UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended December 30, 2018

OR

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

For the transition period from _______ to _______

ARC Group Worldwide, Inc.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

001-33400	87-0454148
(Commission File Number)	(I.R.S. Employer Identification Number)

810 Flightline Blvd.

Deland, FL 32724

(Address of principal executive offices including zip code)

(303) 467-5236

(Registrant's telephone number, including area code)

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

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

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

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

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

As of February 13, 2019, the Registrant had 23,349,478 shares outstanding of its $.0005 par value common stock.

ARC Group Worldwide, Inc.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Statements of Operations

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

	For the three months ended		For the six months ended	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Sales	$ 20,907	$ 17,428	$ 41,473	$ 36,514
Cost of sales	19,415	17,725	36,872	35,619
Gross profit	1,492	(297)	4,601	895
Selling, general and administrative	3,345	3,357	6,479	6,671
Loss from operations	(1,853)	(3,654)	(1,878)	(5,776)
Other income (expense), net	64	165	90	129
Interest expense, net	(898)	(912)	(1,829)	(1,889)
Loss before income taxes	(2,687)	(4,401)	(3,617)	(7,536)
Income tax benefit (expense)	(33)	366	(68)	194
Net loss from continuing operations	(2,720)	(4,035)	(3,685)	(7,342)
Loss on sale of subsidiaries and loss from discontinued operations, net of tax	(822)	(287)	(1,554)	(534)
Net loss	$ (3,542)	$ (4,322)	$ (5,239)	$ (7,876)
Net loss per common share, basic and diluted:				
Continuing operations	$ (0.12)	$ (0.22)	$ (0.16)	$ (0.40)
Discontinued operations	$ (0.03)	$ (0.02)	$ (0.06)	$ (0.03)
ARC Group Worldwide, Inc.	$ (0.15)	$ (0.24)	$ (0.22)	$ (0.43)
Weighted average common shares outstanding:				
Basic and diluted	23,349,478	18,265,323	23,343,044	18,229,320

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share data)

	December 30, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash	$ 249	$ 365
Accounts receivable, net	10,044	11,103
Inventories, net	14,815	12,102
Prepaid expenses and other current assets	1,105	2,781
Current assets of discontinued operations	3,444	547
Total current assets	29,657	26,898
Property and equipment, net	36,067	36,879
Goodwill	6,412	6,412
Intangible assets, net	14,582	16,270
Other	353	347
Long-term assets of discontinued operations	—	3,127
Total assets	$ 87,071	$ 89,933
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,050	$ 11,345
Accrued expenses and other current liabilities	2,121	2,000
Deferred revenue	561	825
Bank borrowings, current portion of long-term debt	1,704	1,721
Capital lease obligations, current portion	1,278	456
Accrued escrow obligations, current portion	776	943
Current liabilities of discontinued operations	1,364	1,422
Total current liabilities	18,854	18,712
Long-term debt, net of current portion	38,892	37,013
Capital lease obligations, net of current portion	1,273	617
Other long-term liabilities	967	965
Long-term liabilities of discontinued operations	—	462
Total liabilities	59,986	57,769
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, $0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	—	—
	12	12

Common stock, $0.0005 par value, 250,000,000 shares authorized; 23,357,879 shares issued and 23,349,478 shares issued and outstanding at December 30, 2018, and 23,324,316 shares issued and 23,315,915 shares issued and outstanding at June 30, 2018		
Treasury stock, at cost; 8,401 shares at December 30, 2018 and June 30, 2018	(94)	(94)
Additional paid-in capital	42,027	41,829
Accumulated deficit	(14,866)	(9,627)
Accumulated other comprehensive income	6	44
Total stockholders'equity	27,085	32,164
Total liabilities and stockholders' equity	$ 87,071	$ 89,933

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	For the six months ended December 30, 2018	December 31, 2017
Cash flows from operating activities:		
Net loss	$ (5,239)	$ (7,876)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,468	5,051
Share-based compensation expense	199	397
Loss on sale of asset	34	—
Loss on sale of subsidiaries	—	109
Bad debt expense and other	59	84
Changes in working capital:		
Accounts receivable	986	(137)
Inventory	(2,706)	(138)
Prepaid expenses and other assets	1,897	609
Accounts payable	(227)	1,486
Accrued expenses and other current liabilities	(18)	(1,472)
Deferred revenue	(265)	222
Net cash provided by (used in) operating activities	188	(1,665)
Cash flows from investing activities:		
Purchases of property and equipment	(760)	(1,500)
Proceeds from sale of subsidiary	—	3,000
Net cash (used in) provided by investing activities	(760)	1,500
Cash flows from financing activities:		
Proceeds from debt issuance	38,417	49,533
Repayments of long-term debt and capital lease obligations	(37,858)	(50,040)
Issuance of common stock under employee stock purchase plan and exercise of stock options	—	155
Net cash provided by (used in) financing activities	559	(352)
Effect of exchange rates on cash	(103)	311
Net decrease in cash	(116)	(206)
Cash, beginning of period	365	593
Cash, end of period	$ 249	$ 387
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,052	$ 1,244
Cash paid for income taxes, net of refunds	$ 87	$ 48

See accompanying notes to the unaudited condensed consolidated financial statements.

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ARC Group Worldwide, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The consolidated balance sheet as of June 30, 2018, 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, 2018. The Company follows the same accounting policies for preparing quarterly and annual reports.

Principles of Consolidation

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

Correction of Immaterial Errors

In the first quarter of fiscal year 2019, the Company's management determined that there was an error with respect to the recording of the full cost absorption adjustment for inventory. The Company assessed the materiality of the misstatement both quantitatively and qualitatively and determined that the error was immaterial to all prior consolidated financial statements taken as a whole. Accordingly, prior period amounts have not been adjusted to reflect the correction of the error. The correction resulted in an increase in gross profit for the six months ended December 30, 2018 of $1.0 million. All statement of operations totals following were also impacted by the increase.

NOTE 2 – Significant Accounting Policies

Use of Estimates

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

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Comprehensive Income (Loss)

For each of the quarters ended December 30, 2018 and December 31, 2017, there were no material differences between net income (loss) and comprehensive income (loss).

Accounting Pronouncements Adopted in the Current Period

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 which defers the effective date for one year beyond the originally specified effective date. ASU 2014-09 is effective in the Company's first quarter of fiscal 2019 and may transition to the standard using either the full retrospective approach or retrospectively with a cumulative effect of initially applying the amendments recognized at the date of initial application. The Company has adopted ASU 2014-09 as of July 1, 2018 and no cumulative effect of the adoption recognized. We obtained an understanding of the new standard and determined that the Company will retain much of the same accounting treatment used to recognize revenue as compared to current standards. See below for the Company's updated revenue recognition policy.

Revenue Recognition

On January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers and all the related amendments (the "new revenue standard") with respect to all contracts using the modified retrospective method. As a majority of the Company's sales revenue continues to be recognized when products are shipped from its manufacturing facility, and there was no change in the recognition model historically applied to contracts with customers under the new revenue standard, there was no adjustment to the opening balance of retained earnings. The impact to the Company's results of operations is not expected to be material, on an on-going basis, because the analysis of the Company's contracts under the new revenue standard supports a recognition model consistent with the Company's current revenue recognition model.

Product revenues are primarily generated from the sale and MIM and related products. Revenue is recognized when i) persuasive evidence of an arrangement exists, ii) delivery has occurred, iii) the sales price is fixed or determinable, iv) collection is probable and v) all obligations have been substantially performed pursuant to the terms of the arrangement.

Deferred revenue consists of customer deposits for the development of the tooling part component for the purpose of manufacturing the assembly part. However, as this does not trigger any income as no products have changed hands and this is done more as a collectability measure with the Customer, no other actions other than recording the deposit occur at the time of the transaction. The Company recognizes revenue and the related expenses when the customer approves and accepts delivery the tooling part component, which is the time when the performance obligation of providing product to the customer occurs. Costs incurred related to tooling part components in the process of being developed are deferred and are included as a current assets on the balance sheet.

In regards to the assembly parts, revenue is recognized when the assembly parts are shipped at the Company's loading dock, which is when the customer takes control of the goods and the performance obligation is satisfied.

We did not record any adjustments to our financial statements as part of the adoption of ASU 2014-09.

The Company reported segment disclosures at Note 12, whch presents disaggregated revenue information for financial reporting purposes.

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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. We are evaluating additional changes to our processes and internal controls to ensure we meet the standard's reporting and disclosure requirements. While we continue to evaluate the effect of the standard on our consolidated financial statements, the adoption of the ASU will result in the recognition of a right of use asset and related liability with an estimated immaterial effect to our retained earnings. The Company is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its consolidated financial position, results of operations and cash flows; however, the Company's operating lease commitments are disclosed in Note 12, Commitments and Contingencies, of the Company's Form 10-K for the fiscal year ended June 30, 2018.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses Topic 326 ("ASU 2016-13"), which requires entities to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within that year. Early adoption is permitted. The adoption of ASU 2016-03 is not expected to have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Topic 350 ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative step, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for all public businesses that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-04 on the financial statements. There was no impairment noted during six months ended December 30, 2018, but the Company expects that this standard will impact the financial statements if an impairment is indicated.

NOTE 3 – Divestitures

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

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

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

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

The condensed consolidated statement of operations for the three and six months ended December 31, 2017, includes the results of operations of GF&F through the sale date of September 15, 2017 and the loss on the sale of GF&F. Financial information for discontinued operations for the three and six months ended December 30, 2018 and December 31, 2017 is as follows (in thousands):

	For the three months ended		For the six months ended	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Sales	$ —	$ -	$ —	$ 726
Cost of sales	—	-	—	(615)
Gross profit	—	-	—	111
Selling, general and administrative	—	-	—	(108)
Income from discontinued operations, before income taxes	—	-	—	3
Loss on sale of discontinued operations	—	(21)	—	(503)
Total (loss) income from discontinued operations, before income taxes	—	(21)	—	(500)
Income tax benefit on discontinued operations	—	15	—	224
Income (loss) from discontinued operations, net of tax	$ —	$ (6)	$ —	$ (276)

Cash flows from GF&F for the three months ended December 31, 2017 are combined with the cash flows from operations within each of the categories presented on the condensed consolidated statements of cash flows.

3D Material Technologies ("3DMT")

On July 25, 2018, the Board of Directors voted to sell its 3DMT division. The Company is currently actively seeking a buyer for 3DMT while still operating until the sale.

The condensed consolidated statements of operations for the three months ended December 30, 2018 and December 31, 2017, respectively, include the results of operations of 3DMT disclosed as discontinued operations. Financial

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information for discontinued operations for the three and six months ended December 30, 2018 and December 31, 2017 are as follows (in thousands):

	For the three months ended		For the six months ended	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Sales	$ 332	$ 926	$ 668	$ 1,790
Cost of sales	(893)	(998)	(1,791)	(1,632)
Gross profit	(561)	(72)	(1,123)	158
Selling, general and administrative	(244)	(196)	(402)	(367)
Loss from discontinued operations, before income taxes	(805)	(268)	(1,525)	(209)
Interest expense	(17)	(15)	(29)	(51)
Other expense, net	—	2	—	2
Total income (loss) from discontinued operations, before income taxes	(822)	(281)	(1,554)	(258)
Income tax benefit on discontinued operations	—	—	—	—
Loss from discontinued operations, net of tax	$ (822)	$ (281)	$ (1,554)	$ (258)

The condensed consolidated balance sheets for December 30, 2018 and June 30, 2018 include assets related to discontinued operations as follows (in thousands):

	December 30, 2018	June 30, 2018
Current assets:		
Accounts receivable, net	$ 162	$ 148
Inventories, net	219	225
Prepaid expenses and other current assets	105	174
Property and equipment, net	2,932	—
Other assets	26	—
Total current assets	3,444	547
Property and equipment, net	—	3,101
Other Assets	—	26
Total assets of discontinued operations	$ 3,444	$ 3,674
Current liabilities:		
Accounts payable and accrued expenses	$ 543	$ 449
Capital lease obligations, current portion	821	973
Total current liabilities	1,364	1,422
Capital lease obligations, net of current portion	—	462
Total liabilities of discontinued operations	$ 1,364	$ 1,884

The Company did not reclassify its Statements of Cash Flows to reflect the various discontinued operations. Cash flows from 3DMT for the six months ended December 30, 2018 and December 31, 2017 are combined within each of the categories presented.

	December 30, 2018	December 31, 2017
Net Cash Used in Operating Activities	$ 1,230	$ 111
Net Cash Used in Investing Activities	—	5
Net Cash Used in Financing Activities	613	553

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NOTE 4– Inventory

Inventories consisted of the following (in thousands):

	December 30, 2018	June 30, 2018
Raw materials and supplies	$ 5,370	$ 5,414
Work-in-process	7,124	5,907
Finished goods	3,811	3,144
	16,305	14,465
Reserve for obsolescence	(1,271)	(2,138)
Inventory of discontinued operations	(219)	(225)
	$ 14,815	$ 12,102

The Company increased its inventory in the six months ended December 30, 2018 as compared to June 30, 2018. This was primarily due to the increase of inventory at the ARC CO facility as a part of the process to drive down past due customer orders.

NOTE 5 – Property and Equipment

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

	Depreciable Life (in years)	December 30, 2018	June 30, 2018
Land	—	$ 1,264	$ 1,264
Building and improvements	7 - 40	18,259	18,188
Machinery and equipment	3 - 12	45,134	42,899
Office furniture and equipment	3 - 10	1,634	1,267
Construction-in-process	—	1,221	2,735
Assets acquired under capital lease		5,304	3,910
		72,816	70,263
Accumulated depreciation		(35,203)	(32,124)
Accumulated amortization on capital leases		(1,546)	(1,260)
		$ 36,067	$ 36,879

Depreciation expense totaled $1.8 million and $1.5 million for the three months ended December 30, 2018 and December 31, 2017, respectively, and $3.4 million and $3.0 million for the six months ended December 30, 2018 and December 31, 2017, respectively.

NOTE 6 – Goodwill and Intangible Assets

Goodwill

Total goodwill of $6.4 million is assigned to the Company's Precision Components Group. The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the fiscal quarter ended December 30, 2018, the Company assessed whether any such indicators of impairment existed and concluded there were none.

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Intangible Assets

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

	As of December 30, 2018			As of June 30, 2018		
Intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and tradenames	$ 3,418	(1,059)	$ 2,359	$ 3,418	$ (945)	$ 2,473
Customer relationships	24,077	(12,048)	12,029	24,077	(10,838)	13,239
Non-compete agreements	3,654	(3,460)	194	3,654	(3,096)	558
Total	$ 31,149	$ (16,567)	$ 14,582	$ 31,149	$ (14,879)	$ 16,270

Intangible assets are amortized using the straight-line method over estimated useful lives ranging from five to fifteen years. Amortization expense for identifiable intangible assets totaled $0.8 million for the three months ended December 30, 2018 and December 31, 2017, and $1.7 million for the six months ended December 30, 2018 and December 31, 2017. Estimated future amortization expense for the next five years as of December 30 is as follows (in thousands):

Fiscal Years	Amount
2019	$ 1,504
2020	2,636
2021	2,636
2022	2,636
2023	2,636
Thereafter	2,534
Total	$ 14,582

There were no impairments of long-lived assets during the three and six months ended December 30, 2018 and December 31, 2017.

NOTE 7 – Debt

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

	Balance as of December 30, 2018	June 30, 2018
Senior secured revolving loan	$ 8,268	$ 5,692
Senior secured mortgage-based term loans	17,893	18,765
Subordinated term loan	15,000	15,000
Total debt	41,161	39,457
Unamortized deferred financing costs	(565)	(723)
Total debt, net	40,596	38,734
Current portion of long-term debt, net of unamortized deferred financing costs	(1,704)	(1,721)
Long-term debt, net of current portion and unamortized deferred financing costs	$ 38,892	$ 37,013

Senior Credit Agreement

On September 29, 2016, the Company and certain of its subsidiaries, entered into a new senior asset-based lending credit agreement with Citizens Bank, N.A. subsequently amended by amendments one through five (collectively, the "Senior ABL Credit Facility").

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

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

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

The Maturity Date with respect to the Revolving Loan and the Term Loan is November 10, 2019, provided, however, upon repayment of Company subordinated indebtedness the maturity date will automatically extend to five years after the Closing Date for Revolving Loans and Revolving Commitments, and with respect to the Term Loans, the earlier of the date that is (i) ten years after the Closing Date and (ii) the maturity date of the Revolving Loans. The Senior ABL Credit Facility contains certain mandatory prepayment provisions, including mandatory prepayments due in respect of sales of assets, sales of equity securities, events of default and other customary events, with exceptions for non-core business dispositions.

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

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

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

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

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

On November 12, 2017, the Company entered into the Fourth Amendment to the Senior ABL Credit Facility (the "Fourth Amendment"). The Fourth Amendment suspends the Company's fixed charge coverage ratio covenant through December 31, 2018. The suspension of the fixed charge coverage ratio covenant was effective as of December 31, 2017. The Fourth Amendment also adds a minimum revolving credit availability financial covenant. The Fourth Amendment also permits the Company to make infusions of junior capital, which may consist of subordinated debt and/or equity issuances. The junior capital infusions made under the Fourth Amendment will not be subject to mandatory prepayment of the Senior ABL Credit Facility, but subject to certain limitations in respect of outstanding subordinated indebtedness. Under the terms of the Fourth Amendment, the initial infusion of junior capital in amount of

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not less than $5.0 million must be completed by the Company no later than January 31, 2018. The minimum revolving credit availability covenant requires the Company to maintain the following availability: (a) at least $1,250,000 in revolving credit availability until the earlier of (i) the initial closing of the infusion of $5.0 million in junior capital and (ii) January 31, 2018; and (b) thereafter, at least $3,500,000 in such revolving credit availability. The Fourth Amendment also reduces the Line Cap (consisting of the lesser of the aggregate revolving credit commitment and the borrowing base) in respect of certain prepayment obligations and conditions precedent to borrowing, by reducing the borrowing base by $1,250,000. The Fourth Amendment contains customary representations and warranties regarding the status of the Company and compliance with all terms and conditions of the Senior ABL Credit Facility.

On November 13, 2018, the Company entered into the Fifth Amendment to the Senior ABL Credit Facility (the "Fifth Amendment"). The Fifth Amendment extended the maturity date of the Senior ABL Credit Facility from August 10, 2019 to November 11, 2019.

On February 12, 2019, the Company entered into the Sixth Amendment to the Senior ABL Credit Facility (the "Fifth Amendment"). The Sixth Amendment extended the maturity date of the Senior ABL Credit Facility from November 11, 2019 to February 11, 2019. Additionally, it extended the effective date of the Fixed Charge Ratio to March 31, 2019 with a ratio of 1.10 to 1.00.

The Company was in compliance with all covenants as of December 30, 2018.

Subordinated Term Loan Credit Agreement

On November 10, 2014, the Company and certain of its subsidiaries entered into a $20.0 million, five-year Subordinated Term Loan Credit Agreement ("Subordinated Loan Agreement") with McLarty Capital Partners SBIC, L.P. ("McLarty"), which bears interest at 11% annually; subsequently the Company entered into amendments one through five. In May 2018, McLarty rebranded to become The Firmament Group ("Firmament"). Upon an event of default under the Subordinated Loan Agreement, the interest rate increases automatically by 2.00% annually. The proceeds were used to repay certain outstanding loans under the Company's previous credit facility. ARC's Chairman is indirectly related to McLarty; therefore, the Board of Directors appointed a special committee consisting solely of independent directors to assure that the Subordinated Loan Agreement is fair and reasonable to the Company and its shareholders.

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

On September 22, 2017, the Company entered into a fourth amendment to the Subordinated Loan Agreement to amend the definition of Consolidated EBITDA and the Maximum Total Leverage Ratio.

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

On November 13, 2018, the Company entered into the Sixth Amendment to the Subordinated Loan Agreement (the "Sixth Amendment"). The Sixth Amendment extended the maturity date of the Subordinated Loan Agreement from November 11, 2019 to February 11, 2020.

On February 12, 2019, the Company entered into the Seventh Amendment to the Subordinated Loan Agreement (the "Seventh Amendment"). The Seventh Amendment extended the maturity date of the Subordinated Loan Agreement from February 11, 2020 to May 11, 2020.

As of December 30, 2018, the Company was in compliance with its debt covenants under the Subordinated Credit Facility, after giving effect to the fifth amendment discussed above.

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Loan Contract

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

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

Future Debt Payments

The following schedule represents the Company’s future debt payments as of December 30, 2018 (in thousands):

2019 (1)	$ 968
2020	39,277
2021	916
2022	—
Total	$ 41,161

(1) Represents long-term debt principal payments for the six months ending June 30, 2019.

NOTE 8 – Income Taxes

The income tax receivable was $0.1 million and $0.5 million at December 30, 2018 and June 30, 2018, respectively, which are included in other current assets. The long-term income tax receivable was $0.3 million at December 30, 2018, which is included in other non-current assets. The Company had unrecognized tax benefits for uncertain tax positions of $1.0 million on December 30, 2018 and June 30, 2018, respectively, which are included in other long-term liabilities.

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

NOTE 9 – Earnings Per Share

Net Income (Loss) Per Share – Basic and Diluted

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income available to common stockholders by the diluted weighted-average shares of common stock outstanding during each period. As a result of the Company's net loss from continuing operations, for the three months ended December 30, 2018 and December 31, 2017, approximately 5,812 and 69,357 shares, respectively, and for the six

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months ended December 30, 2018 and December 31, 2017, approximately 9,469 and 105,857 shares, respectively, were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

NOTE 10 – Share-Based Compensation

The Company's share-based compensation arrangements include grants of stock options under the ARC Group Worldwide, Inc. 2015 Equity Incentive Plan, the 2016 ARC Group Worldwide, Inc. Equity Incentive Plan, and the Employee Stock Purchase Plan. The share-based compensation expense recognized during the three months ended December 30, 2018 and December 31, 2017 was $0.1 million, and during the six months ended December 31, 2018 and December 31, 2017 was $0.2 and $0.4 million, respectively. These expensed are included in selling, general and administrative expense. As of December 30, 2018, there was $0.4 million of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.2 years.

NOTE 11 – Commitments and Contingencies

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through 2022, which contain various renewal options. The Company also leases equipment and a building under non-cancellable capital lease agreements expiring through 2024. The capital leases have interest rates ranging from 2.90% to 8.72%.

From time to time, the Company is a party to various litigation matters incidental to the conduct of its business. As of December 30, 2018, the Company was involved in two legal matters related to fiscal 2016 and 2017. Subsequent to December 30, 2018, both matters were settled resulting in payments of approximately $0.5 million, which was accrued as of December 30, 2018. Other than these matters, the Company is not presently a party to any legal proceedings, the resolution of which, management believes, would have a material adverse effect on its business, operating results, financial condition, or cash flows.

NOTE 12 – Segment Information

During fiscal 2017, the Company sold its non-core subsidiaries, Tekna Seal and ARC Wireless. Subsequently, in September 2017, the Company sold its non-core subsidiary, GF&F, which comprised the Flanges and Fittings Group segment. The completed divestiture of these non-core businesses has changed the way in which management and its chief operating decision maker evaluate performance and allocate resources. As a result, during the quarter ended June 30, 2018, the Company revised its business segments, consistent with its management of the business and internal financial reporting structure. Specifically, the Precision Components Group now includes the results of its plastic injection molding operations and its tooling product line, which were previously included within the 3DMT Group. During July 2018, the Company entered into an agreement to market 3DMT for possible sale which is now being reported as discontinued operations. In addition, its precision metal stamping operations are now reported within the newly created Stamping Group, which were previously included in the Precision Components Group.

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

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

- The Stamping Group consists of our precision metal stamping operations, primarily servicing the automotive industry.

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Summarized segment information for the three months ended December 30, 2018 and December 31, 2017 is as follows (in thousands):

	Three months ended		Six months ended	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Sales:				
Precision Components Group	$ 15,951	$ 13,069	$ 31,636	$ 27,402
Stamping Group	4,956	4,359	9,837	9,112
Consolidated sales	$ 20,907	$ 17,428	$ 41,473	$ 36,514
Operating costs:				
Precision Components Group	$ 16,146	$ 15,353	$ 30,935	$ 30,622
Stamping Group	5,634	4,746	10,571	9,748
Consolidated operating costs	$ 21,780	$ 20,099	$ 41,506	$ 40,370
Segment operating income (loss):				
Precision Components Group	$ (195)	$ (2,284)	$ 701	$ (3,220)
Stamping Group	(678)	(387)	(734)	(636)
Corporate (1)	(980)	(983)	(1,845)	(1,920)
Total segment operating loss	$ (1,853)	$ (3,654)	$ (1,878)	$ (5,776)
Interest expense, net	(898)	(912)	(1,829)	(1,889)
Other income, net	64	165	90	129
Non-operating expense	(834)	(747)	(1,739)	(1,760)
Consolidated loss before income taxes and non-controlling interest	$ (2,687)	$ (4,401)	$ (3,617)	$ (7,536)

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

NOTE 13 – Significant Customers

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

Percentage of Sales			
Three months ended		Six months ended	
December 30,	December 31,	December 30,	December 31,

Customer	2018		2017		2018		2017	
1 (a)	12.7	%	7.8	%	12.9	%	6.8	%
2 (b)	10.5	%	9.5	%	10.7	%	9.3	%
3 (a)	9.1	%	7.6	%	8.7	%	9.0	%
4 (a)	8.9	%	7.8	%	9.7	%	6.6	%
5 (b)	*	%	*	%	*	%	5.2	%
Total	41.2	%	32.7	%	42.0	%	36.9	%

* Customer represented less than 5% of sales for the periods presented.

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

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The Company’s accounts receivable concentrations of 5% or greater for the above-listed customers and additional customers with holdings above 5% are as follows:

	Percentage of Receivables			
	December 30,		June 30,	
Customer	2018		2018	
1	8.3	%	8.6	%
2	7.1	%	**	%
3	10.0	%	6.4	%
4	8.3	%	7.7	%
5	**		6.6	%
6	5.4	%	**	
7	5.1	%	**	
Total	44.2	%	29.3	%

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

NOTE 14 – Subsequent Events

The Company has evaluated subsequent events through February 13, 2019, the date the financial statements were available for release.

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, 2018, 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, 2018. In addition, these statements are based on a number of assumptions that are subject to change. The forward-looking statements contained in this Report may include all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by, or that include the words "targets," "plans," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "estimates," "approximates," "project "should," "would," "expect," "positioned," "strategy," or words or terms of similar substance or derivative variation or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (1) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses, and future prospects; (2) business and management strategies and the expansion and growth of ARC; (3) the effects of government regulation on ARC's business; and (4) our plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Additional particular uncertainties that could cause our actual results to be materially different than those expressed in forward-looking statements include: risks associated with our international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of our markets; availability and cost of raw materials, parts and components used in our products; the competitive environment in the areas of our planned industrial activities; our ability to identify, finance, acquire and successfully integrate attractive acquisition targets; expected earnings of ARC; the amount of and our ability

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to estimate known and unknown liabilities; material disruption at any of our significant manufacturing facilities; the solvency of our insurers and the likelihood of their payment for losses; our ability to manage and grow our business and execution of our business and growth strategies; our ability and the ability our customers to access required capital at a reasonable costs; our ability to expand our business in our targeted markets; the level of capital investment and expenditures by our customers in our strategic markets; our financial performance; our ability to identify, address and remediate any material weakness in our internal control over financial reporting; our ability to achieve or maintain credit ratings and the impact on our funding costs and competitive position if we do not do so; and other risks. Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

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

Overview

ARC Group Worldwide, Inc. is a global advanced manufacturer offering a full suite of products and services to our customers, with specific expertise in metal injection molding (“MIM”) and precision metal stamping (“Stamping”). To further advance and support these core capabilities, the Company also offers complementary services including: (i) traditional and clean room plastic injection molding; and (ii) advanced rapid and conformal tooling. Through our diverse product offering, we provide our customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication. We further differentiate ourselves from our competitors by providing innovative, custom capabilities, which improve high-precision manufacturing efficiency and speed-to-market for our customers.

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

· Holistic Manufacturing Solution. The metal and plastic fabrication industries are highly fragmented sectors with numerous single-solution providers. Given the inefficiencies associated with working with these disjointed groups, many manufacturers seek to improve their supplier base by working with more scaled, holistic providers. Our strategy is to facilitate the consolidation and streamlining of global supply chains by offering a holistic solution to our customers’ manufacturing needs. In particular, ARC provides a “one-stop shop” solution to our customers by offering a spectrum of highly advanced products, processes, and services, thereby delivering highly-engineered precision components at efficient production yields. This is evident in the cross-selling we are currently achieving across all divisions.

- 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 prototype solutions, short-run production services, in-house rapid and advanced conformal tooling, and rapid full production capabilities.

Separately, U.S. manufacturing has been rejuvenated as global wage disparities and traditional labor-intensive processes are displaced by technology. We believe 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

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device industries. Further, our process is highly automated, utilizing advanced robotics and automation to facilitate high levels of quality and efficiency.

· Precision Metal Stamping. We are one of the leading stamping companies, utilizing advanced robotics, automation, and a reduced time-to-market strategy. Our offerings include stamping, robotic and resistance welding, component assemblies, and fuel system tank floats. Our wide range of press capabilities allows us to deliver precision parts of various sizes and materials to the automotive, consumer durable, electronic device, firearm and defense, and through recently awarded contracts, the aerospace industries. Operating out of a modern facility, Stamping's innovative manufacturing techniques and commitment to exploring new technologies represent a departure from tradition, giving our customers a competitive edge in today's market.

· Additional Complementary Metal and Plastic Fabrication Capabilities. We offer a number of additional specialty metal and plastic fabrication capabilities that enable us to provide our customers with a full suite of custom-component products. Our specialty capabilities include plastic injection molding (including medical clean room applications), magnesium injection molding, and computer numerical control machining.

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 metal processing capabilities to be able to provide additional product solutions beyond traditional offerings.
· Improving financial and operational results from the implementation of operational best practices.
· Further diversification into aerospace and medical device industries, providing higher overall margins.

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

During fiscal first quarter 2019, the Board of Directors voted to sell its 3DMT division. As such, we do not include 3DMT in the results of operations for the segments below as it is included in discontinued operations for the three and six months ended December 30, 2018 and December 31, 2017, respectively.

Results of Operations – Three and Six Months Ended December 30, 2018 and December 31, 2017

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

	Three Months Ended December 30, 2018 Amount (in thousands)	Percent of Total	December 31, 2017 Amount (in thousands)	Percent of Total
Sales:				
Precision Components Group	$ 15,951	76.3%	$ 13,069	75.0%
Stamping Group	4,956	23.7%	4,359	25.0%
Total	$ 20,907	100.0%	$ 17,428	100.0%
$ Change	$ 3,479			
% Change	19.96%			

Gross Profit:	Gross Profit	Gross Margin	Gross Profit	Gross Margin
Precision Components Group	$ 1,719	10.8%	$ (364)	-2.8%
Stamping Group	(228)	-4.6%	67	1.5%
Total	$ 1,492	7.1%	$ (297)	-1.7%
$ Change	$ 1,789			
% Change	602.21%			

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	Six Months Ended December 30, 2018		December 31, 2017	
	Amount (in thousands)	Percent of Total	Amount (in thousands)	Percent of Total
Sales:				
Precision Components Group	$ 31,636	76.3%	$ 27,402	75.1%
Stamping Group	9,837	23.7%	9,112	25.0%
Total	$ 41,473	100.0%	$ 36,514	100.0%
$ Change	$ 4,959			
% Change	13.58%			
	Gross		Gross	
Gross Profit:	Profit	Gross Margin	Profit	Gross Margin
Precision Components Group	$ 4,475	14.1%	$ 619	2.3%
Stamping Group	126	1.3%	276	3.0%
Total	$ 4,601	11.1%	$ 895	2.5%
$ Change	$ 3,706			
% Change	414.09%			

Sales

For the Three Months Ended December 30, 2018 Compared to the Three Months Ended December 31, 2017

· Precision Components Group sales during the three months ended December 30, 2018 increased by $2.8 million, or 22.1%. This was due to the firearms industry continuing its improvement from the sales decline noted in the first quarter 2018.

· Stamping Group sales during the three months ended December 30, 2018 increased by $0.6 million, or 13.7%, due to increased automotive sales during second quarter 2019 as compared to the prior year. These increased sales were from new programs ramping up into production. This increase was offset by a delay in program launch by their largest customer, which is now expected to launch in fourth quarter of fiscal 2019.

For the Six Months Ended December 30, 2018 Compared to the Six Months Ended December 31, 2017

· Precision Components Group sales during the six months ended December 30, 2018 increased by $4.2 million, or 15.5%. This was due to the firearms industry continuing its improvement from the sales decline noted in the first two quarters of 2018. Additionally, the Company continued its increase in medical and aerospace sales during the first two quarters of 2019 as part of our focus on selling to those industries.

· Stamping Group sales during the three months ended December 30, 2018 increased by $0.7 million, or 7.9%, due to increased automotive sales during first two quarters of 2019 as compared to the prior year. These increased sales were predominately from new programs ramping up into production. This increase was offset by a delay in program launch by their largest customer, which is now expected to launch in fourth quarter of fiscal 2019.

Gross Profit and Gross Margin

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

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For the Three Months Ended December 30, 2018 Compared to the Three Months Ended December 31, 2017

- Precision Components Group gross profit increased $2.1 million and gross margin increased 13.6% during the three months ended December 30, 2018. The increases in gross profit and gross margin were related to both the increase in the overall demand allowing better coverage of fixed costs, as well as the Company's strategic shift to sell more product to the aerospace and medical device industries which typically provide higher margins.

- Stamping Group gross profit decreased $0.3 million and gross margin decreased 6.1% during the three months ended December 30, 2018. The primary reasons for the decreases in gross profit and gross margin were additional employees hired to support the startup of new programs and the delay of a major program into quarter four of fiscal year 2019.

For the Six Months Ended December 30, 2018 Compared to the Six Months Ended December 31, 2017

- Precision Components Group gross profit increased $3.8 million and gross margin increased 11.8% during the six months ended December 30, 2018. The increases in gross profit and gross margin were related to both the increase in the overall demand, as well as the Company's strategic shift to sell more product to the aerospace and medical device industries which typically provide higher margins.

- Stamping Group gross profit decreased $0.1 million and gross margin decreased 1.7% during the six months ended December 30, 2018. The primary reasons for the decreases in gross profit and gross margin were due to additional labor and logistics costs.

The following paragraphs discuss other items affecting the results of our operations for the three and six months ended December 30, 2018 and December 31, 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expense ("SG&A") from continuing operations totaled $3.4 million, or 16.0% of sales, for the three months ended December 30, 2018, compared with $3.4 million, or 19.3% of sales, for the three months ended December 31, 2017. SG&A from continuing operations totaled $6.4 million, or 15.6% of sales, for the six months ended December 30, 2018, compared to $6.7, or 18.3% of sales, for the six months ended December 31, 2017. The decreases in SG&A expense for the three months ended December 30, 2018 were primarily due to lower labor and labor related costs related to cost reduction initiatives.

Other Income (Expense), Net

Other income, net was $0.1 million and $0.2 million for the three months ended December 30, 2018 and December 31, 2017, respectively, and was $0.1 million for the six months ended December 30, 2018 and December 31, 2017, respectively. The decrease in other income, net during the three months ended December 30, 2018 was primarily due to a change in foreign exchange rates for foreign denominated accounts.

Interest Expense, Net

Interest expense, net was $0.9 million for the three months ended December 30, 2018 and December 31, 2017, respectively, and was $1.8 and $1.9 million for the six months ended December 30, 2018 and December 31, 2017, respectively. The decrease in interest expense, net for the six months ended December 30, 2018 was primarily due to the decreased interest expense paid by Stamping, as they had to pay interim interest related to operating lease projects of approximately $0.1 million for the six months ended December 31, 207.

Discontinued Operations

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

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On July 18, 2018, the Company's Board of Directors approved a plan to explore hiring a third party to help market and sell 3DMT. On July 25, 2018, the Company entered into an agreement with a third party to transact the activities of marketing and selling 3DMT. The Company is currently assessing what a reasonable estimated sale price would be for the sale of 3DMT. For the three months and six months ended December 30, 2018, 3DMT had a net loss of $0.8 million and $1.6 million, respectively, recorded in discontinued operations.

Income Tax

Income tax expense from continuing operations was $(0.1) for the three months ended December 30, 2018 and an income tax benefit of $0.4 million the three months ended December 31, 2017, respectively. Income tax expense for the six months ended December 30, 2018 was $(0.1) million as compared to income tax benefit for the six months ended December 31, 2017 of $0.2 million.

The primary reason for the decrease in income tax expense is the decrease in corporate tax rate from 35% to 21%. Additionally, during the six months ended December 31, 2017, the company had a higher loss from operations that created the income tax benefit for the period.

Liquidity and Capital Resources

We had cash and cash equivalents of $0.3 and $0.4 million as of December 30, 2018 and June 30, 2018, respectively, held in financial institutions outside the United States. Our Hungarian subsidiary, where these funds are held, is taxed in a similar manner to our domestic subsidiaries. Thus, we would not incur a material tax obligation should we decide to repatriate these funds.

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

On February 28, 2018, we completed a Rights Offering during the quarter for net proceeds of $9.8 million, after expenses, and such proceeds were used for general working capital needs.

Our primary sources of liquidity are cash flows from operations, cash on hand, and revolving loans permitted under the Senior ABL Credit Facility. As of December 30, 2018, $8.3 million of borrowings were outstanding under the senior secured revolving loan, with additional borrowings subject to compliance with the terms of our Senior ABL Credit Facility as described in Note 7. While we believe these sources of liquidity to be sufficient to maintain ongoing operations for the next twelve months, we may seek additional sources of capital to provide incremental liquidity, to assist in the acceleration of organic growth, and to support the achievement of other strategic and financial objectives.

Operating Activities

Cash provided by operating activities during the six months ended December 30, 2018 was $0.2 million, which consisted of the following:

- Net loss of $5.2 million included $5.7 million of non-cash expenses, which consisted primarily of $5.5 million of depreciation and amortization, loss on sale of an asset $0.1 million, $0.2 million of share-based compensation; and
- Cash used by working capital of $0.3 million, primarily the result of cash outflow from payment of outstanding payables, as well as an increase in inventory related to our overall revenue growth.

Investing Activities

During the six months ended December 30, 2018, cash used by investing activities was $0.8 million primarily due to the normal purchases of property, plant and equipment as part of the ordinary course of business for the period.

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Financing Activities

During the three months ended December 30, 2018, cash provided by financing activities was $0.5 million, primarily due to the net additional debt draws on the Company's revolving line of credit.

Debt and Credit Arrangements

For a discussion of our long-term debt, see Note 7, Debt, to our condensed consolidated financial statements in Part I, Item 1 to this Report incorporated herein by reference thereto and Note 8, Debt, to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

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

Financial Ratio Covenants

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

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

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

Minimum Availability. We are required to maintain at least $3,500,000 in revolving credit availability.

As of December 30, 2018, we were in compliance with our minimum availability covenant under the Senior ABL Credit Facility.

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

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

Period	Fixed Charge Coverage Ratio
December 30, 2018 and thereafter	1.20:1.00

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

(in thousands, except ratio)	Amount
Consolidated EBITDA	$ 14,326
Less unfinanced portion of capital expenditures	(2,451)
Less taxes paid in cash	(58)
Coverage Amount (a)	$ 11,817
Fixed Charges (b)	$ 6,698
Fixed Charge Coverage Ratio (a:b)	1.76:1.00

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

Period	Total Leverage Ratio
July 1, 2018 and thereafter	3.50:1.00

The summary calculation of our Subordinated Loan Agreement Total Leverage Ratio as of December 30, 2018 is as follows:

(in thousands, except ratio)	Amount
Funded Indebtedness (a)	$ 44,532
Consolidated EBITDA (b)	$ 14,326
Maximum Total Leverage Ratio (a:b)	3.11:1.00

As of December 30, 2018, we were in compliance with our debt covenants under our Subordinated Loan Agreement.

GAAP to Non-GAAP Reconciliation

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

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

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

For the twelve months ended:	December 30, 2018
Net loss	$ (10,544)
Share-based compensation	516
Interest expense, net	3,545
Income taxes	226
Depreciation and amortization	10,641
Transaction related expenses (1)	81
Restructuring and severance expenses	50
Other non-cash adjustments	1,430
Inventory write-offs and reserve adjustments	5,919
Pro-forma EBITDA adjustment to exclude discontinued subsidiaries	2,462
Consolidated EBITDA	$ 14,326

(1) Transaction related expenses relate to legal fees incurred to amend certain debt agreements and the sale of our non-core subsidiaries.

Off Balance Sheet Arrangements

We had no off-balance sheet arrangements that would have a material effect on our financial position, results of operations or cash flows as of December 30, 2018.

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, 2018.

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 December 30, 2018, at the reasonable assurance level due to weaknesses in our internal control over financial reporting.

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We previously reported material weaknesses that were identified as of June 30, 2016. The primary outstanding weakness being our information technology and accounting infrastructure was inadequate, which could lead to the untimely identification and resolution of accounting and disclosure matters.

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

During fiscal years 2017 and 2018, as part of our efforts to improve on of our internal control environment, we implemented the following changes in our internal control over financial reporting:

- We sold Tekna Seal, ARC Wireless, and General Flange & Forge. These entities were smaller entities that contributed to our weak segregation of duties and IT Infrastructure issues;
- We improved the operation of our enterprise resource planning system at ATC, which established better access controls, segregation of duties, timely reporting and more efficient processes and operations; and
- We reviewed weaknesses in internal controls with our plant general managers and controllers to implement improved controls over information technology, segregation of duties, and policies and procedures.
- We strengthened the documentation of processes, procedures and the review and approval of financial activities at our facilities.

To address the material weaknesses associated with the Company's information technology infrastructure, actions planned in fiscal year 2019 include:

- Effective July 1, 2018, the Colorado divisions of ATC, AFT and Thixoforming have been combined into one company. The combination of these three divisions into one company will now streamline the process and eliminate redundancy in the monthly closing process and allow us to standardize process across the three former units. This will allow the staff to focus on only one monthly close process which we expect to mitigate weaknesses attributable to inadequate segregation of duties.
- In July 2018, the Company upgraded its accounting software to the latest Syteline ERP Version 9.01. The Company plans to revise and implement all the user right permissions in the new software to adequately segregate duties and functions in the system and restrict access to only authorized personnel.
- In August 2018, the Company introduced a systematic tool, Prophix, to improve the efficiency and control over our consolidation process.
- The Company follows best practices IT policies and procedures and performs needed system maintenance procedures even though these two process changes have not been documented in writing. The Company will develop written IT policies and procedures and disseminate to all authorized personnel and maintenance logs will be kept to document the process changes being administered.
- The Company plans to implement additional review procedures by the Controllers at smaller facilities to mitigate the inadequate segregation of duties due to having a limited number of accounting staff in those locations.

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

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

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Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal control over financial reporting during the quarterly period ended December 30, 2018, 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, 2018, except with respect to the risk factors applicable to our Rights Offering, as set forth in the registration statement on Form S-1, as amended and filed with the SEC on February 7, 2018 and declared effective on February 9, 2018, as to which all such risk factors under the caption “RISK FACTORS” and set forth pages 16 through 20 of the prospectus constituting part of the registration statement are incorporated herein by reference thereto.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
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.

SIGNATURES

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

ARC GROUP WORLDWIDE, INC.

Date: February 13, 2019 /s/ Alan G. Quasha
Name: Alan G. Quasha
Chairman and Chief Executive Officer (Principal Executive Officer)

Date: February 13, 2019 /s/ Aaron Willman
Name: Aaron Willman
Chief Financial Officer (Principal Financial Officer)