)	(2,056)
Consolidated loss before income taxes and non-controlling interest	$ (4,682)	$ (349)	$ (7,794)	$ (2,390)

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

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NOTE 13 – 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:

	Percentage of Sales							
	Three months ended				Six months ended			
Customer	December 31, 2017		January 1, 2017		December 31, 2017		January 1, 2017	
1 (b)	9.5	%	7.2	%	9.3	%	6.1	%
2 (a)	7.6	%	13.1	%	9.0	%	12.0	%
3 (a)	7.8	%	7.0	%	6.8	%	7.6	%
4 (a)	7.8	%	14.6	%	6.6	%	13.7	%
5 (b)	*	%	5.8	%	5.2	%	6.6	%
6 (a)	*	%	*	%	*	%	*	%
Total	32.7	%	47.7	%	36.9	%	46.0	%

(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:

	Percentage of Receivables			
Customer	December 31, 2017		June 30, 2017	
1	**	%	6.8	%
2	6.4	%	11.6	%
3	8.6	%	**	%
4	7.7	%	**	%
5	**	%	**	%
6	6.6	%	**	%
Total	29.3	%	18.4	%

NOTE 14 – Subsequent Events

The Company's registration statement on Form S-1, as amended, pertaining to the rights offering, was declared effective by the SEC on February 9, 2018. The securities constituting the rights offering may be offered and sold only pursuant to the prospectus forming a part of the registration statement. The rights will be issued to holders of the Company's common stock as of the record date of February 6, 2018. The subscription price for the purchase of the Company's common stock pursuant to the rights offering is $2.00 per share. The rights offering will expire on February 25, 2018.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the ARC Group Worldwide, Inc. ("ARC," "our," "we," or "us") Annual Report on Form 10-K for the fiscal year ended June 30, 2017, as filed with the Securities and Exchange Commission ("SEC").

Cautionary Statement Concerning Forward-Looking Statements

The information contained in this Quarterly Report (this "Report") may contain certain statements about 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 SEC, including further but not limited to those discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017. 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," "project "should," "would," "expect," "positioned," "strategy," or words or terms of similar substance or derivative variation or the 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 our customers to access required capital at a reasonable costs; 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 risks. 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.

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). To further advance and support these core capabilities, the Company also offers complementary services including: (i) precision metal stamping; (ii) traditional and clean room plastic injection molding;

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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.

Our business model is to accelerate the widespread adoption of MIM and additive manufacturing, 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 plastic injection molding (including medical clean room applications), precision stamping, magnesium injection molding and computer numerical control machining.

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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;
- 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.

Results of Operations – Three and Six Months Ended December 31, 2017 and January 1, 2017

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

	Three Months Ended December 31, 2017		January 1, 2017	
	Amount (in thousands)	Percent of Total	Amount (in thousands)	Percent of Total
Sales:				
Precision Components Group	$ 13,069	71.2%	$ 20,773	76.9%
Stamping Group	4,359	23.8%	5,511	20.4%
3DMT Group	926	5.0%	568	2.1%
Wireless Group	—	—	157	0.6%
Total	$ 18,354	100.0%	$ 27,009	100.0%
$ Change	$ (8,655)			
% Change	-32.04%			
Gross Profit:	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Precision Components Group	$ (364)	-2.8%	$ 3,942	19.0%
Stamping Group	67	1.5%	576	10.5%
3DMT Group	(73)	-7.9%	(59)	-10.4%
Wireless Group	—	—	45	28.7%
Total	$ (370)	-2.0%	$ 4,504	16.7%
$ Change	$ (4,874)			
% Change	-108.21%			

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	Six Months Ended December 31, 2017		January 1, 2017	
	Amount (in thousands)	Percent of Total	Amount (in thousands)	Percent of Total
Sales:				
Precision Components Group	$ 27,402	71.5%	$ 40,778	77.3%
Stamping Group	9,112	23.8%	10,690	20.3%
3DMT Group	1,790	4.7%	856	1.6%
Wireless Group	—	—	398	0.8%
Total	$ 38,304	100.0%	$ 52,722	100.0%
$ Change	$ (14,418)			
% Change	-27.35%			
Gross Profit:	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Precision Components Group	$ 619	2.3%	$ 7,921	19.4%
Stamping Group	276	3.0%	1,273	11.9%
3DMT Group	158	8.8%	(128)	-15.0%
Wireless Group	—	—	117	29.4%
Total	$ 1,053	2.7%	$ 9,183	17.4%
$ Change	$ (8,130)			
% Change	-88.53%			

Sales

For the Three Months Ended December 31, 2017 Compared to the Three Months Ended January 1, 2017

- Precision Components Group sales during the three months ended December 31, 2017 decreased by $7.7 million, or 37.1%, due to lower MIM sales of $4.0 million and lower plastic and tooling sales of $3.7 million, declines primarily associated with customers in the firearms and defense industries.

- Stamping Group sales during the three months ended December 31, 2017 decreased by $1.2 million, or 20.9%, due to certain program completions being partially offset by the awarding of replacement programs to us primarily in the automotive industry.

- 3DMT sales during the three months ended December 31, 2017 increased by $0.4 million, or 63.1%, primarily due to higher sales to defense customers. This level of sales represented a record quarter in our 3DMT segment.

For the Six Months Ended December 31, 2017 Compared to the Six Months Ended January 1, 2017

- Precision Components Group sales during the six months ended December 31, 2017 decreased by $13.4 million, or 32.8%, due to lower MIM sales of $7.0 million and lower plastic and tooling sales of $6.4 million, declines primarily associated with customers in the firearms and defense industries.

- Stamping Group sales during the six months ended December 31, 2017 decreased by $1.6 million, or 14.8%, primarily due to a wind-generated power disruption in late fiscal 2017 and certain program completions, being partially offset by the awarding of replacement programs to us primarily in the automotive industry. The Company expects insurance to cover generally all damages and business interruption associated with the power disruption.

- 3DMT sales during the six months ended December 31, 2017 increased by $0.9 million, or 109.1%, primarily due to higher sales to defense customers.

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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.

For the Three Months Ended December 31, 2017 Compared to the Three Months Ended January 1, 2017

- Precision Components Group gross profit decreased $4.3 million and gross margin decreased 21.8% during the three months ended December 31, 2017. The decreases in gross profit and gross margin were related to the decrease in revenue and customer volumes, primarily in the firearm and defense industries, as well as planned inventory reduction initiatives, coupled with an associated under-utilization of capacity in our Colorado facilities. Decreases in inventory resulted in a corresponding increase in expense recognition, negatively impacting gross profit by $0.7 million in the quarter, or 16.2%, of the overall decrease in gross margin. Further, the inventory reduction program also resulted in a significant reduction in production hours at these facilities, which had a further incremental impact on gross profit due to reduced cost absorption.

- Stamping Group gross profit decreased $0.5 million and gross margin decreased 9.0% during the three months ended December 31, 2017. The primary reasons for the decreases in gross profit and gross margin were lower sales and lower margin tooling sales related to new product launches.

- 3DMT gross profit decreased $14 thousand during the three months ended December 31, 2017. Negative margin decreased to 7.9% in the three months ended December 31, 2017, compared with negative margin of 10.4% in the prior year period.

For the Six Months Ended December 31, 2017 Compared to the Six Months Ended January 1, 2017

- Precision Components Group gross profit decreased $7.3 million and gross margin decreased 17.1% during the six months ended December 31, 2017. The decreases in gross profit and gross margin were related to the decrease in revenue and customer volumes, primarily in the firearm and defense industries, as well as planned inventory reduction initiatives, coupled with an associated under-utilization of capacity in our Colorado facilities. Decreases in inventory resulted in a corresponding increase in expense recognition, negatively impacting gross profit by $1.3 million in the quarter, or 17.8%, of the overall decrease in gross margin. Further, the inventory reduction program also resulted in a significant reduction in production hours at these facilities, which had a further incremental impact

on gross profit due to reduced cost absorption.

- Stamping Group gross profit decreased $1.0 million and gross margin decreased 8.9% during the six months ended December 31, 2017. The primary reasons for the decreases in gross profit and gross margin were lower sales and lower margin tooling sales related to new product launches.

- 3DMT gross profit increased $0.3 million during the six months ended December 31, 2017. Gross margin increased to 8.8% in the six months ended December 31, 2017, compared with negative margin of 15.0% in the prior year period.

The following paragraphs discuss other items affecting the results of our operations for the three and six months ended December 31, 2017 and January 1, 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expense ("SG&A") from continuing operations totaled $3.6 million, or 19.4% of sales, for the three months ended December 31, 2017, compared with $4.7 million, or 17.3% of sales, for the three months ended January 1, 2017. SG&A from continuing operations totaled $7.0 million, or 18.4% of sales, for the six months ended December 31, 2017, compared with $9.5 million, or 18.1% of sales, for the six months ended January 1,

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2017. The decreases in SG&A expense for the three and six months ended December 31, 2017 were primarily due to lower labor and labor related costs.

Other Income, Net

Other income, net was $0.2 million and $0.8 million for the three months ended December 31, 2017 and January 1, 2017, respectively, and was $0.1 million and $0.8 million for the six months ended December 31, 2017 and January 1, 2017, respectively. The decrease in other income, net during the three and six months periods ended December 31, 2017 was primarily due to a gain of $0.4 million related to a reduction in the Kecy escrow in fiscal 2017.

Interest Expense, Net

Interest expense, net was $0.9 million and $1.0 million for the three months ended December 31, 2017 and January 1, 2017, respectively, and was $1.9 million and $2.1 million for the six months ended December 31, 2017 and January 1, 2017, respectively. The decrease in interest expense, net for the three and six months ended December 31, 2017 was primarily due to the refinancing of the Company's senior secured credit facility.

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.

Discontinued Operations

On September 15, 2017, the Company sold its subsidiary GF&F. Income from continuing operations for the six months ended December 31, 2017 excludes the income from discontinued operations, before tax, of $3 thousand and the loss on disposition of this business, after tax, of $0.3 million.

In September 2016, the Company sold its subsidiary Tekna Seal LLC pursuant to the terms and conditions of a Membership Interests Purchase Agreement. Income from continuing operations for the six months ended January 1, 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.

Income Tax

Income tax benefit from continuing operations was $0.4 million and income tax expense was $30 thousand for the three months ended December 31, 2017 and January 1, 2017, respectively. Income tax benefit was $0.2 million and $1.3 million for the six months ended December 31, 2018 and January 1, 2017, respectively.

The primary reason for the income tax benefit in the three and six months ended December 31, 2017 was due to the impact of the Tax Reform Act enacted on December 22, 2017, primarily reducing the U.S. corporate income tax rate from a maximum of 35% to 21% and reducing the valuation allowance previously recognized on AMT credit carryforwards, which will be refundable credits. The primary reason for the income tax benefit in the prior year period was due to our net loss from continuing operations.

Liquidity and Capital Resources

We had cash and cash equivalents of $0.4 million and $0.6 million as of December 31, 2017 and June 30, 2017, respectively, held in financial institutions outside the United States. 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

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our daily interest expense. Disbursements are paid daily from cash being made available under our revolver loan based on a borrowing base calculation.

As discussed in Note 9, Earnings Per Share, we have filed with the SEC a registration statement relating to a proposed public offering of non-transferrable subscription rights to purchase shares of ARC common stock. The registration statement was declared effective February 9, 2018. We expect to receive gross proceeds of approximately $10.0 million before expenses and use such proceeds for general working capital needs.

The securities constituting the rights offering may be offered and sold only pursuant to the prospectus forming a part of the registration statement. The rights will be issued to holders of the Company's common stock as of the record date of February 6, 2018. The subscription price for the purchase of the Company's common stock pursuant to the rights offering is $2.00 per share. The rights offering will expire on February 25, 2018. A copy of the prospectus forming a part of the Registration Statement may be obtained free of charge at the website maintained by the SEC at www.sec.gov or by contacting the Company's subscription agent for the rights offering, Broadridge Corporate Issuer Solutions, Inc., toll-free at (855) 793-5068.

Our primary sources of liquidity are cash flows from operations, cash on hand, and revolving loans permitted under the Senior ABL Credit Facility. As of December 31, 2017, $11.2 million of borrowings were outstanding under the senior secured revolving loan, with additional borrowings subject to compliance with the terms of our Senior ABL Credit Facility as described in Note 7. While we believe these sources of liquidity, along with the proposed rights offering, to be sufficient to maintain ongoing operations for the next twelve months, we may seek additional sources of capital to provide incremental liquidity, to assist in the acceleration of organic growth, and to support the achievement of other strategic and financial objectives.

Operating Activities

Cash used in operating activities during the six months ended December 31, 2017 was $1.7 million, which consisted of the following:

- Net loss of $7.9 million included $5.6 million of non-cash expenses, which consisted primarily of $5.0 million of depreciation and amortization, $0.4 million of share-based compensation and a loss on the sale of GF&F of $0.1 million; and
- Cash provided by working capital of $0.6 million primarily resulted from a cash inflow of prepaids related to the net recognition of revenue related to tooling work in process.

Investing Activities

During the six months ended December 31, 2017, cash provided by investing activities was $1.5 million primarily due to the following:

- Proceeds received from the sale of our subsidiary, GF&F, of $3.0 million; and
- $1.5 million was invested in property and equipment primarily in our Precision Components Group segment to address customer requirements.

Financing Activities

During the six months ended December 31, 2017, cash used in financing activities was $0.4 million, primarily due to the following:

- Net repayments on our long-term debt and capital lease obligations of $0.5 million; and
- Receipt of $0.2 million from the issuance of stock through our employee stock purchase plan and the exercise of stock options.

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Debt and Credit Arrangements

For a discussion of our long-term debt, see Note 7, Debt, to our condensed consolidated financial statements in Part I, Item 1 to this Report incorporated herein by reference thereto and Note 8, Debt, to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

The descriptions of the Senior ABL Credit Facility and the Subordinated Term 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 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 Covenant. Our Senior ABL Credit Facility contains a financial covenant, summarized as follows:

Minimum Availability. We are required to maintain the following availability: (a) at least $1,250,000 in revolving credit availability until the earlier of (i) the initial closing of the infusion of $5.0 million in junior capital, which must be completed not later than January 31, 2018, and (ii) January 31, 2018; and (b) thereafter, at least $3,500,000 in such revolving credit availability.

As of December 31, 2017, we were not in compliance with our minimum availability covenant under the Senior ABL Credit Facility. We received a waiver from Citizens Bank, N.A., which is effective through February 28, 2018.

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.

Period	Fixed Charge Coverage Ratio
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

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The summary calculation of our Subordinated Loan Agreement Fixed Charge Coverage Ratio as of December 31, 2017 is as follows:

(in thousands, except ratio)	Amount
Consolidated EBITDA	$ 12,334
Less unfinanced portion of capital expenditures	(2,396)
Less expense for taxes paid in cash	(9)
Coverage Amount (a)	$ 9,929
Fixed Charges (b)	$ 6,516
Fixed Charge Coverage Ratio (a:b)	1.52:1.00

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
June 30, 2017 through June 30, 2018	4.00:1.00
July 1, 2018 and thereafter	3.50:1.00

The summary calculation of our Subordinated Loan Agreement Total Leverage Ratio as of December 31, 2017 is as follows:

(in thousands, except ratio)	Amount
Funded Indebtedness (a)	$ 48,639
Consolidated EBITDA (b)	$ 12,334
Maximum Total Leverage Ratio (a:b)	3.94:1.00

As of December 31, 2017, we were in compliance with our debt covenants under our 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 our financial ratios as used in our debt covenant calculations. 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.

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

For the twelve months ended:	December 31, 2017
Net loss	$ (20,948)
Share-based compensation	773
Impairments	3,303
Interest expense, net	3,833
Income taxes	(1,575)
Depreciation and amortization	10,055
Transaction related expenses (1)	763
Restructuring and severance expenses	732
Non-recurring expenses	124
Other non-recurring expenses (2)	2,348
Other non-cash adjustments	7,296
Inventory write-offs and reserve adjustments	5,320
Pro-forma EBITDA adjustment to exclude discontinued subsidiaries	310
Consolidated EBITDA (3)	$ 12,334

(1) Transaction related expenses relate to legal fees incurred to amend certain debt agreements and the sale of our non-core subsidiaries.
(2) Other non-recurring expenses relate to certain capitalized tooling costs, an insurance claim for lost production at our Kecy facility, costs incurred to relocate our plastic injection molding operations, and certain projected cost reductions allowed as an adjustment to Consolidated EBITDA.
(3) 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.

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 December 31, 2017.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein, including estimates about the effects of matters or future events that are inherently uncertain. Policies determined to be critical are those that have the most significant impact on our financial statements and require management to use a greater degree of judgment and/or estimates. For a discussion of our critical accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, in our Form 10-K for the fiscal year ended June 30, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to permissive authority under Regulation S-K, Rule 305, we have omitted Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the SEC is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our interim

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Chief Executive and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

As of the end of the period covered by this Report, and under the supervision and with the participation of our management, including our interim Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, we have concluded that our disclosure controls and procedures were not effective as of December 31, 2017, at the reasonable assurance level due to weaknesses in our internal control over financial reporting.

We previously reported material weaknesses that were identified as of June 30, 2015. Our information technology and accounting infrastructure was inadequate, which could lead to the untimely identification and resolution of accounting and disclosure matters.

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

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

- Upgrade of our accounting and manufacturing software system to the latest version in our Colorado facilities. This upgrade will be coupled with a standardization of processes;
- Reorganization of global finance team to consolidate operations, thereby creating greater efficiency and separation of duties;
- Complete the implementation of our consolidation software package; and
- Strengthen the documentation of processes, procedures, and the review and approval of financial activities at our facilities.

During fiscal year 2018, we implemented the following changes in our internal control over financial reporting to address the previously reported material weakness and to enhance our overall financial control environment:

- We sold GF&F, which was a smaller, non-core subsidiary;
- In November 2017, the Company hired a Chief Financial Officer, who is also a Certified Public Accountant, with significant experience in accounting, audit, finance, IT, treasury, risk management and U.S. listed company experience; and
- Our Tooling business continues to improve its processes and procedures. Accounting practices are becoming more standardized across our Colorado facilities and greater efficiencies have resulted as we move towards a single,

shared services accounting department in Colorado.

Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal control over financial reporting during the quarterly period ended December 31, 2017, that would have materially affected, or are reasonably likely to materially affect, our control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, except with respect to the risk factors applicable to our rights offering, as set forth in the registration statement on Form S-1, as amended and filed with the SEC on February 7, 2018 and declared effective on February 9, 2018, as to which all such risk factors under the caption "RISK FACTORS" and set forth pages 16 through 20 of the prospectus constituting part of the registration statement are incorporated herein by reference thereto.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
10.1*	Fourth 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 November 12, 2017.
10.2*	Waiver Letter between ARC Group Worldwide, Inc. and Citizens Bank, N.A., dated as of February 9, 2018.
10.3*	Fifth 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 February 9, 2018.
31.1*	Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1&	Officers' Certifications of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002
99.1	Risk factors under the caption "RISK FACTORS" on Pages 16 through 20 of the prospectus constituting part of the registration statement on Form S-1, as amended and filed with the Commission on February 7, 2018 and declared effective on February 9, 2018, incorporated herein by reference thereto.
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

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*Filed with this Form 10-Q.

&This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, 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 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: February 9, 2018 /s/ Drew M. Kelley
Name: Drew M. Kelley
Interim Chief Executive Officer (Principal Executive Officer)

Date: February 9, 2018 /s/ Brian Knaley
Name: Brian Knaley
Chief Financial Officer (Principal Financial Officer)