

ARC Group Worldwide, Inc.  
Form 10-Q  
May 15, 2017  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended April 2, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

ARC Group Worldwide, Inc.

(Exact name of registrant as specified in its charter)

Utah

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(State or other jurisdiction of incorporation or organization)

001-33400                      87-0454148  
(Commission File Number)      (IRS Employer Identification Number)

810 Flightline Blvd.

Deland, FL 32724

(Address of principal executive offices including zip code)

(303) 467-5236

(Registrant's telephone number, including area code)

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

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

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

- Large accelerated filer      Accelerated filer
- Non-accelerated filer      Smaller reporting company
  
- Emerging growth company

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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 May 4, 2017, the Registrant had 18,171,626 shares outstanding of its \$.0005 par value common stock.

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ARC Group Worldwide, Inc.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ARC Group Worldwide, Inc.

## Unaudited Condensed Consolidated Statements of Operations

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

|   | For the three months ended |                | For the nine months ended |                |
|---|----------------------------|----------------|---------------------------|----------------|
|   | April 2, 2017              | March 27, 2016 | April 2, 2017             | March 27, 2016 |
| Sales   | \$ 25,472                  | \$ 24,885      | \$ 80,498                 | \$ 72,353      |
| Cost of sales   | 22,370                     | 19,851         | 67,604                    | 59,097         |
| Gross profit  | 3,102                      | 5,034          | 12,894                    | 13,256         |
| Selling, general and administrative   | 4,986                      | 4,707          | 14,824                    | 12,827         |
| (Loss) income from operations   | (1,884)                    | 327            | (1,930)                   | 429            |
| Other income (expense), net   | 88                         | (23)           | 893                       | 71             |
| Interest expense, net   | (865)                      | (1,106)        | (3,002)                   | (3,372)        |
| Loss on extinguishment of debt  | —                          | —              | (723)                     | —              |
| Loss before income taxes  | (2,661)                    | (802)          | (4,762)                   | (2,872)        |
| Income tax (expense) benefit  | (120)                      | 8              | 1,181                     | 566            |
| Net loss from continuing operations   | (2,781)                    | (794)          | (3,581)                   | (2,306)        |
| Gain on sale of subsidiary and income<br>from discontinued operations, net of tax | 7                          | 457            | 3,704                     | 934            |
| Net (loss) income   | (2,774)                    | (337)          | 123                       | (1,372)        |
| Net income attributable to<br>non-controlling interests:                          |                            |                |                           |                |
| Continuing operations   | —                          | (4)            | (22)                      | (48)           |
| Discontinued operations   | —                          | (20)           | (4)                       | (40)           |
| Net income attributable to<br>non-controlling interests                           | —                          | (24)           | (26)                      | (88)           |
| Net (loss) income attributable to ARC<br>Group Worldwide, Inc.                    | \$ (2,774)                 | \$ (361)       | \$ 97                     | \$ (1,460)     |
| Net (loss) income per common share,<br>basic and diluted:                         |                            |                |                           |                |
| Continuing operations   | \$ (0.15)                  | \$ (0.04)      | \$ (0.19)                 | \$ (0.13)      |
| Discontinued operations   | \$ —                       | \$ 0.02        | \$ 0.20                   | \$ 0.05        |
|   | \$ (0.15)                  | \$ (0.02)      | \$ 0.01                   | \$ (0.08)      |

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Attributable to ARC Group Worldwide,  
Inc.

Weighted average common shares  
outstanding:

|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| Basic and diluted | 18,152,739 | 18,123,883 | 18,133,397 | 18,123,883 |
|-------------------|------------|------------|------------|------------|

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share data)

|   | April 2, 2017 | June 30,<br>2016 |
|---|---------------|------------------|
| <b>ASSETS</b>   |               |                  |
| Current assets:   |               |                  |
| Cash  | \$ 723        | \$ 3,620         |
| Accounts receivable, net  | 13,996        | 14,186           |
| Inventories, net  | 19,712        | 16,585           |
| Deferred income tax assets  | —             | 478              |
| Prepaid expenses and other current assets   | 3,326         | 3,886            |
| Current assets of discontinued operations   | —             | 1,818            |
| Total current assets  | 37,757        | 40,573           |
| Property and equipment, net   | 42,182        | 41,828           |
| Goodwill  | 11,427        | 11,427           |
| Intangible assets, net  | 20,465        | 23,066           |
| Other   | 11            | 28               |
| Long-term assets of discontinued operations   | —             | 3,527            |
| Total assets  | \$ 111,842    | \$ 120,449       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |               |                  |
| Current liabilities:  |               |                  |
| Accounts payable  | \$ 10,404     | \$ 8,602         |
| Accrued expenses and other current liabilities  | 2,926         | 2,591            |
| Deferred revenue  | 1,152         | 1,457            |
| Bank borrowings, current portion of long-term debt, net of unamortized deferred financing costs | 1,644         | 15,648           |
| Capital lease obligations, current portion  | 1,389         | 837              |
| Accrued escrow obligations, current portion   | 1,211         | 2,842            |
| Current liabilities of discontinued operations  | —             | 723              |
| Total current liabilities   | 18,726        | 32,700           |
| Long-term debt, net of current portion and unamortized deferred financing costs                 | 42,891        | 36,769           |
| Deferred income tax liabilities   | 1,312         | 1,407            |
| Capital lease obligations, net of current portion   | 2,175         | 1,930            |
| Accrued escrow obligations, net of current portion  | 1,184         | 966              |
| Other long-term liabilities   | 1,061         | 2,115            |
| Long-term liabilities of discontinued operations  | —             | 19               |
| Total liabilities   | 67,349        | 75,906           |

Commitments and contingencies (Note 12)

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Equity:

|   |            |            |
|---|------------|------------|
| Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding   | —          | —          |
| Common stock, \$0.0005 par value, 250,000,000 shares authorized; 18,180,027 and 18,803,910 shares issued and 18,171,626 and 18,795,509 shares issued and outstanding at April 2, 2017 and June 30, 2016, respectively | 10         | 10         |
| Treasury stock, at cost; 8,401 shares at April 2, 2017 and June 30, 2016  | (94)       | (94)       |
| Additional paid-in capital  | 30,784     | 29,702     |
| Retained earnings   | 13,868     | 13,771     |
| Accumulated other comprehensive loss  | (75)       | (6)        |
| Total ARC Group Worldwide, Inc. stockholders' equity  | 44,493     | 43,383     |
| Non-controlling interests   | —          | 1,160      |
| Total equity  | 44,493     | 44,543     |
| Total liabilities and equity  | \$ 111,842 | \$ 120,449 |

See accompanying notes to the unaudited condensed consolidated financial statements.



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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

|  | For the nine months ended |                |
|--|---------------------------|----------------|
|  | April 2, 2017             | March 27, 2016 |
| Cash flows from operating activities:  |                           |                |
| Net income (loss)  | \$ 123                    | \$ (1,372)     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:     |                           |                |
| Depreciation and amortization  | 7,413                     | 7,165          |
| Share-based compensation expense   | 616                       | 138            |
| Gain on sale of subsidiaries   | (5,456)                   | —              |
| Bad debt expense and other   | 120                       | 92             |
| Deferred income taxes  | 194                       | 362            |
| Changes in working capital:  |                           |                |
| Accounts receivable  | (184)                     | 18             |
| Inventory  | (3,506)                   | 557            |
| Prepaid expenses and other assets  | 815                       | (2,428)        |
| Accounts payable   | 2,324                     | 834            |
| Accrued expenses   | (640)                     | (1,259)        |
| Deferred revenue   | (305)                     | (274)          |
| Net cash provided by operating activities  | 1,514                     | 3,833          |
| Cash flows from investing activities:  |                           |                |
| Purchases of property and equipment  | (5,324)                   | (1,918)        |
| Proceeds from sale of subsidiary   | 10,538                    | —              |
| Net cash provided by (used in) investing activities  | 5,214                     | (1,918)        |
| Cash flows from financing activities:  |                           |                |
| Proceeds from debt issuance  | 91,264                    | 1,000          |
| Repayments of long-term debt and capital lease obligations                                   | (100,084)                 | (4,882)        |
| Payment of distributions to non-controlling membership interests from the sale of subsidiary | (453)                     | —              |
| Purchase of non-controlling membership interests   | (235)                     | —              |
| Issuance of common stock under employee stock purchase plan                                  | 98                        | —              |
| Net cash used in financing activities  | (9,410)                   | (3,882)        |
| Effect of exchange rates on cash   | (215)                     | 63             |
| Net decrease in cash   | (2,897)                   | (1,904)        |
| Cash, beginning of period  | 3,620                     | 4,821          |
| Cash, end of period  | \$ 723                    | \$ 2,917       |
| Supplemental disclosures of cash flow information:   |                           |                |
| Cash paid for interest   | \$ 2,917                  | \$ 2,550       |

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|  |          |        |
|--|----------|--------|
| Cash paid for income taxes, net of refunds | \$ (858) | \$ 597 |
|--|----------|--------|

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

ARC Group Worldwide, Inc. (the “Company” or “ARC”) is a leading, global advanced manufacturer offering a full suite of products and services to its customers, including: (i) metal injection molding (“MIM”); (ii) metal 3D printing (also referred to as “Additive Manufacturing”); (iii) precision metal stamping; (iv) traditional and clean room plastic injection molding; and (v) advanced rapid and conformal tooling. Through the Company’s diverse product offering, ARC 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.

ARC’s mission is to accelerate the adoption of key technologies, such as automation, robotics, production software, and metal 3D printing, in traditional manufacturing, thereby benefiting from the elimination of inefficiencies currently present in the global supply chain. Further, ARC seeks to create innovative ways to streamline and improve the overall manufacturing process, including offering instant online quoting, in-house rapid and advanced conformal tooling, and a full suite of prototype-to-production capabilities.

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The consolidated balance sheet as of June 30, 2016, was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. As such, this quarterly report should be read in

conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016. The Company follows the same accounting policies for preparing quarterly and annual reports.

#### Principles of Consolidation

The unaudited condensed 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 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.

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### Non-Controlling Interests

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, Discontinued Operations, 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 April 2, 2017. The Company has recognized the carrying value of the non-controlling interests as a component of stockholders' 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.

### Comprehensive Income (Loss)

For each of the quarters ended April 2, 2017 and March 27, 2016, there were no material differences between net income (loss) and comprehensive income (loss).

### Accounting Pronouncements Adopted in the Current Period

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax assets and liabilities as non-current within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, but early adoption is permitted. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company adopted the provisions of ASU 2015-17 on a prospective basis as of July 1, 2016; therefore, the prior period was not retrospectively adjusted. The adoption of ASU 2015-17 did not have an impact on our consolidated results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835, Interest - Imputation of Interest ("ASU 2015-03"). ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt

issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015.

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

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

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Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases: Topic 842 (“ASU 2016-02”), to supersede nearly all existing lease guidance under GAAP. ASU 2016-02 requires the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its consolidated financial position, results of operations and cash flows.

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 is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements.

NOTE 3 – Divestitures

Tekna Seal LLC

On September 30, 2016, the Company sold its non-core subsidiary, Tekna Seal LLC (“Tekna Seal”), to Winchester Electronics Corporation (“Winchester”) pursuant to a Membership Interests Purchase Agreement for \$10.5 million in cash. The sale to Winchester covered all of the membership interests of Tekna Seal, including 95.7% owned by the Company and 4.3% held by the Tekna Seal minority stakeholders. The proceeds of the sale, after giving effect to any working capital adjustments, were allocated among the Company and the minority sellers proportionate to their respective ownership of pre-closing membership interests. The Company used the net cash proceeds of the sale to repay principal outstanding under the Company’s revolving loan. During the second quarter of 2017, the Company finalized the working capital adjustments with Winchester and paid the former minority stakeholders.

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

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



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In connection with the sale, the Company recorded a pre-tax gain of approximately \$5.4 million, which includes a non-cash charge of \$3.4 million related to goodwill associated with Tekna Seal, and transaction costs of approximately \$0.4 million. The income from operations of Tekna Seal attributable to the Company was approximately \$0.4 for the three months ended March 27, 2016 and approximately \$0.1 million and \$0.9 million for the nine months ended April 2, 2017 and March 27, 2016, respectively.

The condensed consolidated statements of operations for the nine months ended April 2, 2017, include the results of operations of Tekna Seal through the sale date of September 30, 2016 and the gain on the sale of Tekna Seal. Financial information for discontinued operations for the three and nine months ended April 2, 2017 and March 27, 2016 is as follows (in thousands):

|  | For the three<br>months ended |                   | For the nine months<br>ended |                   |
|--|-------------------------------|-------------------|------------------------------|-------------------|
|  | April 2,<br>2017              | March<br>27, 2016 | April 2,<br>2017             | March 27,<br>2016 |
| Sales  | \$ —                          | \$ 1,615          | \$ 1,277                     | \$ 3,665          |
| Cost of sales  | —                             | (938)             | (943)                        | (2,104)           |
| Gross profit   | —                             | 677               | 334                          | 1,561             |
| Selling, general and administrative                            | —                             | (220)             | (242)                        | (627)             |
| Income from discontinued operations, before income taxes       | —                             | 457               | 92                           | 934               |
| Gain on sale of discontinued operations                        | (14)                          | —                 | 5,374                        | —                 |
| Total income from discontinued operations, before income taxes | (14)                          | 457               | 5,466                        | 934               |
| Income tax benefit (expense) on discontinued operations        | 21                            | —                 | (1,762)                      | —                 |
| Income from discontinued operations, net of tax                | \$ 7                          | \$ 457            | \$ 3,704                     | \$ 934            |

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

|   | June 30,<br>2016 |
|---|------------------|
| Current assets:                         |                  |
| Accounts receivable                     | \$ 727           |
| Inventory                               | 1,028            |
| Other assets                            | 63               |
| Total current assets                    | 1,818            |
| Property and equipment, net             | 153              |
| Goodwill                                | 3,374            |
| Total assets of discontinued operations | \$ 5,345         |

Current liabilities:

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|  |        |
|--|--------|
| Accounts payable and accrued expenses        | \$ 714 |
| Capital lease obligations                    | 9      |
| Total current liabilities                    | 723    |
| Capital lease obligations                    | 19     |
| Total liabilities of discontinued operations | \$ 742 |

Cash flows from Tekna Seal for the nine months ended April 2, 2017 and March 27, 2016 are combined with the cash flows from operations within each of the categories presented on the condensed consolidated statements of cash flows. There were no significant operating or investing activities from discontinued operations during the nine months ended April 2, 2017 and March 27, 2016.

ARC Wireless, LLC

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

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## NOTE 4– Inventory

Inventories consisted of the following (in thousands):

|                                      | April 2,<br>2017 | June 30,<br>2016 |
|--------------------------------------|------------------|------------------|
| Raw materials and supplies           | \$ 6,065         | \$ 6,299         |
| Work-in-process                      | 9,036            | 7,505            |
| Finished goods                       | 5,139            | 4,664            |
|                                      | 20,240           | 18,468           |
| Reserve for obsolescence             | (528)            | (855)            |
| Inventory of discontinued operations | —                | (1,028)          |
|                                      | \$ 19,712        | \$ 16,585        |

## NOTE 5 – Property and Equipment

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

|   | Depreciable<br>Life<br>(in years) | April 2,<br>2017 | June 30,<br>2016 |
|---|-----------------------------------|------------------|------------------|
| Land  | —                                 | \$ 1,264         | \$ 1,264         |
| Building and improvements                         | 7 - 40                            | 17,612           | 17,460           |
| Machinery and equipment                           | 3 - 12                            | 39,984           | 39,350           |
| Office furniture and equipment                    | 3 - 10                            | 1,272            | 1,050            |
| Construction-in-process                           | —                                 | 2,851            | 1,838            |
| Assets acquired under capital lease               |                                   | 7,104            | 5,482            |
|   |                                   | 70,087           | 66,444           |
| Accumulated depreciation                          |                                   | (25,791)         | (23,018)         |
| Accumulated amortization on capital leases        |                                   | (2,114)          | (1,445)          |
| Property and equipment of discontinued operations |                                   | —                | (153)            |
|   |                                   | \$ 42,182        | \$ 41,828        |

Depreciation expense totaled \$1.7 million and \$1.6 million for the three months ended April 2, 2017 and March 27, 2016, respectively, and \$4.9 million and \$4.6 million for the nine months ended April 2, 2017 and March 27, 2016, respectively.

NOTE 6 – Goodwill and Intangible Assets

Goodwill

The following table summarizes the activity in the Company's goodwill account by segment during the nine months ended April 2, 2017 (in thousands):

|                            | Precision<br>Components<br>Group | 3DMT<br>Group | Flanges<br>and<br>Fittings<br>Group | Consolidated |
|----------------------------|----------------------------------|---------------|-------------------------------------|--------------|
| Balance, June 30, 2016 (1) | \$ 10,285                        | \$ 2,804      | \$ 1,712                            | \$ 14,801    |
| Sale of subsidiary (1)     | (3,374)                          | —             | —                                   | (3,374)      |
| Balance, April 2, 2017     | \$ 6,911                         | \$ 2,804      | \$ 1,712                            | \$ 11,427    |

(1) During the three months ended October 2, 2016, the Company sold its majority interest in Tekna Seal and recorded a reduction of goodwill of \$3.4 million, which is included in income from discontinued operations, net of tax on the condensed consolidated statement of operations (see Note 3, Discontinued Operations, for more information).

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## Intangible Assets

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

|                        | April 2, 2017         |                          |                     | June 30, 2016         |                          |                     |
|------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                        | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangible assets:     |                       |                          |                     |                       |                          |                     |
| Patents and tradenames | \$ 3,418              | \$ (660)                 | \$ 2,758            | \$ 3,773              | \$ (766)                 | \$ 3,007            |
| Customer relationships | 24,077                | (7,827)                  | 16,250              | 24,077                | (6,021)                  | 18,056              |
| Non-compete agreements | 3,642                 | (2,185)                  | 1,457               | 3,642                 | (1,639)                  | 2,003               |
| Total                  | \$ 31,137             | \$ (10,672)              | \$ 20,465           | \$ 31,492             | \$ (8,426)               | \$ 23,066           |

Intangible assets are being amortized using the straight-line method over estimated useful lives ranging from five to fifteen years. Amortization expense totaled \$0.8 million for identifiable intangible assets for the three months ended April 2, 2017 and March 27, 2016, and \$2.5 million for the nine months ended April 2, 2017 and March 27, 2016. Estimated future amortization expense for the next five years as of April 2, 2017, is as follows (in thousands):

| Fiscal Years      | Amount    |
|-------------------|-----------|
| Remainder of 2017 | \$ 841    |
| 2018              | 3,364     |
| 2019              | 3,182     |
| 2020              | 2,636     |
| 2021              | 2,636     |
| Thereafter        | 7,806     |
| Total             | \$ 20,465 |

The sale of ARC Wireless, LLC included certain patents. The remaining intangible assets were immaterial and written off during the three months ended April 2, 2017. There were no impairments of long-lived assets during the three and nine months ended March 27, 2016.

## NOTE 7 – Accrued Escrow Obligations

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

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

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## NOTE 8 – Debt

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

|   | Balance as of |               |
|---|---------------|---------------|
|   | April 2, 2017 | June 30, 2016 |
| Senior secured revolving loan   | \$ 10,097     | \$ 7,560      |
| Senior secured mortgage-based term loans  | 20,558        | 4,449         |
| Senior secured term loan  | —             | 16,248        |
| Senior secured delayed draw term loan   | —             | 5,509         |
| Subordinated term loan  | 15,000        | 20,000        |
| Total debt  | 45,655        | 53,766        |
| Unamortized deferred financing costs  | (1,120)       | (1,349)       |
| Total debt, net   | 44,535        | 52,417        |
| Current portion of long-term debt, net of unamortized deferred financing costs  | (1,644)       | (15,648)      |
| Long-term debt, net of current portion and unamortized deferred financing costs | \$ 42,891     | \$ 36,769     |

## Senior Credit Agreement

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

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

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

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

The Maturity Date with respect to the Revolving Loan and the Term Loan is August 11, 2019, provided, however, upon repayment of Company subordinated indebtedness the maturity date will automatically extend to five years after the Closing Date for Revolving Loans and Revolving Commitments, and with respect to the Term Loans, the earlier of the date that is (i) ten years after the Closing Date and (ii) the maturity date of the Revolving Loans. The Senior ABL Credit Facility contains certain mandatory prepayment provisions, including mandatory prepayments due in respect of sales of assets, sales of equity securities, events of default and other customary events, with exceptions for non-core business dispositions.



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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.

As of April 2, 2017, the Company was in compliance with its debt covenants under the Senior ABL Credit Facility.

Prior Amended & Restated Credit Agreement

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

Subordinated Term Loan Credit Agreement

On November 10, 2014, the Company and certain of its subsidiaries entered into a \$20.0 million, five-year Subordinated Term Loan Credit Agreement ("Subordinated Loan Agreement") with McLarty Capital Partners SBIC,

L.P. (“McLarty”), which bears interest at 11% annually. Upon an event of default under the Subordinated Loan Agreement, the interest rate increases automatically by 2.00% annually. The proceeds were used to repay certain outstanding loans under the Company’s previous credit facility. ARC’s Chairman and CEO are indirectly related to McLarty; therefore, the Board of Directors appointed a special committee consisting solely of independent directors to assure that the Subordinated Loan Agreement is fair and reasonable to the Company and its shareholders.

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

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

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

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.

As of April 2, 2017, the Company was in compliance with its debt covenants under the Subordinated Credit Facility.

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## Loan Contract

On March 23, 2016, AFT-Hungary Kft. (“AFT Hungary”), a wholly owned subsidiary of the Company, entered into a Loan Contract with Erste Bank Hungary Zrt. in an amount equal to €4.0 million (“Loan Contract”). The initial funding of €4.0 million drawn on the Loan Contract occurred on March 31, 2016. Approximately \$3.0 million of the net proceeds from the Loan Contract were used to partially repay obligations outstanding under the Amended & Restated Credit Agreement, with the remaining net proceeds to be used for capital expenditures and other investments to facilitate the export of goods and services provided by AFT Hungary.

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

## Future Debt Payments

The following schedule represents the Company’s future debt payments as of April 2, 2017 (in thousands):

|          |           |
|----------|-----------|
| 2017 (1) | \$ 292    |
| 2018     | 1,731     |
| 2019     | 1,731     |
| 2020     | 16,730    |
| 2021     | 25,171    |
| Total    | \$ 45,655 |

(1) Represents long-term debt principal payments for the three month period ending June 30, 2017.

## NOTE 9 – Income Taxes

The income tax receivable was \$0.5 million and \$1.6 million at April 2, 2017 and June 30, 2016, respectively. The decrease in the income taxes receivable during the nine months ended April 2, 2017, was primarily associated with the receipt of a federal income tax refund of approximately \$0.9 million related to the carryback of the Company’s 2015 net operating loss. The Company had unrecognized tax benefits for uncertain tax positions of \$1.1 million and \$1.0

million on April 2, 2017 and June 30, 2016, respectively, which are included in other long-term liabilities.

NOTE 10 – Earnings Per Share

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

As a result of the Company's net loss from continuing operations, for the three months ended April 2, 2017 and March 27, 2016, approximately 466,119 and 253,718 shares, respectively, and for the nine months ended April 2, 2017 and March 27, 2016, approximately 332,031 and 253,718 shares, respectively, were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

NOTE 11 – Share-Based Compensation

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

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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 April 2, 2017, there were 7,125 shares of common stock available to be granted under the 2015 Plan. In the case of stock options, the exercise price of the stock 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 April 2, 2017, there were 75,920 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 April 2, 2017 is as follows:

|   | Shares    | Weighted<br>Average Exercise<br>Price | Weighted Average<br>Remaining Contractual<br>Term (in years) |
|---|-----------|---------------------------------------|--|
| Outstanding as of June 30, 2016                 | 759,050   | \$ 1.51                               |  |
| Granted   | 1,065,030 | \$ 4.06                               |  |
| Forfeited                                       | (7,125)   | \$ 1.51                               |  |
| Outstanding as of April 2, 2017                 | 1,816,955 | \$ 3.00                               | 7.81   |
| Vested and exercisable as of April 2, 2017      | 451,754   | \$ 1.90                               | 6.03   |
| Vested and expected to vest as of April 2, 2017 | 1,603,891 | \$ 2.97                               | 7.75   |

The vesting of 874,080 shares granted under the 2016 Plan during the third quarter of 2017 is contingent upon the achievement of a market condition. If vesting occurs, the compensation expense related to the vested awards that has not been previously amortized will be recognized upon vesting. As of April 2, 2017, the market-based condition has not been achieved.

Stock options granted during the nine month period ending April 2, 2017 have contractual lives of seven to ten years. The weighted-average grant date fair value of stock options granted during the nine months ended April 2, 2017, was \$2.17 per share. The total fair value of shares vested during the nine months ended April 2, 2017 was \$1.0 million.

## Determining Fair Value

The Company estimated the fair value of stock options granted under the 2015 Plan using the Black-Scholes method. The Company estimated the fair value and derived service period of stock options granted under the 2016 Plan with market-based vesting conditions on the date of grant using a Monte Carlo simulation, with assumptions comparable to those used under the Black-Scholes method. The assumptions used to determine the value of the Company's stock options granted to employees during the nine month period ended April 2, 2017 were as follows:

|                         |                   |
|-------------------------|-------------------|
| Expected term           | 3.50 - 4.75 years |
| Expected volatility     | 78.8% - 85.0%     |
| Expected dividend yield | - %               |
| Risk-free interest rate | 1.02% - 2.41%     |

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

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

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

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

Share-Based Compensation Expense

Compensation expense recognized during the three months ended April 2, 2017 and March 27, 2016 was \$0.2 million and \$0.1 million, respectively, and during the nine months ended April 2, 2017 and March 27, 2016 was \$0.6 million and \$0.1 million, respectively, and is included in selling, general and administrative expense. As of April 2, 2017, there was \$1.9 million of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.8 years. The Company estimated expected forfeitures and is recognizing compensation expense only for those option grants expected to vest. The Company's estimate of forfeitures may be adjusted throughout the requisite service period based on the extent to which actual forfeitures differ, or are likely to differ, from the Company's previous estimates. At the end of the service period compensation cost will have been recognized only for those awards for which the employee has provided the requisite service.

Employee Stock Purchase Plan

Under the terms of the Company's employee stock purchase plan ("ESPP"), eligible employees may authorize payroll deductions up to 10% of their base pay to purchase shares of the Company's common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each six-month purchase period. A total of 750,000 shares were authorized under the ESPP. The purchase period began on August 1, 2016. As of April 2, 2017, there were 702,266 shares available for issuance.

During the three months ended April 2, 2017, 47,734 shares were purchased under the ESPP at a price of \$2.05 and a grant date fair value of \$2.42.

NOTE 12 – Commitments and Contingencies

During the third quarter of fiscal 2017, Kecy experienced a wind-generated power disruption that temporarily halted production for several days and severely damaged key equipment. The Company is insured for these business interruption and equipment repair costs and filed an insurance claim with its insurance provider. The estimated loss of \$0.4 million is expected to be covered by insurance and is recorded as an insurance claim receivable at April 2, 2017.

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through August 31, 2024, which contain various renewal options. The Company also leases equipment under non-cancellable capital lease agreements expiring through June 30, 2024. The capital leases have interest rates ranging from 3.0% to 4.6%.

From time to time, the Company is a party to various litigation matters incidental to the conduct of its business. As of April 2, 2017, the Company is not presently a party to any legal proceedings, the resolution of which, management believes, would have a material adverse effect on its business, operating results, financial condition, or cash flows.

#### NOTE 13 – Segment Information

The Company's operations were classified into four reportable business segments: Precision Components Group, 3DMT Group, Flanges and Fittings Group, and Wireless Group. On March 31, 2017, the Company ceased its wireless operations, which comprised the Wireless Group.

- The Precision Components Group companies provide highly engineered fabricated metal components using processes consisting of metal injection molding and precision metal stamping. Industries served include aerospace, automotive, consumer durables, electronic devices, firearms and defense, and medical and dental devices.
- The 3DMT Group consists of our tooling product line, 3D Material Technologies, LLC ("3DMT", our metal 3D printing and additive manufacturing operations), and ATC.



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- The Flanges and Fittings Group consists of General Flange & Forge LLC (“GF&F”). GF&F provides custom machining solutions and special flange facings.
- The Wireless Group focused on wireless broadband technology.

The historical results of Tekna Seal, which were included in the Precision Components Group segment, have been reflected as discontinued operations; therefore, historical segment information has been restated. Summarized segment information for the three and nine month periods ended April 2, 2017 and March 27, 2016 is as follows (in thousands):

|  | Three months ended |                   | Nine months ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | April 2,<br>2017   | March 27,<br>2016 | April 2,<br>2017  | March 27,<br>2016 |
| Sales:   |                    |                   |                   |                   |
| Precision Components Group   | \$ 19,878          | \$ 17,443         | \$ 59,252         | \$ 51,626         |
| 3DMT Group   | 4,292              | 5,701             | 17,242            | 15,905            |
| Flanges and Fittings Group   | 1,272              | 1,244             | 3,576             | 3,565             |
| Wireless Group   | 30                 | 497               | 428               | 1,257             |
| Consolidated sales   | \$ 25,472          | \$ 24,885         | \$ 80,498         | \$ 72,353         |
| Operating costs:   |                    |                   |                   |                   |
| Precision Components Group   | \$ 19,801          | \$ 15,697         | \$ 55,741         | \$ 48,284         |
| 3DMT Group   | 5,132              | 6,142             | 19,438            | 16,643            |
| Flanges and Fittings Group   | 1,143              | 1,115             | 3,158             | 3,187             |
| Wireless Group   | 119                | 404               | 545               | 1,031             |
| Consolidated operating costs                                       | \$ 26,195          | \$ 23,358         | \$ 78,882         | \$ 69,145         |
| Segment operating income (loss):                                   |                    |                   |                   |                   |
| Precision Components Group   | \$ 77              | \$ 1,746          | \$ 3,511          | \$ 3,342          |
| 3DMT Group   | (840)              | (441)             | (2,196)           | (738)             |
| Flanges and Fittings Group   | 129                | 129               | 418               | 378               |
| Wireless Group   | (89)               | 93                | (117)             | 226               |
| Corporate (1)  | (1,161)            | (1,200)           | (3,546)           | (2,779)           |
| Total segment operating (loss) income                              | \$ (1,884)         | \$ 327            | \$ (1,930)        | \$ 429            |
| Interest expense, net  |                    |                   |                   |                   |
|  | (865)              | (1,106)           | (3,002)           | (3,372)           |
| Loss on extinguishment of debt                                     |                    |                   |                   |                   |
|  | —                  | —                 | (723)             | —                 |
| Other income (expense), net  |                    |                   |                   |                   |
|  | 88                 | (23)              | 893               | 71                |
| Non-operating expense  |                    |                   |                   |                   |
|  | (777)              | (1,129)           | (2,832)           | (3,301)           |
| Consolidated loss before income taxes and non-controlling interest |                    |                   |                   |                   |
|  | \$ (2,661)         | \$ (802)          | \$ (4,762)        | \$ (2,872)        |

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



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## NOTE 14 – Significant Customers

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

| Customer | Percentage of Sales |   |                   |   |                   |   |                   |   |
|----------|---------------------|---|-------------------|---|-------------------|---|-------------------|---|
|          | Three months ended  |   |                   |   | Nine months ended |   |                   |   |
|          | April 2,<br>2017    |   | March 27,<br>2016 |   | April 2,<br>2017  |   | March 27,<br>2016 |   |
| 1 (a)    | 14.2                | % | 11.0              | % | 12.7              | % | 9.8               | % |
| 2 (b)    | 8.1                 | % | 11.2              | % | 11.9              | % | 9.3               | % |
| 3 (a)    | 5.7                 | % | 7.9               | % | 7.1               | % | 7.7               | % |
| 4 (a)    | 6.0                 | % | 8.6               | % | 6.3               | % | 8.9               | % |
| 5 (a)    | 6.0                 | % | 5.8               | % | 6.2               | % | 5.9               | % |
| Total    | 40.0                | % | 44.5              | % | 44.2              | % | 41.6              | % |

- 
- (a) Revenue from this customer is generated through our Precision Components Group segment.  
(b) Revenue from this customer is generated through our 3DMT Group segment.

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

| Customer | Percentage of Receivables |   |               |   |
|----------|---------------------------|---|---------------|---|
|          | April 2, 2017             |   | June 30, 2016 |   |
| 1        | 14.7                      | % | 10.5          | % |
| 2        | **                        | % | 8.3           | % |
| 3        | **                        | % | 8.3           | % |
| 4        | **                        | % | 5.2           | % |
| 5        | **                        | % | **            | % |
| Total    | 14.7                      | % | 32.3          | % |

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

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the ARC Group Worldwide, Inc. ("ARC," "our," "we," or "us") Annual Report on Form 10-K for the fiscal year ended June 30, 2016, as filed with the Securities and Exchange Commission ("SEC").

Cautionary Statement Concerning Forward-Looking Statements

The information contained in this Quarterly Report (this "Report") may contain certain statements about ARC that are or may be "forward-looking statements," that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of ARC and are subject to uncertainty and changes in circumstances and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Factors that could cause our results to differ materially from current expectations include, but are not limited to, factors detailed in our reports filed with the SEC, including further but not limited to those discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016. 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," "projects," "should," "would," "expect," "positioned," "strategy," or words or terms of similar substance or derivative variation or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (1) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses, and future prospects; (2) business and management strategies and the expansion and growth of ARC; (3) the effects of government regulation on ARC's business; and (4) our plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Additional particular uncertainties that could cause our actual results to be materially different than those expressed in forward-looking statements include: risks associated with our international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of our markets; availability and cost of raw materials, parts and components used in our products; the competitive environment in the areas of our planned industrial activities; our ability to identify, finance, acquire and successfully integrate attractive acquisition targets; expected earnings of ARC; the amount of and our ability to estimate known and unknown liabilities; material disruption at any of our significant manufacturing facilities; the solvency of our insurers and the likelihood of their payment for losses; our ability to manage and grow our business and execution of our business and growth strategies; our ability and the ability our customers to access required capital at a reasonable costs; our ability to expand our business in our targeted markets; the level of capital investment and expenditures by our customers in our strategic markets; our financial performance;

our ability to identify, address and remediate any material weakness in our internal control over financial reporting; our ability to achieve or maintain credit ratings and the impact on our funding costs and competitive position if we do not do so; and other risks. Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

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

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### Overview

ARC Group Worldwide, Inc. is a leading, global advanced manufacturer offering a full suite of products and services to our customers, including: (i) metal injection molding (“MIM”); (ii) metal 3D printing (also referred to as “Additive Manufacturing”); (iii) precision metal stamping; (iv) traditional and clean room plastic injection molding; and (v) advanced rapid and conformal tooling. Through our diverse product offering, we provide our customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication. We further differentiate ourselves from our competitors by providing innovative, custom capabilities, which improve high-precision manufacturing efficiency and speed-to-market for our customers.

Our mission is to accelerate the adoption of key technologies, such as automation, robotics, production software, and metal 3D printing, in traditional manufacturing, thereby benefiting from the elimination of inefficiencies currently present in the global supply chain. Further, we seek to create innovative ways to streamline and improve the overall manufacturing process, including offering instant online quoting, in-house rapid and advanced conformal tooling, and a full suite of prototype-to-production capabilities.

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

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

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

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

Our overall growth strategy is centered on:

- driving organic improvement through the expansion and cross-selling of our core services to existing clients;
- accelerating the adoption of our technology by new customers in traditional manufacturing markets;
- 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 operational efficiencies, while improving quality, speed, and service to our customers.

Results of Operations – Three and Nine Months Ended April 2, 2017 and March 27, 2016

Our operations were classified into four reportable business segments: Precision Components Group, 3DMT Group, Flanges and Fittings Group, and Wireless Group. On March 31, 2017, we sold our wireless operations, which comprised the Wireless Group.

The historical results of Tekna Seal, which were included in the Precision Components Group segment, have been reflected as discontinued operations; therefore, historical segment information has been restated. Sales and gross profit information by reporting segment is as follows (in thousands):

| Three Months Ended |                  | March 27, 2016 |                  |
|--------------------|------------------|----------------|------------------|
| April 2, 2017      |                  | Amount         | Percent of total |
| Amount             | Percent of total | Amount         | Percent of total |



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Sales:

|                            |           |        |           |        |
|----------------------------|-----------|--------|-----------|--------|
| Precision Components Group | \$ 19,878 | 78.1%  | \$ 17,443 | 70.1%  |
| 3DMT Group                 | 4,292     | 16.8%  | 5,701     | 22.9%  |
| Flanges and Fittings Group | 1,272     | 5.0%   | 1,244     | 5.0%   |
| Wireless Group             | 30        | 0.1%   | 497       | 2.0%   |
| Total                      | \$ 25,472 | 100.0% | \$ 24,885 | 100.0% |

Gross profit:

|                            |          |        |          |        |
|----------------------------|----------|--------|----------|--------|
| Precision Components Group | \$ 2,276 | 73.4%  | \$ 3,800 | 75.5%  |
| 3DMT Group                 | 516      | 16.6%  | 735      | 14.6%  |
| Flanges and Fittings Group | 313      | 10.1%  | 323      | 6.4%   |
| Wireless Group             | (3)      | -0.1%  | 176      | 3.5%   |
| Total                      | \$ 3,102 | 100.0% | \$ 5,034 | 100.0% |

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|                            | Nine Months Ended |                  | March 27, 2016 |                  |
|----------------------------|-------------------|------------------|----------------|------------------|
|                            | April 2, 2017     |                  |                |                  |
|                            | Amount            | Percent of total | Amount         | Percent of total |
| <b>Sales:</b>              |                   |                  |                |                  |
| Precision Components Group | \$ 59,252         | 73.6%            | \$ 51,626      | 71.4%            |
| 3DMT Group                 | 17,242            | 21.4%            | 15,905         | 22.0%            |
| Flanges and Fittings Group | 3,576             | 4.5%             | 3,565          | 4.9%             |
| Wireless Group             | 428               | 0.5%             | 1,257          | 1.7%             |
| Total                      | \$ 80,498         | 100.0%           | \$ 72,353      | 100.0%           |
| <b>Gross profit:</b>       |                   |                  |                |                  |
| Precision Components Group | \$ 9,939          | 77.1%            | \$ 9,305       | 70.2%            |
| 3DMT Group                 | 1,919             | 14.9%            | 2,546          | 19.2%            |
| Flanges and Fittings Group | 922               | 7.1%             | 975            | 7.4%             |
| Wireless Group             | 114               | 0.9%             | 430            | 3.2%             |
| Total                      | \$ 12,894         | 100.0%           | \$ 13,256      | 100.0%           |

**Sales**

For the Three Months Ended April 2, 2017 Compared to the Three Months Ended March 27, 2016

Sales from continuing operations during the three month period ended April 2, 2017, totaled \$25.5 million, representing an increase of \$0.6 million, or 2.4%, from \$24.9 million during the three month period ended March 27, 2016. The change in sales by reportable segment was as follows:

- Precision Components Group sales were \$19.9 million during the three month period ended April 2, 2017, representing an increase of approximately \$2.5 million, or 14.4%, as compared with sales of \$17.4 million in the prior year period. The increase in sales was primarily due to higher MIM sales of \$2.9 million, partially offset by lower stamping sales of \$0.4 million due to a wind-generated power disruption. MIM sales increased primarily as a result of higher sales to customers in the firearm and defense, aerospace, consumer, and medical and dental industries.
- 3DMT Group sales were \$4.3 million during the three month period ended April 2, 2017, representing a decrease of approximately \$1.4 million, or 24.6%, as compared with sales of \$5.7 million in the prior year period. The decrease in sales was primarily due to lower plastic injection molding sales of \$1.0 million, largely as a result of lower sales to a significant customer in the firearms and defense industry, as well as lower tooling sales of \$1.0 million as more of the tool production is company owned. These decreases were partially offset by higher metal 3D printing sales of \$0.9 million during the three month period ended April 2, 2017, an increase of \$0.6 million or 200.0%, as compared

with sales of \$0.3 million in the prior year period.

- Flanges and Fittings Group sales were \$1.3 million during the three month period ended April 2, 2017, representing an increase of approximately \$0.1 million, or 8.3%, as compared with sales of \$1.2 million in the prior year period.
- Wireless Group sales were \$30 thousand during the three month period ended April 2, 2017 representing a decrease of approximately \$0.5 million as compared with the prior year period. The Company sold its wireless business effective March 31, 2017.

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For the Nine Months Ended April 2, 2017 Compared to the Nine Months Ended March 27, 2016

Sales from continuing operations during the nine month period ended April 2, 2017, totaled \$80.5 million, representing an increase of \$8.1 million, or 11.2%, from \$72.4 million during the nine month period ended March 27, 2016. The change in sales by reportable segment was as follows:

- Precision Components Group sales were \$59.3 million during the nine month period ended April 2, 2017, representing an increase of approximately \$7.7 million, or 14.9%, as compared with sales of \$51.6 million in the prior year period. The increase in sales was primarily due to higher MIM sales of \$8.2 million. MIM sales increased primarily as a result of higher sales to customers in the firearm and defense, aerospace, consumer and medical and dental industries.
- 3DMT Group sales were \$17.2 million during the nine month period ended April 2, 2017, representing an increase of approximately \$1.3 million, or 8.2%, as compared with sales of \$15.9 million in the prior year period. The increase in sales was primarily due to higher plastic injection molding sales of \$2.4 million primarily as a result of higher sales to a significant customer in the firearms and defense industry as well as higher metal 3D printing sales. Metal 3D printing sales were \$1.8 million during the nine month period ended April 2, 2017, an increase of \$0.9 million or 100.0%, as compared with sales of \$0.9 million in the prior year period. These increases were partially offset by lower tooling sales of \$2.1 million as more of the tool production is company owned.
- Flanges and Fittings Group sales were \$3.6 million during the nine month periods ended April 2, 2017 and March 27, 2016.
- Wireless Group sales were \$0.4 million during the nine month period ended April 2, 2017 representing a decrease of approximately \$0.9 million as compared with sales of \$1.3 million in the prior year period. The Company sold its wireless business effective March 31, 2017.

Gross Profit

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, new customer programs, and capacity utilization. In the case of 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 often improves as manufacturing volumes increase, which improves our utilization rates and overhead absorption. As a result of these various factors, our gross margin varies from period to period.

For the Three Months Ended April 2, 2017 Compared to the Three Months Ended March 27, 2016

On a consolidated basis gross profit from continuing operations was \$3.1 million during the three month period ended April 2, 2017, representing a decrease of approximately \$1.9 million, or 38.0%, as compared with gross profit of \$5.0 million in the prior year period. Gross margin decreased to 12.2% in the three month period ended April 2, 2017, compared with 20.2% in the three month period ended March 27, 2016. Gross profit by reportable segment was as follows:

- Precision Components Group gross profit was \$2.3 million during the three month period ended April 2, 2017, representing a decrease of approximately \$1.5 million, or 39.5%, as compared with gross profit of \$3.8 million in the prior year period. Gross margin decreased to 11.5% in the three month period ended April 2, 2017, compared with 21.8% in the three month period ended March 27, 2016. The primary reason for the decreases in gross profit and gross margin percentage was due to increased development expenses associated with the ramping up of production for significant new products in the firearms and defense industry, which resulted in increased staffing levels and associated labor costs, along with higher scrap.
- 3DMT Group gross profit was \$0.5 million during the three month period ended April 2, 2017, representing a decrease of \$0.2 million, or 28.6%, as compared with gross profit of \$0.7 million in the prior year period. Gross margin decreased to 12.0% in the three month period ended April 2, 2017, compared with 12.9% in the three month period ended March 27, 2016. The primary reason for the decreases in gross profit and gross

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margin was due to lower sales volume to a significant customer in the firearms and defense industry resulting in lower utilization and overhead absorption. In addition, tools are being sold at or near cost in order to obtain increased recurring molding business.

- Flanges and Fittings Group gross profit was \$0.3 million during the three month periods ended April 2, 2017 and March 27, 2016.
- Wireless Group gross loss was \$3 thousand during the three month period ended April 2, 2017, a decrease of approximately \$0.2 million from the prior year. The Company sold its wireless business effective March 31, 2017.

For the Nine Months Ended April 2, 2017 Compared to the Nine Months Ended March 27, 2016

On a consolidated basis gross profit from continuing operations was \$12.9 million during the nine month period ended April 2, 2017, representing a decrease of approximately \$0.4 million, or 3.0%, as compared with gross profit of \$13.3 million in the prior year period. Gross margin decreased to 16.0% in the nine month period ended April 2, 2017, compared with 18.3% in the nine month period ended March 27, 2016. Gross profit by reportable segment was as follows:

- Precision Components Group gross profit was \$9.9 million during the nine month period ended April 2, 2017, representing an increase of approximately \$0.6 million, or 6.5%, as compared with gross profit of \$9.3 million in the prior year period. Gross margin decreased to 16.8% in the nine month period ended April 2, 2017, compared with 18.0% in the nine month period ended March 27, 2016. The primary reason for the increase in gross profit was due to higher production volume at our MIM facilities in Colorado, Florida and Hungary. The primary reason for the decrease in gross margin percentage was due to increased development expenses associated with the ramping up of production for significant new products in the firearms and defense industry, which resulted in increased staffing levels and associated labor costs, along with higher scrap.
- 3DMT Group gross profit was \$1.9 million during the nine month period ended April 2, 2017, representing a decrease of \$0.6 million, or 24.0%, as compared with gross profit of \$2.5 million in the prior year period. Gross margin decreased to 11.1% in the nine month period ended April 2, 2017, compared with 16.0% in the nine month period ended March 27, 2016. The primary reason for the decreases in gross profit and gross margin was due to lower sales volume in the third quarter of fiscal year 2017 to a significant customer in the firearms and defense industry resulting in lower utilization and overhead absorption. In addition, tools are being sold at or near cost in order to obtain increased recurring molding business. Segment gross profit and gross margin also continue to be impacted by costs associated by the continued development and ramp up of metal 3D printing capabilities and scale.
- Flanges and Fittings Group gross profit was \$0.9 million during the nine month period ended April 2, 2017 representing a decrease of \$0.1 million, or 10.0%, as compared with gross profit of \$1.0 million in the prior year period. Gross margin decreased to 25.8% in the nine month period ended April 2, 2017, compared with 27.4% in the nine month period ended March 27, 2016. The decreases in gross profit and gross margin were primarily due to

certain non-recurring refunds of duties received in the prior year.

- Wireless Group gross profit was \$0.1 million during the nine month period ended April 2, 2017, representing a decrease of \$0.3 million, or 75.0%, as compared with gross profit of \$0.4 million in the prior year period. The Company sold its wireless business effective March 31, 2017.

The following paragraphs discuss other items affecting the results of our operations for the three and nine months ended April 2, 2017 and March 27, 2016.

#### Selling, General and Administrative Expenses

Selling, general and administrative expense (“SG&A”) from continuing operations totaled \$5.0 million, or 19.6% of sales, during the three month period ended April 2, 2017, compared with \$4.7 million, or 18.9% of sales, during the three month period ended March 27, 2016. The increase in SG&A expense during the three month period ended April 2, 2017 was primarily due to higher labor and labor related costs. For the three months ended April 2, 2017, stock option

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expense was \$0.2 million, an increase of \$0.1 million as compared with option expense of \$0.1 million in the prior year period.

SG&A from continuing operations totaled \$14.8 million, or 18.4% of sales, during the nine month period ended April 2, 2017, compared with \$12.8 million, or 17.7% of sales, during the nine month period ended March 27, 2016. The increase in SG&A expense during the nine month period ended April 2, 2017 was primarily due to higher labor and labor related costs. For the nine months ended April 2, 2017, stock option expense was \$0.6 million, an increase of \$0.5 million as compared with option expense of \$0.1 million in the prior year period.

Other Income (Expense), Net

Other income (expense), net was \$88 thousand and \$(23) thousand during the three month periods ended April 2, 2017 and March 27, 2016, respectively. The increase in other income (expense), net during the three month period ended April 2, 2017 was primarily due to a gain related to a disposition of a fixed asset.

Other income (expense), net was \$0.9 million and \$71 thousand during the nine month periods ended April 2, 2017 and March 27, 2016, respectively. The increase in other income (expense), net during the nine month period ended April 2, 2017 was primarily due to a gain of \$0.4 million related to a reduction in the Kegy Escrow and \$0.1 million related to a disposition of a fixed asset.

Interest Expense, Net

Interest expense, net was \$0.9 million and \$1.1 million for the three month periods ended April 2, 2017 and March 27, 2016, respectively, and was \$3.0 million and \$3.4 million during the nine month periods ended April 2, 2017 and March 27, 2016, respectively. The decrease in interest expense, net during the three and nine month periods ended April 2, 2017 was primarily due to the retirement of debt resulting from proceeds from the sale of Tekna Seal in September 2016.

Loss on Extinguishment of Debt

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



## 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 nine months ended April 2, 2017 excludes the income from discontinued operations, before tax of \$0.1 million and the gain on disposition of this business, after tax of \$3.6 million.

## Income Tax

Income tax expense from continuing operations was \$0.1 million for the three month period ended April 2, 2017, as compared with an income tax benefit of \$8 thousand for the three month period March 27, 2016. Income tax benefit from continuing operations was \$1.2 million and \$0.6 million for the nine month periods ended April 2, 2017 and March 27, 2016, respectively.

The primary reason for the income tax expense in the three month period ended April 2, 2017 was due to the amortization of indefinite-lived intangible assets that were not available to offset existing deferred tax assets (termed a “naked credit”). The primary reason for the income tax benefit in the nine month period ended April 2, 2017 was due to our net loss from continuing operations.

## Liquidity and Capital Resources

As of April 2, 2017, we had cash and cash equivalents of \$0.7 million. Cash held in financial institutions outside the United States totaled \$0.7 million and \$1.6 million as of April 2, 2017 and June 30, 2016, respectively. Our Hungarian

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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 senior secured revolving loan, with a current borrowing capacity of up to \$25.0 million. After consideration of \$10.1 million of borrowings outstanding, our remaining borrowing capacity was \$14.9 million at April 2, 2017. 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 provided by operating activities was \$1.5 million and \$3.8 million for the nine months ended April 2, 2017 and March 27, 2016, respectively, primarily due to the following:

- An increase in net income of \$1.5 million, which includes a pre-tax gain of \$5.5 million recognized on the sale of subsidiaries, the cash from which is recognized as an investing activity; and
- A decrease in cash used for working capital of \$1.1 million. Increases in accounts receivable, inventory, and accounts payable were due, in part, to higher sales volume. The decrease in deferred revenue of \$0.3 million in the period ending April 2, 2017 was primarily due to an increase in tools being built for ownership by the Company. Partially offsetting the use of cash in working capital was a receipt of cash from income tax refunds of approximately \$0.9 million.

## Investing Activities

Cash provided by investing activities increased \$7.1 million to \$5.2 million for the nine months ended April 2, 2017, as compared to net cash used in investing activities of \$1.9 million for the nine months ended March 27, 2016, primarily due to the following:

- Proceeds received from the sale of our subsidiary of \$10.5 million; and
- Partially offset by cash used to purchase property and equipment of \$5.3 million.

A significant portion of our capital expenditures during the quarter ended April 2, 2017 were for tools built for internal ownership. Some of these tools are technically complex and may prove to not be functionally viable. The Company will evaluate these tools for recoverability of their cost and would impair those determined to be not viable.

#### Financing Activities

Cash used in financing activities increased \$5.5 million to \$9.4 million in the nine months ended April 2, 2017, as compared to cash used of \$3.9 million in the nine months ended March 27, 2016, primarily due to the following:

- Higher net principal payments on our long-term debt primarily due to cash received of \$10.5 million from the sale of our subsidiary, partially offset by borrowings;
- Purchase of the non-controlling membership interest in FloMet and payments for the non-controlling interest in connection with the sale of Tekna Seal totaling \$0.6 million; and
- Receipt of \$0.1 million from the issuance of stock through our employee stock purchase plan.

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### Debt and Credit Arrangements

For a discussion of our long-term debt, see Note 8, Debt, to our condensed consolidated financial statements in Part I, Item 1 to this Report incorporated herein by reference thereto. See Note 7, Debt, to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 for more information about our long-term debt.

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

### Financial Ratio Covenants

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

Non-compliance by us with any of the covenants would constitute events of default under both of the Credit Facilities pursuant to cross-default provisions and could result in acceleration of payment obligations for all outstanding principal and interest for loans made under both of the Credit Facilities, unless such defaults were waived or subject to forbearance by the respective creditors.

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

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

| Period Ending                    | Fixed Charge Coverage Ratio |
|----------------------------------|-----------------------------|
| April 2, 2017                    | 1.10:1.00                   |
| June 30, 2017                    | 0.85:1.00                   |
| October 1, 2017                  | 0.90:1.00                   |
| December 31, 2017 and thereafter | 1.10:1.00                   |

The summary calculation of our Senior ABL Credit Facility Fixed Charge Coverage Ratio as of April 2, 2017 is as follows:

| (in thousands, except ratio)                    | Amount    |
|---|-----------|
| Consolidated EBITDA                             | \$ 10,195 |
| Less unfinanced portion of capital expenditures | (2,404)   |
| Less expense for taxes paid in cash             | (18)      |
| Coverage Amount (a)                             | \$ 7,773  |
| Fixed Charges (b)                               | \$ 6,423  |
| Fixed Charge Coverage Ratio (a:b)               | 1.21:1.00 |

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

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**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 |
|---|-----------------------------|
| 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 April 2, 2017 is as follows:

| (in thousands, except ratio)                    | Amount    |
|---|-----------|
| Consolidated EBITDA                             | \$ 12,543 |
| Less unfinanced portion of capital expenditures | (2,906)   |
| Less expense for taxes paid in cash             | (18)      |
| Coverage Amount (a)                             | \$ 9,619  |
| Fixed Charges (b)                               | \$ 6,423  |
| Fixed Charge Coverage Ratio (a:b)               | 1.50:1.00 |

**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, 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 |
|--|----------------------|
| 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 September 23, 2017 | 4.00:1.00            |
| September 24, 2017 and thereafter        | 3.50:1.00            |

The summary calculation of our Subordinated Loan Agreement Total Leverage Ratio as of April 2, 2017 is as follows:

| (in thousands, except ratio)       | Amount    |
|------------------------------------|-----------|
| Funded Indebtedness (a)            | \$ 49,219 |
| Consolidated EBITDA (b)            | \$ 12,543 |
| Maximum Total Leverage Ratio (a:b) | 3.92:1.00 |

#### Compliance with Financial Ratio Covenants

As of April 2, 2017, we were in compliance with our debt covenants under our Senior ABL Credit Facility and our Subordinated Loan Agreement.

#### GAAP to Non-GAAP Reconciliation

Fixed Charges and Consolidated EBITDA used in our debt covenant calculations are non-GAAP financial measures. We have provided this non-GAAP financial information to aid in better understanding our financial ratios as used in our debt covenant calculations. The methodology used is defined in our debt agreements. Non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States. The non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial

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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 Senior ABL Credit Facility is as follows (in thousands):

| For the twelve months ended:                                     | April 2, 2017 |
|--|---------------|
| Net income   | \$ (708)      |
| Share-based compensation   | 656           |
| Interest expense, net  | 4,079         |
| Income taxes   | 1,227         |
| Depreciation and amortization                                    | 9,766         |
| Transaction related expenses (1)                                 | 1,308         |
| Restructuring and severance expenses                             | 18            |
| Other non-recurring gains (2)                                    | (568)         |
| Pro-forma EBITDA adjustment to exclude discontinued subsidiaries | (5,583)       |
| Consolidated EBITDA (3)  | \$ 10,195     |

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

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

| For the twelve months ended: | April 2, 2017 |
|------------------------------|---------------|
|------------------------------|---------------|



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|  |           |
|--|-----------|
| Net income   | \$ (708)  |
| Share-based compensation   | 656       |
| Interest expense, net  | 4,079     |
| Income taxes   | 1,227     |
| Depreciation and amortization                                    | 9,766     |
| Transaction related expenses                                     | 1,308     |
| Restructuring and severance expenses                             | 18        |
| Other expenses (1)   | 2,348     |
| Other non-recurring gains  | (568)     |
| Pro-forma EBITDA adjustment to exclude discontinued subsidiaries | (5,583)   |
| Consolidated EBITDA  | \$ 12,543 |

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- (1) Other expenses relate to certain capitalized tooling costs, insurance claim for lost production at our Kegy facility and costs incurred to relocate our plastic injection molding operations.

#### 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 April 2, 2017.

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Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein, including estimates about the effects of matters or future events that are inherently uncertain. Policies determined to be critical are those that have the most significant impact on our financial statements and require management to use a greater degree of judgment and/or estimates. For a discussion of our critical accounting policies, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation, in our Form 10-K for the fiscal year ended June 30, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the SEC is recorded, processed, summarized and reported within the time period specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

As of the end of the period covered by this Report, and under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, we have concluded that our disclosure controls and procedures were not effective as of April 2, 2017, at the reasonable assurance level due to weaknesses in our internal control over financial reporting.

We previously reported material weaknesses that were identified as of June 30, 2016. Our information technology and accounting infrastructure was inadequate, which could result in the failure to perform timely and effective reviews

at a precision necessary to identify a material error.

#### Changes in Internal Control over Financial Reporting

During fiscal year 2017, we implemented the following changes in our internal control over financial reporting to address the previously reported material weakness and to enhance our overall financial control environment:

- We sold Tekna Seal and ARC Wireless, which were two of our smaller facilities;
- We moved the accounting for GF&F to Kegy, which has a larger accounting staff with better segregation of duties;
- We are improving the documentation of process and procedures at 3DMT and Thixoforming; and
- We began implementing consolidation software during the third quarter of fiscal 2017.

The audit committee directed management to implement remediation measures and is monitoring their implementation. Certain remediation measures may extend into fiscal year 2018. In addition, under the direction of the audit committee, management will continue to review and make necessary changes to the overall design of our internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and other procedures that will be implemented will largely remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. However, the implementation of certain mitigating processes and procedures is dependent on certain factors, including, but not limited to, our financial performance. Management is committed to continuous improvement of our internal control processes and will continue to evaluate and work to improve internal control over financial reporting.

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Except as described above, there have been no changes in our internal control over financial reporting during the quarterly period ended April 2, 2017, that would have materially affected, or are reasonably likely to materially affect, our control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description  |
|----------------|--|
| 10.1*          | First Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of March 21, 2017.    |
| 10.2*          | Third Amendment to the Subordinated Loan Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and McLarty Capital Partners SBIC, L.P., dated as of March 31, 2017. |
| 10.3*          | Second Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of May 12, 2017.     |
| 31.1*          | Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002  |
| 31.2*          | Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002  |
| 32.1&          | Officers' Certifications of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002  |
| 101.INS*       | XBRL Instance Document   |
| 101.SCH*       | XBRL Taxonomy Schema   |
| 101.CAL*       | XBRL Taxonomy Calculation Linkbase   |
| 101.DEF*       | XBRL Taxonomy Definition Linkbase  |
| 101.LAB*       | XBRL Taxonomy Label Linkbase   |
| 101.PRE*       | XBRL Taxonomy Presentation Linkbase  |

\*Filed with this Form 10-Q.

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

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SIGNATURES

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

ARC GROUP WORLDWIDE, INC.

Date: May 15, 2017 /s/ Jason T. Young  
Name: Jason T. Young  
Title: Principal Executive Officer

Date: May 15, 2017 /s/ Drew M. Kelley  
Name: Drew M. Kelley  
Title: Principal Financial Officer and  
Principal Accounting Officer