

ARC Group Worldwide, Inc.
Form 10-K
September 28, 2018
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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, 2018

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)

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

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark 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
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, 2018, the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$18.8 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 28, 2018, there were 23,349,478 shares of the registrant's \$0.0005 par value common stock outstanding.

Portions of the registrant's Definitive Proxy Statement for the 2018 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.

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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”). 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

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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

Our business model is to accelerate the widespread adoption of MIM, 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, aerospace,

automotive, defense, 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.

- 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, and plastic injection molding (including medical clean room applications).

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.

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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 subsidiary, FloMet LLC (“FloMet”), provided high-quality fabricated metal components to diverse industries, among them medical and dental device, electronic device, defense, and the fluid handling industries, including energy.

On December 12, 2013, ARC formed a new division, 3D Metal Technologies, LLC (“3DMT”). 3DMT is focused on utilizing ARC’s experience in 3D printing, rapid prototyping, short run production, and tooling to reduce customer’s ‘time to market’.

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, defense, and consumer 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 LLC (“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 General Flange & Forge LLC (“GF&F”) and classified the business as held for sale on 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).

On July 21, 2018, the Company merged and consolidated its subsidiaries ATC, a Colorado limited liability company, and Thixoforming, a Colorado limited liability company, into AFT, a Colorado corporation. Following the merger and consolidation on June 22, 2018, AFT changed its name to ARC Colorado, Inc.

On July 17, 2018, the Company's Board of Directors approved a plan to explore hiring a third party to help market and sell 3DMT. On July 25, 2018, the Company entered into an agreement with a third party to market 3DMT for sale. The Company is currently assessing what a reasonable estimated sale price would be for the sale of 3DMT.

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, aerospace, defense, and automotive 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.

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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.

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.
- **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, or 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 being 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.

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- **Emphasis on Other Advanced Manufacturing Technologies.** We believe our adoption and continued implementation of other advanced manufacturing technologies, such as robotics, material development, RapidMIM, and modular tooling, 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 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 have implemented 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 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 deeper 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.

- **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. Further, we believe that international markets present a compelling growth opportunity for our business, and we have been exploring those opportunities.
- **Continue to Pursue Strategic Acquisitions.** We intend to identify, and where and when appropriate, 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

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acquisition targets that meet our targeted criteria, and we intend to continue to pursue such acquisitions in the future.

Reporting Segments

See Note 13, 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, 2018, our global workforce, excluding contractors, totaled approximately 530 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 36.9% and 45.0% of our 2018 and 2017 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.

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

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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.

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.

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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.

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.

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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 36.9% of our fiscal year 2018 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.

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

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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, 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.

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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, and Ohio 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 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, automotive, defense, 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.

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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;
- (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

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- (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.

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.

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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, 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.

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 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 2019, we will continue 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.

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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 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

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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 that 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.

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.

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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 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 our metal stamping 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, 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

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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.

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, 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 subsidiary 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.

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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.

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, 2018 reflect net intangible assets of \$16.3 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 2018, we reviewed the businesses segments and noted the segments fair value was in excess of the current value as of June 30, 2018. We did not record any impairment for goodwill for the year ended June 30, 2018.

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, 2018, we had approximately \$39.5 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;

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- 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
- 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

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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 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;

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- 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 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 12,292,838 shares, or 52.7%, of our total 23,315,915 outstanding shares as of June 30, 2018. As a result, Everest Hill Group has the ability to exert control 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, 2018, the closing price of our common stock fluctuated significantly from a high of \$3.10 to a low of \$1.80 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 and when 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;

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- 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;
- 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 23,315,915 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.

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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.

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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, 2018, 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
ARC Colorado, Inc. ("ARCC") formerly known as 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
ARCC (facility formerly operated by Advance Tooling Concepts, LLC, merged into ARCC in June 2018)	Longmont, Colorado	Specialized tool making	34,000 leased
ARCC (facility formerly operated through Thixoforming LLC, merged into ARCC in June 2018)	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

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

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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, 2018:		
First Quarter	\$ 3.10	\$ 2.00
Second Quarter	2.95	1.83
Third Quarter	2.60	1.80
Fourth Quarter	2.60	1.90
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

Holders of Record

On September 27, 2018, there were 127 stockholders of record of our common stock and the closing price of our common stock was \$1.75 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, 2018 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	1,469,943	\$2.59	1,062,028
Equity compensation plans not approved by security holders	-	-	-
Total	1,469,943	\$2.59	1,062,028

Recent Sales of Unregistered Securities and Use of Proceeds

The Company registered 5,000,000 shares of common stock, par value \$.0005 per share (the “Common Stock”), for a purchase price of \$2.00 per share, under the Form S-1 filed by the Company with the U.S. Securities & Exchange Commission, declared effective on February 9, 2018 (the “Rights Offering”). The Rights Offering closed on February 28, 2018. In connection with the Rights Offering, the Company issued an aggregate of 3,257,645 shares of Common

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Stock to the Everest Hill Group for an aggregate purchase price of \$6,515,294. Of such shares of Common Stock purchased by Everest Hill Group: (i) 2,466,604 shares consisted of registered shares purchased by Everest Hill Group pursuant to their basic subscription rights in the Rights Offering (the “Registered Shares”); and (ii) 791,041 restricted shares of Common Stock were purchased in a private placement from the Company pursuant to the terms of the backstop purchase agreement of Everest Hill Group with the Company (the “Everest Hill Backstop Shares”).

After giving effect to the issuances of the Registered Shares and the Everest Hill Backstop Shares in the Rights Offering, Everest Hill Group owns approximately 52.7% of the issued and outstanding shares of the Company’s Common Stock.

Also, in connection with the Rights Offering, Zori Investment Limited (“Zori”), a company affiliated with Mr. Eli Davidai, member of the Company’s Board of Directors, purchased 125,000 restricted shares of Company Common Stock at a purchase price of \$2.00 per share, for an aggregate purchase price of \$250,000, pursuant to the terms and conditions of its backstop purchase agreement with the Company (the “Zori Backstop Shares”).

The Everest Hill Backstop Shares and Zori Backstop Shares were offered and issued pursuant to the exemption from registration provided under Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”).

The Company has granted each of Everest Hill Group and Zori registration rights in respect of the restricted shares of Common Stock acquired by each such purchaser, however, the Company has not registered any such shares as of the date hereof and neither Everest Hill Group nor Zori has made any requests for registration in such regard.

No direct or indirect payments were made to any affiliates of Everest Hill Group, Zori or the Company in connection with the Rights Offering or the respective private placements of restricted backstop securities.

The Rights Offering together with the Everest Hill Group and Zori backstop agreements closed in the full at the total offered amount which resulted in aggregate gross proceeds to the Company of \$10 million. The Company did not engage any underwriters in connection with the Rights Offering. After giving effect to all payments due to attorneys, accountants, solicitation agents and third parties rendering services to the Company in connection with the Rights Offering, the net proceeds realized by the Company from the Rights Offering were approximately \$9.8 Million.

Proceeds from the rights offering were utilized for general corporate purposes.

Certain other parties who had initially agreed to serve as backstop purchasers in the Rights Offering were released from their respective agreements by the Company upon their respective undertakings to purchase registered shares in the Rights Offering in amounts equivalent to their backstop obligations.

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, 2018. As of June 30, 2018, 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,

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“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”). To further advance and support this core capability, 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 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. These reporting segments were continued in the year ended June 30, 2018.

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Results of Operations for the Fiscal Year Ended June 30, 2018 compared to the Fiscal Year Ended June 30, 2017

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

	Year Ended June 30, 2018		June 30, 2017	
	Amount (in thousands)	Percent of Total	Amount (in thousands)	Percent of Total
Sales:				
Precision Components Group	\$ 60,643	73.6%	\$ 75,053	75.8%
Stamping Group	19,376	23.5%	21,061	21.3%
3DMT Group	2,419	2.9%	2,528	2.5%
Wireless Group	—	—	427	0.4%
Total	\$ 82,438	100.0%	\$ 99,069	100.0%
\$ Change	\$ (16,631)			
% Change	-16.79%			
			Gross	
Gross Profit:	Gross Profit	Gross Margin	Profit	Gross Margin
Precision Components Group	\$ 3,790	6.2%	\$ 7,963	10.6%
Stamping Group	1,480	7.6%	1,750	8.3%
3DMT Group	(1,248)	-51.6%	4	0.2%
Wireless Group	—	—	105	24.6%
Total	\$ 4,022	4.9%	\$ 9,822	9.9%
\$ Change	\$ (5,800)			
% Change	-59.05%			

Sales

The change in sales by reportable segment was as follows:

- Precision Components Group sales during fiscal year 2018 decreased by \$14.4 million, or 19.2%, due to lower overall demand during FY 18 related to the decline in the firearm and defense industry.
- Stamping Group sales during fiscal year 2018 decreased by \$1.7 million, or 8.0%, primarily due to fewer new customer product launches and lower overall demand during FY 18.

- 3DMT sales during fiscal year 2018 decreased by \$0.1 million, or 4.3%, remaining relatively consistent from year to year.
- 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 2018 decreased \$4.2 million, or 52.4%, and gross margin in fiscal year 2018 decreased 4.4%. The decrease was primarily driven by our inventory reduction project and was partially offset by our cost reduction efforts for the same period. The Company made a decision in the fourth quarter of fiscal 2017 to exit products and projects that were low margin or unprofitable,

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resulting in several one-time charges. The Company continued this process in 2018 and completed the effort as of June 30, 2018. The Company maintained a higher reserve balance as part of the policy change. Further, the Company had lower sales during fiscal year 2018 which resulted in lower overall margins.

- Stamping Group gross profit during fiscal year 2018 decreased \$0.3 million, or 15.4%, and gross margin in fiscal year 2018 decreased 0.7%. The primary reason for the decrease is the lower overall sales, as well as an increase in lease expense during fiscal year 2018 of \$0.4 million.
- 3DMT gross profit during fiscal year 2018 decreased \$1.3 million, and gross margin in fiscal year 2018 decreased 51.8%. The decrease is primarily related to slightly lower revenues, higher leasing costs of \$0.4 million, and increased material costs of \$0.1 million.
- 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 2018 totaled \$13.6 million, or 16.6% of sales, compared with \$19.3 million, or 19.4% of sales during the prior year period. The decrease in SG&A expense during fiscal year 2018 of \$5.6 million was primarily due to lower labor and labor related costs of \$3.3 million, which is the result of the reduction in head count related to the lower sales in fiscal year 2018. Other decreases include a reduction of research and development expenses of \$0.4 million, lower travel and lodging expenses of \$0.2 million, lower rent and facilities of \$0.1 million, and reduced IT expenses of \$0.1 million.

Goodwill Impairment Charges

During the fourth quarter of fiscal 2018, the Company concluded that no impairment for its remaining goodwill was required. During the fourth quarter of fiscal 2017, the Company concluded that goodwill was impaired for its ATC and Kegy 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, 2018 was \$0.3 million, compared to \$0.7 million in the prior year period. The decrease in Other Income, Net was primarily due to a non-recurring gain of \$0.4 million related to a reduction in the Key Escrow recorded during fiscal year 2017.

Interest Expense, Net

Interest expense, net during fiscal year 2018 was \$3.6 million, compared to \$4.0 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 resulting from proceeds from our Rights Offering in the third quarter of the current fiscal year.

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

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.

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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 loss from discontinued operations, before tax, of \$0.5 million.

Income Tax Expense

Income tax benefit from continuing operations was \$0.1 million in the fiscal year ended June 30, 2018, as compared with a benefit of \$2.6 million in the prior year period. The primary reason for the decrease in tax benefit from continuing operations was our lower net operating loss in fiscal year 2018. 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.

We recognized tax benefit of \$0.2 million related to discontinued operations in fiscal year 2018 as compared to tax expense of \$1.9 million related to discontinued operations in fiscal 2017. The decrease in tax expense in fiscal 2018 was primarily due to the loss recognized on the sale of GF&F in fiscal 2018 as compared to the gain recognized on the sale of Tekna Seal in fiscal 2017.

Liquidity and Capital Resources

As of June 30, 2018, we had cash and cash equivalents of \$0.4 million. Cash held in financial institutions outside the United States totaled \$0.4 million and \$0.6 million as of June 30, 2018 and 2017, 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, 2018, \$5.7 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.

Operating Activities

Cash from operating activities decreased \$3.4 million to (\$0.6) million used in operations for fiscal 2018 as compared to \$2.9 million provided by operations in fiscal 2017, primarily due to the following:

- Decline in earnings of \$3.0 million, which excludes a pre-tax gain of \$5.5 million recognized on the sale of subsidiaries and goodwill impairment charges of \$3.3 million recognized in 2017.
- Increase in cash provided from changes in working capital items of \$1.3 million, primarily due to an increase in accounts payable of \$2.8 million; and lower inventory of \$1.8 million as the company continued to reduce inventory due to our completed inventory reduction program. This was partially offset by to a decrease in accrued expenses and other liabilities of \$2.4 million, primarily due to a decrease in accrued escrow of \$1.2 million during fiscal 2018.

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Investing Activities

Cash from investing activities decreased \$6.0 million to (\$2.1) million used in investing activities for fiscal 2018 as compared to net cash provided by investing activities of \$3.9 million in fiscal 2017, primarily due to the following:

- Proceeds received from the sale of our subsidiary of \$3.0 million in fiscal 2018 as compared to proceeds from sale of a different subsidiary of \$10.5 million in fiscal 2017; and
- Partially offset by cash used to purchase property and equipment of \$5.1 million during fiscal 2018.

Financing Activities

Cash from financing activities increased \$12.3 million to \$2.3 million provided by financing activities for fiscal 2018 as compared to (\$9.9) million used in financing activities in fiscal 2017, primarily due to the following:

- Lower net principal payments on our long-term debt primarily due to cash received of \$3.0 million from the sale of our subsidiary, partially offset by borrowings;
- Receipt of \$9.8 million from a rights offering during Q3 2018. The Company received gross proceeds of \$10.0 million for 5,000,000 shares of its common stock pursuant to a registration statement on Form S-1, as amended, that was previously filed and declared effective by the SEC on February 9, 2018. The Company received net proceeds of approximately \$9.8 million from the Rights Offering after deducting offering costs payable by the Company. The proceeds were used for general corporate purposes.
- Receipt of \$0.2 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 7, 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 and interest for loans made under both of the Credit Facilities, unless such defaults were waived or subject to forbearance by the respective creditors.

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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 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

The summary calculation of our Subordinated Loan Agreement Fixed Charge Coverage Ratio as of June 30, 2018 is as follows:

(in thousands, except ratio)	Amount
Consolidated EBITDA	\$ 11,112
Less unfinanced portion of capital expenditures	(1,935)
Less taxes paid in cash	(47)
Coverage Amount (a)	\$ 9,130
Fixed Charges (b)	\$ 6,424
Fixed Charge Coverage Ratio (a:b)	1.42:1.00

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

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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)	\$ 41,964
Consolidated EBITDA (b)	\$ 11,112
Maximum Total Leverage Ratio (a:b)	3.77:1.00

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Compliance with Financial Ratio Covenants

As of June 30, 2018, 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.

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

For the twelve months ended:	June 30, 2018
Net loss	\$ (13,180)
Share-based compensation	714
Interest expense, net	3,625
Income taxes	(259)
Depreciation and amortization	10,223
Transaction related expenses (1)	408
Restructuring and severance expenses	42
Non-recurring expenses	(143)
Other non-cash adjustments	6,514
Inventory write-offs and reserve adjustments	1,525
Pro-forma EBITDA adjustment to exclude discontinued subsidiaries	1,643
Consolidated EBITDA	\$ 11,112

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

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, 2018.

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Contractual Obligations and Commitments

We have various contractual obligations impacting our liquidity. The following table represents our contractual payment obligations as of June 30, 2018 (in thousands):

Contractual Cash Obligations	Total	2019	2020	2021	2022	2023	Thereafter
Long-term debt (1)	\$ 39,457	\$ 1,807	\$ 36,718	\$ 932	\$ —	\$ —	\$ —
Capital lease obligations	2,747	1,629	474	269	167	160	48
Operating lease obligations	7,559	2,728	2,157	1,629	974	71	—
Escrow payment obligations (2)	943	943	—	—	—	—	—
Total	\$ 50,706	\$ 7,107	\$ 39,349	\$ 2,830	\$ 1,141	\$ 231	\$ 48

(1) For further information, refer to Note 7, 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 Kecy, to the extent that the escrow has not been drawn upon.

We have unrecognized tax benefits of \$1.0 million at June 30, 2018, 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 cost and net realizable value using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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.

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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 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.

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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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

ARC Group Worldwide, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ARC Group Worldwide, Inc. and subsidiaries (the “Company”) as of June 30, 2018, the related consolidated statement of operations, comprehensive loss, stockholders’ equity and cash flow for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2018 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting 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.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by

management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moss Adams

Denver, Colorado

September 28, 2018

We have served as the Company's auditor since 2017.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

ARC Group Worldwide, Inc.

We have audited the accompanying consolidated balance sheet of ARC Group Worldwide, Inc. and subsidiaries (the "Company") as of June 30, 2017, and the related statement of operations, comprehensive loss, stockholders' equity and cash flow for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2017 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 the results of their operations and their cash flow for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Hein & Associates LLP

Denver, Colorado

September 26, 2017

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ARC Group Worldwide, Inc.

Consolidated Statements of Operations

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

	For the Years ended June 30,	
	2018	2017
Sales	\$ 82,438	\$ 99,069
Cost of sales	78,416	89,247
Gross profit	4,022	9,822
Selling, general and administrative	13,634	19,263
Goodwill impairment charges	—	3,303
Loss from operations	(9,612)	(12,744)
Other income, net	298	670
Interest expense, net	(3,625)	(4,008)
Loss on extinguishment of debt	—	(723)
Loss before income taxes	(12,939)	(16,805)
Income tax benefit	35	2,631
Net loss from continuing operations	(12,904)	(14,174)
(Loss) gain on sale of subsidiaries and income (loss) from discontinued operations, net of tax	(276)	4,001
Net loss	(13,180)	(10,173)
Net loss attributable to non-controlling interest		
Continuing operations	—	(22)
Discontinued operations	—	(4)
Net loss attributable to non-controlling interest	—	(26)
Net loss attributable to ARC Group Worldwide, Inc.	\$ (13,180)	\$ (10,199)
Net loss per common share, basic and diluted:		
Continuing operations	\$ (0.65)	\$ (0.78)
Discontinued operations	\$ (0.01)	\$ 0.22
Attributable to ARC Group Worldwide, Inc.	\$ (0.66)	\$ (0.56)
Weighted average common shares outstanding:		
Basic and diluted	19,936,074	18,142,719

See accompanying notes to consolidated financial statements.

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ARC Group Worldwide, Inc.

Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Years ended June	
	30,	
	2018	2017
Net loss	\$ (13,180)	\$ (10,173)
Foreign currency translation adjustment, net	(29)	79
Comprehensive loss	(13,209)	(10,094)
Comprehensive income attributable to non-controlling interests	—	(26)
Comprehensive loss attributable to ARC Group Worldwide, Inc.	\$ (13,209)	\$ (10,120)

See accompanying notes to consolidated financial statements.

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ARC Group Worldwide, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	As of June 30,	
	2018	2017
ASSETS		
Current assets:		
Cash	\$ 365	\$ 593
Accounts receivable, net	11,251	10,488
Inventories, net	12,327	14,369
Prepaid expenses and other current assets	2,955	3,152
Current assets of discontinued operations	—	1,452
Total current assets	26,898	30,054
Property and equipment, net	39,980	41,349
Goodwill	6,412	6,412
Intangible assets, net	16,270	19,624
Other	373	291
Long-term assets of discontinued operations	—	1,893
Total assets	\$ 89,933	\$ 99,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,704	\$ 8,681
Accrued expenses and other current liabilities	2,090	3,273
Deferred revenue	825	1,165
Bank borrowings, current portion of long-term debt	1,721	1,701
Capital lease obligations, current portion	1,429	1,470
Accrued escrow obligations, current portion	943	1,212
Current liabilities of discontinued operations	—	283
Total current liabilities	18,712	17,785
Long-term debt, net of current portion	37,013	42,822
Capital lease obligations, net of current portion	1,079	1,888
Accrued escrow obligations, net of current portion	—	1,184
Other long-term liabilities	965	1,017
Long-term liabilities of discontinued operations	—	260
Total liabilities	57,769	64,956
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	—	—
	12	10

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Common stock, \$0.0005 par value, 250,000,000 shares authorized; 23,324,316 shares issued and 23,315,915 shares issued and outstanding at June 30, 2018, and 18,180,027 shares issued and 18,171,626 shares issued and outstanding at June 30, 2017

Treasury stock, at cost; 8,401 shares at June 30, 2018 and June 30, 2017	(94)	(94)
Additional paid-in capital	41,829	31,109
Retained earnings (accumulated deficit)	(9,627)	3,569
Accumulated other comprehensive income	44	73
Total stockholders' equity	32,164	34,667
Total liabilities and stockholders' equity	\$ 89,933	\$ 99,623

See accompanying notes to consolidated financial statements.

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ARC Group Worldwide, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(in thousands)

For the Years Ended June 30, 2018 and 2017

	Common Stock		Treasury Stock		Additional	Retained	Accumulated	Non-	Total
	Amount	Amount	Amount	Amount	paid-in	earnings	other	controlling	equity
	(Par value	(at cost)			capital	(accumulated	comprehensive	interests	
	Shares	\$0.0005) Shares	Shares	(at cost)	capital	deficit)	income		
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 membership interests	—	—	—	—	—	—	—	(393)	(393)
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
Net loss	—	—	—	—	—	(13,180)	—	—	(13,180)
Proceeds from rights offering, net	5,000	2	—	—	9,783	—	—	—	9,785

Share issuance for exercise of options	74	—	—	—	63	—	—	—	63
Share-based compensation expense	—	—	—	—	714	—	—	—	714
Shares issued under employee stock purchase plan	70	—	—	—	145	—	—	—	145
Currency translation adjustment	—	—	—	—	—	—	(29)	—	(29)
Other	—	—	—	—	15	(16)	—	—	(1)
Balance, June 30, 2018	23,324	\$ 12	(8)	\$ (94)	\$ 41,829	\$ (9,627)	\$ 44	\$ —	\$ 32,164

See accompanying notes to consolidated financial statements.

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ARC Group Worldwide, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	For the Years ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (13,180)	\$ (10,173)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,223	9,930
Share-based compensation expense	714	752
Loss on disposal of assets	—	293
Loss on sale of asset	178	—
Loss (gain) on sale of subsidiaries	109	(5,485)
Goodwill impairment charges	—	3,303
Bad debt expense and other	(6)	173
Deferred income taxes	—	(407)
Changes in working capital:		
Accounts receivable	(631)	2,597
Inventory	1,876	1,120
Prepaid expenses and other assets	177	480
Accounts payable	2,768	1,068
Accrued expenses and other current liabilities	(2,445)	(509)
Deferred revenue	(339)	(292)
Net cash (used in) provided by operating activities	(556)	2,850
Cash flows from investing activities:		
Purchases of property and equipment	(5,144)	(6,641)
Proceeds from sale of subsidiary	3,000	10,538
Net cash (used in) provided by investing activities	(2,144)	3,897
Cash flows from financing activities:		
Proceeds from debt issuance	94,053	118,124
Repayments of long-term debt and capital lease obligations	(101,659)	(127,468)
Proceeds from rights offering, net	9,785	—
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 and exercise of stock options	208	98
Net cash provided by (used in) financing activities	2,387	(9,934)
Effect of exchange rates on cash	85	160
Net decrease in cash	(228)	(3,027)

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Cash, beginning of period	593	3,620
Cash, end of period	\$ 365	\$ 593
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,948	\$ 3,303
Cash paid for income taxes, net of refunds	\$ 137	\$ (849)

See accompanying notes to consolidated financial statements.

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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. Any reclassifications made did not have any impact on net loss.

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 as of

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June 30, 2018 and 2017, respectively. The amounts charged to operations and write-offs were immaterial for the periods presented.

Inventories

Inventories are stated at the lower of cost and net realizable value using the first-in, first-out (FIFO) method or market. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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 divestiture 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 this business are presented separately as discontinued operations for the years ended June 30, 2018 and 2017 in accordance with the authoritative guidance.

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 2018, 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 goodwill did not exceed their fair value and no impairment was recorded for the period (see Note 6, Goodwill and Intangible Assets, for more information). There were no other indicators of impairment for the Company's remaining reporting units.

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.

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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, 2018 or 2017.

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, 2018 and 2017, accrued expenses that exceeded 5% of current liabilities consisted of approximately \$1.3 million and \$1.9 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, 2018 and 2017, deferred revenue was \$0.8 million and \$1.2 million, respectively. The Company recognizes revenue and the related expenses when the customer approves the mold for production. Accordingly, as of June 30, 2018 and 2017, the Company has incurred costs of \$0.9 million and \$1.2 million, respectively, related to molds in the process of being developed that have been deferred and are included as part of the total current assets on the accompanying balance sheets.

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

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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.

Revenue is measured as the amount of consideration we expect to receive in exchange for fulfilling product orders. The amount of consideration we expect to receive and revenue we recognize includes estimates for trade payment discounts and customer rebates that are estimated using historical experience and other relevant factors and is recorded within the same period that the revenue is recognized.

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, 2018 and 2017, the Company incurred \$0.1 million and \$0.5 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 of 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 and \$0.1 million were recognized during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, accrued interest and penalties were \$0.3 million and \$0.4 million, respectively.

In general, the tax returns for the years ending June 30, 2015 through 2018 are open to examination by federal and state authorities. Tax years 2004 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 July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory: Topic 330 (“ASU 2015-11”), that requires management to measure in scope inventory at the lower of cost and net realizable value for all inventory recorded at average cost of first-in, first-out (FIFO) method. ASU 2015-11 is effective for public business entities for fiscal year beginning after December 15, 2016 and for all other entities effective for fiscal years beginning after December 15, 2016 and interim periods within fiscal years beginning December 15, 2017. The Company adopted ASU

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2015-11 as of June 30, 2018, and its adoption did not have any significant impact on the Company's financial statements.

Recent Accounting Pronouncements

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 and related financial statement disclosures will not be affected upon adoption. The Company expects to adopt the standard using the modified retrospective approach and applying ASU 2014-09 on July 1, 2018 and forward.

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 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. In July 2018, the FASB issued ASU No. 2018-11, Leases Top 842 Targeted Improvements ("ASU 2018-11"). This standard added an additional (and optional) transition method to adopt the new leases standard. Under the new transition method, the new leases standard is applied at the adoption date and a cumulative effect adjustment is recognized on the opening balance sheet retained earnings at the date of adoption. Additionally, comparative financial statements will be presented in accordance with Topic 840, Leases. 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 12, Commitments and Contingencies.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Topic 350 (“ASU 2017-04”), which eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative step, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for all public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-04 on the financial statements. There was no impairment noted during 2018, but the Company expects that this standard will impact the financial statements if an impairment is indicated.

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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 was the sole entity in 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):

	June 30, 2018	June 30, 2017
Sales	\$ 726	\$ 4,782
Cost of sales	(615)	(3,619)
Gross profit	111	1,163
Selling, general and administrative	(108)	(671)
Income from discontinued operations, before income taxes	3	492
Income (loss) on sale of discontinued operations	(503)	—
Total income (loss) from discontinued operations, before income taxes	(500)	492
Income tax benefit on discontinued operations	224	(168)
Income (loss) from discontinued operations, net of tax	\$ (276)	\$ 324

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

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 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

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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.

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, 2018	June 30, 2017
Raw materials and supplies	\$ 5,414	\$ 5,357
Work-in-process	5,907	7,767
Finished goods	3,144	4,113
	14,465	17,237
Reserve for obsolescence	(2,138)	(2,151)
Inventory of discontinued operations	—	(717)
	\$ 12,327	\$ 14,369

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. This higher level of inventory reserves was continued during fiscal year 2018 related to continuing lower demand.

NOTE 5 – Property and Equipment

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

	Depreciable Life (in years)	June 30, 2018	June 30, 2017
Land	—	\$ 1,264	\$ 1,264
Building and improvements	7 - 40	18,188	18,125
Machinery and equipment	3 - 12	43,972	40,715
Office furniture and equipment	3 - 10	1,267	1,280
Construction-in-process	—	3,947	2,462
Assets acquired under capital lease		7,275	7,235
		75,913	71,081
Accumulated depreciation		(32,560)	(27,201)
Accumulated amortization on capital leases		(3,373)	(2,350)
Property and equipment of discontinued operations		—	(181)
		\$ 39,980	\$ 41,349

Depreciation expense totaled \$6.8 million and \$6.6 million in the years ended June 30, 2018 and 2017, respectively.

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NOTE 6 – Goodwill and Intangible Assets

The following table summarizes the activity in the Company's goodwill account by segment during the years ended 2018 and 2017 (in thousands):

	Precision Components Group	3DMT Group	Flanges and Fittings Group	Consolidated
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
Balance, June 30, 2018	\$ 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 Keczy were impaired, resulting in a charge of \$3.3 million.

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

	As of June 30, 2018			As of June 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:						
Patents and tradenames	\$ 3,418	(945)	\$ 2,473	\$ 3,418	\$ (717)	\$ 2,701
Customer relationships	24,077	(10,838)	13,239	24,077	(8,429)	15,648
Non-compete agreements	3,654	(3,096)	558	3,642	(2,367)	1,275
Total	\$ 31,149	\$ (14,879)	\$ 16,270	\$ 31,137	\$ (11,513)	\$ 19,624

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, 2018 and 2017. Estimated future amortization expense for the next five years as of June 30, 2018, is as follows (in thousands):

Fiscal Years	Amount
2019	\$ 3,192
2020	2,636
2021	2,636
2022	2,636
2023	2,636
Thereafter	2,534
Total	\$ 16,270

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NOTE 7 – Debt

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

	Balance as of	
	June 30, 2018	June 30, 2017
Senior secured revolving loan	\$ 5,692	\$ 10,071
Senior secured mortgage-based term loans	18,765	20,493
Subordinated term loan	15,000	15,000
Total debt	39,457	45,564
Unamortized deferred financing costs	(723)	(1,041)
Total debt, net	38,734	44,523
Current portion of long-term debt, net of unamortized deferred financing costs	(1,721)	(1,701)
Long-term debt, net of current portion and unamortized deferred financing costs	\$ 37,013	\$ 42,822

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. subsequently amended by amendments one through four (collectively, 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 Facility contains certain mandatory prepayment provisions, including mandatory prepayments due in respect of sales of

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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 to amend the definition of Consolidated EBITDA.

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 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 is 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.

The Company was in compliance with all covenants as June 30, 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. In May 2018, McLarty rebranded to become The Firmament Group

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(“Firmament”). 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 Firmament; 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 June 30, 2018, the Company was in compliance with its debt covenants under the Subordinated Credit Facility, after giving effect to the fifth amendment discussed above.

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”). 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 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, 2018 (in thousands):

2019	\$ 1,807
2020	36,718
2021	932
Total	\$ 39,457

NOTE 8 - Income Taxes

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

	2018	2017
United States	\$ (12,849)	\$ (16,560)
Foreign	(90)	(245)
Total	\$ (12,939)	\$ (16,805)

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

	2018	2017
Current:		
Federal	\$ (472)	\$ (2,272)
State	14	15
Foreign	163	166
Total current benefit	(295)	(2,091)
Deferred:		
Federal	239	(496)
State	21	(44)
Total deferred (benefit) expense	260	(540)
Income tax benefit	\$ (35)	\$ (2,631)

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

	2018	2017
Federal income taxes	27.6 %	34.0 %
State income taxes	2.5 %	2.1 %
Share-based compensation	(0.7) %	(0.7) %
Permanent items	(0.1) %	(0.1) %
Research and development tax credits	0.0 %	0.8 %
Foreign taxes	(1.3) %	(1.0) %
Remeasurement of deferred taxes	(10.1) %	— %
Effect of phased-in tax rate	(6.9) %	— %
Uncertain tax positions	1.4 %	(0.1) %
Valuation allowance and other	(12.0) %	(19.3) %
Effective rate	0.4 %	15.7 %

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.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation (the "Tax Act"). This legislation makes significant changes in U.S. tax law including a reduction in the corporate statutory income tax rates from 35% to 21%, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. As a result of the enacted law, we were required to revalue deferred tax assets and liabilities as of December 22, 2017 using the new statutory rate and have reflected this revaluation in our effective tax rate reconciliation. As we are subject to a valuation allowance, there was no material impact to our tax provision. The other provisions of the Tax Act did not have a material impact on the fiscal year

2018 financial statements.

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

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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, 2018 and 2017 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 2018 operations and the reversal of existing temporary differences. The increase in the valuation allowance in fiscal year 2018 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 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, 2018	June 30, 2017
Deferred tax assets arising from:		
Accrued liabilities and reserves	\$ 157	\$ 492
Deferred revenue	32	95
Bad debt reserves	20	52
Tangible property	73	127
Inventory reserve	513	756
Intangible assets	1,655	2,381
Other	6	43
Share-based compensation	179	161
Foreign tax credit carryforward	451	288
Research and development tax credits	238	311
Alternative minimum tax credits	—	318
Tax effects of net operating loss carryforwards	5,273	3,855
Less valuation allowances	(6,414)	(4,933)
Deferred tax assets	2,183	3,946
Deferred tax liabilities arising from:		
Property and equipment	(2,144)	(3,533)
Prepaid expenses	(28)	(126)
Unrealized foreign currency gain	(11)	(27)
Deferred tax liabilities	(2,183)	(3,686)
Net deferred tax asset (liability)	\$ —	\$ 260

As of June 30, 2018 and 2017, the income tax receivable was \$0.5 million and \$0.5 million, respectively, which were recorded in other current assets. As of June 30, 2018 and 2017, the deferred tax asset of zero and \$0.3 million is included in other long-term assets, respectively.

As of June 30, 2018 and 2017, the Company had federal net operating loss carryforwards of approximately \$21.8 million and \$10.3 million, respectively, which will begin to expire from 2027 through 2038. At June 30, 2018 and 2017, the Company had state net operating carryforwards of approximately \$16.7 million and \$10.7 million, respectively, which will begin to expire from 2023 through 2028.

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.

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As of June 30, 2018 and 2017, the Company had research and development tax credit carryforwards of approximately \$0.2 million and \$0.3 million, respectively, foreign tax credit carryforwards of approximately \$0.5 million and \$0.3 million, respectively, and alternative minimum tax credit carryforwards of approximately \$0.3 million and \$0.3 million, respectively. If unused, the research and development tax credit carryforwards will begin to expire in 2034 through 2036 and the foreign tax credit carryforwards will expire in 2026 through 2028. The alternative minimum tax credits can be carried forward indefinitely and these credits became refundable credits upon enactment of the U.S. Tax Cuts and Jobs Acts in the current year.

The following table summarizes the changes in the Company's unrecognized tax benefits during the year ended June 30, 2018 and 2017 (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, 2018	June 30, 2017
Balance, beginning of year	\$ 823	\$ 783
Increase in current year position	—	40
Increase in prior year position	106	—
Decrease in prior year position	(50)	—
Lapse in statute of limitations	(76)	—
Balance, end of year	\$ 803	\$ 823

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 during each period. As a result of the Company's net loss for the fiscal year ended June 30, 2018 and 2017, potentially dilutive stock options of approximately 106,462 and 376,755 were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

Rights Offering

On February 28, 2018, the Company completed a Rights Offering for gross proceeds of \$10.0 million for 5,000,000 shares of its common stock pursuant to a registration statement on Form S-1, as amended, that was previously filed and declared effective by the SEC on February 9, 2018. Of the 5,000,000 shares issued, 3,257,645 were issued to Everest Hill Group, the Company's majority shareholder. With the completion of the Right's Offering, Everest Hill Group holds approximately 52.7% of the Company's outstanding common stock as of June 30, 2018.

The Company received net proceeds of approximately \$9.8 million from the Rights Offering after deducting offering costs payable by the Company. The proceeds were used for general corporate purposes.

NOTE 10 – Related Party Transactions

Everest Hill Group Inc.

Everest Hill Group Inc. ("Everest Hill Group") is the controlling shareholder of ARC, owning approximately 52.7% of its shares outstanding as of June 30, 2018. 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.

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

- Mr. Alan Quasha is the Chief Executive Officer of QMI. On March 31, 2016, Mr. Quasha was appointment as Chairman of the Board of Directors of the Company. On May 3, 2018, the Board of Directors appointment Mr. Quasha as Chief Executive Officer of the Company. Mr. Quasha serves the Company without payment or salary or other compensation.
- 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. Additionally, Mr. Davidai was elected to the Company’s Board of Directors on June 5, 2018.

NOTE 11 – 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, 2018, there were approximately 66,945 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 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, 2018, there were 271,319 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, 2018 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding as of June 30, 2017	1,187,580	\$ 2.68	7.07
Granted	665,903		