

ARC Group Worldwide, Inc.  
Form 10-Q  
November 05, 2015  
[Table of Contents](#)

# 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 September 27, 2015

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.**

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

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of incorporation or organization)

**001-33400**

(Commission File Number)

**87-0454148**

(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

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 November 2, 2015, the Registrant had 19,029,297 shares outstanding of its \$.0005 par value common stock.



Table of Contents

**ARC Group Worldwide, Inc.**

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended September 27, 2015 and September 28, 2014</u>	3
	<u>Condensed Consolidated Balance Sheets as of September 27, 2015 (unaudited) and June 30, 2015</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 27, 2015 and September 28, 2014</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4.</u>	<u>Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>		
<u>Item 6.</u>	<u>Exhibits</u>	32
<b><u>SIGNATURES</u></b>		33

---

Table of Contents**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)**

	<b>For the three months ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>
Sales	\$ 24,489	\$ 28,698
Cost of sales	20,005	21,715
Gross profit	4,484	6,983
Selling, general and administrative Merger expense	4,213	5,499
Income from operations	271	1,308
Other income (expense), net	3	(2)
Interest expense, net	(1,141)	(921)
(Loss) income before income taxes	(867)	385
Income tax benefit (expense)	426	(153)
Net (loss) income	(441)	232
Less: Net income attributable to non-controlling interest	(29)	(56)
Net (loss) income attributable to ARC Group Worldwide, Inc.	\$ (470)	\$ 176
<b>Net (loss) income per common share:</b>		
Basic and diluted (loss) income per share	\$ (0.03)	\$ 0.01
<b>Weighted average common shares outstanding:</b>		
Basic and diluted	18,123,883	14,673,205

*See accompanying notes to the unaudited condensed consolidated financial statements.*

Table of Contents

## ARC Group Worldwide, Inc.

## Condensed Consolidated Balance Sheets

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

	September 27, 2015 (unaudited)	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,146	\$ 4,821
Accounts receivable, net	14,406	15,385
Inventories, net	16,982	16,386
Deferred tax assets	637	672
Prepaid and other current assets	3,263	2,330
Total current assets	39,434	39,594
Property and equipment, net	42,925	43,813
Goodwill	14,801	14,801
Intangible assets, net	25,597	26,441
Other	1,346	1,374
Total assets	\$ 124,103	\$ 126,023
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,350	\$ 7,338
Accrued expenses	2,149	3,026
Deferred revenue	847	991
Bank borrowings, current portion of long-term debt	6,348	5,995
Capital lease obligations, current portion	882	857
Accrued escrow obligation	4,291	4,291
Total current liabilities	22,867	22,498
Long-term debt, net of current portion	50,207	51,971
Deferred taxes	2,217	2,029
Capital lease obligations, net of current portion	2,670	2,784
Total liabilities	77,961	79,282
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 authorized, no shares issued and outstanding		
Common stock, \$0.0005 par value, 250,000,000 shares authorized; 19,037,698 shares issued and 19,029,297 shares issued and outstanding at September 27, 2015, and 18,538,522 shares issued and 18,530,121 shares issued and outstanding at June 30, 2015	5	5
Treasury stock, at cost; 8,401 shares at September 27, 2015 and June 30, 2015	(94)	(94)
Additional paid-in capital	29,658	29,751
Retained earnings	15,461	15,931
Accumulated other comprehensive loss	(21)	(58)
ARC Group Worldwide, Inc. total stockholder equity	45,009	45,535
Non-controlling interest	1,133	1,206
Total stockholders' equity	46,142	46,741
Total liabilities and stockholders' equity	\$ 124,103	\$ 126,023

See accompanying notes to the unaudited condensed consolidated financial statements



Table of Contents

## ARC Group Worldwide, Inc.

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	For the three months ended	
	September 27, 2015	September 28, 2014
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (441)	\$ 232
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,362	2,311
Bad debt expense and other	5	29
Deferred income taxes	150	23
Changes in working capital:		
Accounts receivable	974	(277)
Inventory	(596)	(1,068)
Prepaid expenses and other assets	(815)	(600)
Accounts payable	962	(2,474)
Other accrued expenses	(950)	(558)
Deferred revenue	(145)	(164)
Net cash provided by (used in) operating activities	1,506	(2,546)
<b>Cash flows from investing activities:</b>		
Purchase of plant and equipment	(629)	(2,457)
Net cash used in investing activities	(629)	(2,457)
<b>Cash flows from financing activities:</b>		
Proceeds from debt issuance		3,500
Repayments of long-term debt and capital lease obligations	(1,589)	(569)
Net cash (used in) provided by financing activities	(1,589)	2,931
Effect of exchange rates on cash	37	
Net decrease in cash	(675)	(2,072)
Cash, beginning of period	4,821	9,384
Cash, end of period	\$ 4,146	\$ 7,312
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 1,050	\$ 843
Cash paid for income taxes	\$ 123	\$ 25

*See accompanying notes to the unaudited condensed consolidated financial statements.*



Table of Contents

**ARC Group Worldwide, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**NOTE 1 General Information**

*Organization and Nature of Business*

ARC Group Worldwide, Inc. (referred to herein as the Company or ARC ) was organized under the laws of the State of Utah on September 30, 1987.

On August 8, 2012, ARC completed the acquisition of Quadrant Metals Technology, LLC (referred to herein as QMT or the Predecessor ) and Advanced Forming Technology ( AFT ). QMT was formed in March 2011, to function as a holding company for a group of diversified manufacturing and distribution companies. Upon formation, QMT acquired controlling interests in TeknaSeal LLC ( TeknaSeal ) as of May 1, 2011 and in FloMet LLC ( FloMet ) as of June 30, 2011. In addition, QMT acquired General Flange & Forge ( GF&F ) as of April 18, 2011 and has held controlling interests in GF&F since that date. While QMT was formed in 2011 as a holding company, affiliated companies have held controlling interests in FloMet and TeknaSeal for over 10 years.

AFT is comprised of two operating units, AFT-U.S. and AFT Hungary. AFT-U.S. was founded in 1987. From 1991 until its acquisition by ARC on August 8, 2012, AFT was operated as a division of Precision Castparts Corp., a publicly traded company. In April 2014, ARC acquired in separate transactions Advance Tooling Concepts, LLC ( ATC ) and Thixoforming LLC ( Thixoforming ). In June 2014, ARC acquired substantially all of the assets of Kecy Corporation and 411 Munson Holding (collectively referred to as Kecy ).

Everest Hill Group Inc. ( Everest Hill Group ) has been our major stockholder since 2008. ARC, Everest Hill Group, Quadrant Management Inc. ( QMI ), and QMT are under common control.

*Basis of Presentation and Principles of Consolidation*

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 Consolidated Financial Statements include the amounts of ARC and its controlled subsidiaries. All material intercompany transactions have been eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

**NOTE 2 Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with U.S. 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. Estimates are used for, among other things: allowances for doubtful accounts; inventory write-downs; valuation allowances for deferred tax assets; uncertain tax positions; valuation and useful lives of long-term assets including property, equipment, intangible assets, and goodwill; contingencies; and the fair value of assets and liabilities obtained in business combinations. 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.

Table of Contents

***Cash***

The Company places its cash with high-credit-quality financial institutions and does not believe it is exposed to any significant credit risk on cash. However, cash in the bank may, at times, exceed FDIC insurable limits.

Cash is held in financial institutions outside the United States to support existing operations and planned growth totaled \$1.0 million and \$1.5 million as of September 27, 2015 and June 30, 2015, respectively. The Company's Hungarian subsidiary, where these funds are held, is taxed in a similar manner to its domestic subsidiaries. Thus, the Company would not incur a tax obligation should it decide to repatriate these funds.

***Inventories***

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

***Plant and Equipment***

Plant and equipment are stated at cost or acquisition date fair value less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of the related assets. Major additions and improvements are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred.

***Goodwill, Intangibles, and Other Long-lived Assets***

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually in June of each fiscal year, or more frequently if a triggering event occurs between impairment testing dates. The Company's impairment assessment begins with a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. The qualitative assessment includes comparing the overall financial performance of the reporting units against historical financial results. Additionally, each reporting unit's fair value is assessed in light of certain events and circumstances, including macroeconomic conditions, industry and market considerations, and other relevant entity- and reporting unit-specific events. If it is determined under the qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then a two-step quantitative impairment test is performed. Under the first step, the estimated fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. If the estimated fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in acquisition accounting. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit under the two-step assessment is determined using a discounted cash flow analysis. The

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

selection and assessment of qualitative factors used to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value involves significant judgments and estimates. There were no impairments of goodwill during the quarters ended September 27, 2015 or September 28, 2014.

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

Table of Contents

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

Recoverability of long-lived assets is measured by comparing their carrying amount to the projected cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the finite-lived intangible assets exceeds fair value. There were no impairments of long-lived assets during the quarters ended September 27, 2015 or September 28, 2014.

*Escrow Payable*

On April 7, 2014, the Company acquired the member interests of Advance Tooling Concepts (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 the Company, was to be held in escrow for a period of 12 months (referred to herein as the 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. The common stock issued for purposes of the ATC Escrow was deemed to be mandatorily redeemable and the Company therefore recorded \$1.7 million as a current liability in the accompanying balance sheet as of September 27, 2015. Subsequent to the period covered by this report, the Company entered into an agreement to settle and terminate the ATC Escrow in cash pursuant to which the ATC Escrow shares will be returned to the Company and placed into treasury.

On June 25, 2014, the Company acquired substantially all of the assets of Key Corporation and 411 Munson Holding (referred to herein as the Key) 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 the Company was placed into escrow for a period of 18 months (referred to herein as the Key Escrow) to satisfy certain working capital adjustments and/or indemnification obligations. The Company has determined the common stock issued is mandatorily redeemable and has therefore recorded \$2.6 million as a current liability in the accompanying balance sheet as of September 27, 2015. In August 2015 and in connection with the change in the Company's stock price since the date of inception of the escrow, the Company issued 499,176 additional shares for security of the escrow. Subsequent to the period covered by this report, the Company has initiated procedures to settle and terminate the Key Escrow.

Table of Contents

***Revenue Recognition***

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

***Research and Development Costs***

Research and development costs are expensed as incurred. The majority of these expenditures consist of salaries for engineering and manufacturing personnel, and outside services. For the quarters ended September 27, 2015 and September 28, 2014, the Company incurred \$60 thousand and \$360 thousand, respectively, for research and development, which is included in selling, general and administrative expenses on the accompanying statements of operations.

***Non-Controlling Interest***

In connection with the acquisitions of FloMet and TeknaSeal, the Company obtained a majority interest in the subsidiaries and control of the subsidiaries' boards of directors. Effective July 1, 2015, the Company purchased approximately 1.9% of the outstanding non-controlling shares of Tekna Seal. At September 27, 2015, third party investors owned approximately 3.8% of the outstanding shares of FloMet and approximately 4.3% of the outstanding shares of TeknaSeal. At September 28, 2014, third party investors owned approximately 3.8% of the outstanding shares of FloMet and approximately 6.2% of the outstanding shares of Tekna Seal. Accordingly, the Consolidated Financial Statements include the financial position of these subsidiaries as of September 27, 2015 and June 30, 2015, and the results of operations of these subsidiaries since the dates of acquisitions. The Company has recognized the carrying value of the non-controlling interests as a component of stockholders' equity.

***Comprehensive Income***

For each of the quarters ended September 27, 2015 and September 28, 2014, there were no material differences between net income (loss) and comprehensive income (loss).

***Recent Accounting Pronouncements***

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

From time to time, the FASB or other standard setting bodies issue new accounting pronouncements. Updates to the ASC are communicated through issuance of an *Accounting Standards Update* ( ASU ).

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 U.S. 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 U.S. 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 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial

Table of Contents

application and providing certain additional disclosures as defined per ASU 2014-09. The Company is currently evaluating the impact, if any, of its pending adoption of ASU 2014-09 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The standard requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability, consistent with the presentation for debt discounts. The standard must be applied on a retrospective basis and is effective for the Company beginning on January 1, 2016. Early adoption is permitted. The adoption of this standard is a change in financial statement presentation only and will not have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customers Accounting for Fees Paid in a Cloud Computing Arrangement*. The standard amends internal use software guidance to clarify how customers in cloud computing arrangements should determine whether the arrangement includes a software license. It also eliminates the requirement to analogize to the lease guidance when determining the asset acquired in a software licensing arrangement. The standard may be applied retrospectively or prospectively and is effective for the Company beginning on January 1, 2016. Early adoption is permitted. The Company is evaluating the impact, if any, of adopting this standard on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU applies to inventory that is measured using first-in, first-out ( FIFO ) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predicible costs of completion, disposal and transportation. This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim and annual reporting period. The Company is evaluating the impact, if any, of adopting this standard on its consolidated financial statements.

**NOTE 3 - Fair Value Measurements**

The fair value guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs are defined as follows:

- Level 1 - quoted prices (unadjusted) for identical assets or liabilities in active markets.
  
- Level 2 - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
  
- Level 3 - unobservable inputs when little or no market data is available.



A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

There were no transfers of assets or liabilities between levels in the valuation hierarchy during the periods ended September 27, 2015 and June 30, 2015.

Table of Contents**NOTE 4 Inventory**

Inventories consisted of the following (in thousands):

	September 27, 2015	June 30, 2015
Raw materials and supplies	\$ 6,118	\$ 5,723
Work-in-process	6,802	7,335
Finished goods	4,825	4,224
	17,745	17,282
Less: Reserve for obsolescence	(763)	(896)
	\$ 16,982	\$ 16,386

**NOTE 5 Plant and Equipment**

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

	Depreciable Life (in years)	September 27, 2015	June 30, 2015
Land		\$ 1,264	\$ 1,264
Building and improvements	7 - 40	18,822	18,811
Machinery and equipment	3 - 12	41,552	39,422
Office furniture and equipment	3 - 10	741	931
Construction-in-process		557	1,934
		62,936	62,362
Less: Accumulated depreciation		(20,011)	(18,549)
		\$ 42,925	\$ 43,813

Depreciation expense totaled \$1.5 million and \$1.4 million in the three month periods ended September 27, 2015 and September 28, 2014, respectively.

**NOTE 6 Intangible Assets**

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

As of September 27, 2015

As of June 30, 2015

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:						
Patents and tradenames	\$ 3,773	\$ (587)	\$ 3,186	\$ 3,773	\$ (527)	\$ 3,246
Customer relationships	24,077	(4,215)	19,862	24,077	(3,613)	20,464
Non-compete agreements and other	3,642	(1,093)	2,549	3,642	(911)	2,731
Total	\$ 31,492	\$ (5,895)	\$ 25,597	\$ 31,492	\$ (5,051)	\$ 26,441

Intangible assets are being amortized using the straight-line method over estimated useful lives ranging from five to fifteen years. Amortization expense totaled \$844 thousand and \$842 thousand for identifiable intangible assets for the three months ended September 27, 2015 and September 28, 2014, respectively. Patents and tradenames, customer relationships, and non-compete agreements and other are amortized over their weighted average useful life of approximately 13.5 years, 10.8 years, and 5.0 years, respectively. Estimated future amortization expense for the next five years as of September 27, 2015, is as follows (in thousands):

Table of Contents

Fiscal Years	Amount
2016 (1)	\$ 2,531
2017	3,375
2018	3,375
2019	3,191
2020	2,643
Thereafter	10,482
Total	\$ 25,597

(1) Represents estimated amortization for the nine month period ended June 30, 2016.

**NOTE 7 Debt**

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

	Balance as of (in thousands)	
	September 27, 2015	June 30, 2015
Senior secured revolving commitment	\$ 7,560	\$ 7,560
Senior secured term loan	21,799	22,924
Senior secured delayed draw term loan	7,196	7,482
Subordinated term loan	20,000	20,000
Total debt	56,555	57,966
Less: Senior secured term loan, current portion	(5,063)	(4,781)
Less: Senior secured delayed draw term loan, current portion	(1,285)	(1,214)
Non-current portion	\$ 50,207	\$ 51,971

***Amended & Restated Credit Agreement***

On November 10, 2014 (the "Effective Date"), the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement with Citizens Bank (the "Amended & Restated Credit Agreement"), which amends and restates the Credit Agreement, dated as of April 7, 2014 (the "Original Credit Agreement"), as amended by the First Amendment to Credit Agreement, dated as of June 25, 2014 (the "June 2014 Amendment"), by and among the Company and its certain subsidiaries, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders from time to time party thereto, regarding loans and extensions of credit in the principal amount of up to \$90.0 million. In consideration for the Company and its subsidiaries entering into the Amended & Restated Credit Agreement, the Administrative Agent and the Lenders waived non-compliance of the Company and its subsidiaries with respect to certain covenants in the Original Credit Agreement and the June 2014 Amendment. On December 23, 2014, the parties to the Amended & Restated Credit Agreement entered into a first amendment (the "Citizens First Amendment") to make technical corrections and to clarify, among other matters, that mandatory prepayments of the loans will not be required in connection with any issuance of equity interests of the Company so long as the Company's senior leverage ratio is less than 2.25:1.00 and the proceeds thereof are utilized within 90 days to: (i) finance a permitted acquisition or other permitted investments; or (ii) to finance consolidated capital expenditures. If after issuance of equity interests the Company's senior leverage ratio is greater than 2.25:1.00 (as calculated on a pro forma basis), then the proceeds of the issuance of the equity interests will be utilized as follows: 100% of the amount, if any, of such net cash proceeds necessary to reduce the senior leverage ratio to 2.75:1.00 on a pro forma basis, plus (y) 75% of the balance, if any, of such net cash proceeds remaining, to the extent necessary to

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

reduce the Senior Leverage Ratio to 2.25:1.00 on a Pro Forma Basis, plus (z) 50% of the balance, if any, of such net cash proceeds remaining. In the event that any proceeds from the issuance of equity interests are to be applied as cure amounts under the Amended and Restated Credit Agreement, then 100% of such net cash proceeds will be required to be paid as mandatory prepayments of the loans.

Table of Contents

Borrowings under the Credit Facility may be made as Base Rate Loans or Eurocurrency 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) Citizen's 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: (i) 3.00% with respect to Base Rate Loans; and (ii) 4.00% with respect to Eurodollar Rate Loans, in each case until December 31, 2014, and thereafter the Applicable Rate will be adjusted quarterly responsive to the Company's total leverage ratio, in a range of 1.50% to 3.00% for Base Rate Loans, and 2.50% to 4.00% for Eurodollar Rate Loans. In addition to interest payments on the Credit Facility loans, the Company will pay commitment fees to the lenders, ranging from 0.25% to 0.45% per quarter on undrawn revolving loans and 0.50% per annum on undrawn term loan amounts. The Company will also pay other customary fees and reimbursements of costs and disbursements to the Administrative Agent and the Lenders. At September 27, 2015, the interest rate on borrowings under the Credit Agreement is approximately 4.2%.

On April 8, 2015, the Company sold 3,450,000 shares of ARC common stock in a registered public offering at a price of \$5.00 per share, including 450,000 shares sold pursuant to a fully-exercised option to purchase additional shares granted to the underwriters by the Company. The Company received net proceeds from the offering of approximately \$15.5 million after underwriting discounts, commissions, fees, and expenses. The net proceeds were then used to prepay a portion of the principal outstanding under the Amended & Restated Credit Agreement. On May 11, 2015, as a result of the prepayment, the Company, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders entered into the Limited Waiver and Second Amendment to the Amended and Restated Credit Agreement (the Citizens Second Amendment). Under the terms of the Citizens Second Amendment, the Administrative agent and the lenders agreed to waive certain covenants with respect to which the Company was not in compliance and agreed to exclude from the fixed charge coverage calculation scheduled principal payments on indebtedness for the fiscal quarters ended March 29, 2015 and June 30, 2015.

***Subordinated Term Loan Agreement***

On the Effective Date, the Company and certain of its subsidiaries entered into a subordinated term loan credit agreement with McLarty Capital Partners SBIC, L.P. ( McLarty ) as administrative agent, and other lenders from time to time party thereto ( Subordinated Loan Agreement ), regarding an extension of credit in the form of a subordinated term loan in an aggregate principal amount of \$20.0 million. McLarty is indirectly a related party to one of the officers and directors of the Company, and 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 the Effective Date, the Company, using proceeds from the Subordinated Credit Facility, repaid a similar portion of the previously borrowed loans under the Senior Credit Facility. On December 29, 2014, the Company entered into an amendment to the Subordinated Loan Agreement (the McLarty First Amendment ) to clarify, among other matters, that mandatory prepayments of the subordinated loans will not be required in connection with any issuance of equity interests of the Company so long as, after satisfaction of mandatory prepayment obligations under the Senior Credit Facility, the Company's senior leverage ratio is less than 2.25:1.00 and the proceeds thereof are utilized within 90 days to (i) finance a permitted acquisition or other permitted investments; or (ii) to finance consolidated capital expenditures. If after issuance of equity interests the Company's senior leverage ratio is greater than 2.25:1.00 (as calculated on a pro forma basis), then the proceeds of the issuance of the equity interests will be utilized as follows: 25% of the amount, if any, of such net cash proceeds necessary to reduce the senior leverage ratio to 2.25:1.00 on a pro forma basis, plus (y) 50% of the balance, if any, of such net cash proceeds remaining, to the extent necessary to reduce the Senior Leverage Ratio to 2.25:1.00. In the event that any proceeds from the issuance of equity interests are to be applied as cure amounts under the Subordinated Loan Agreement, then 100% of such net cash proceeds will be required to be paid as mandatory prepayments of the subordinated loans.

The subordinated term loan under the Subordinated Loan Agreement will mature five years after the Effective Date. The interest rate set forth in the Subordinated Loan Agreement is 11.00% per annum. Upon an event of default under the Credit Agreement, the interest rate increases automatically by 2.00% per annum. The Subordinated Loan Agreement contains



Table of Contents

customary representations and warranties, events of default, affirmative covenants and negative covenants and prepayment terms that are substantially similar to those contained in the Amended and Restated Credit Agreement. The Subordinated Loan Agreement has been subordinated to the Amended & Restated Credit Agreement pursuant to First Lien Subordination Agreement.

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

The following schedule represents the Company's future debt payments as of September 27, 2015 (in thousands):

2016 (1)	\$	4,584
2017		7,406
2018		8,463
2019 (2)		16,102
2020		20,000
Total	\$	56,555

- 
- (1) Represents long-term debt principal payments for the nine month period ending June 30, 2016.
- (2) Amount includes \$7.6 million for the senior secured revolving commitment.

**NOTE 8 - Income Taxes**

The effective tax benefit rate for the three months ended September 27, 2015 was 49.1% and the effective tax expense rate for the three months ended September 28, 2014 was 39.7%. The Company's effective tax rate could fluctuate significantly on a quarterly basis due to changes in the valuation of its deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof.

At September 27, 2015 and June 30, 2015, the deferred tax asset current portion was approximately \$0.6 million and \$0.7 million, respectively. At September 27, 2015 and June 30, 2015, the deferred tax liability non-current portion was \$2.2 million and \$2.0 million, respectively, which includes \$0.9 million and \$0.9 million, respectively related to uncertain tax positions. At September 27, 2015 and June 30, 2015, the income tax receivable was \$1.0 million and \$0.6 million, respectively, which was recorded in other current assets.

A valuation allowance has been established on the Company's deferred tax assets as realization has not met the more likely-than-not threshold requirement. The Company evaluates the recoverability of deferred tax assets by assessing the adequacy of future expected taxable income from all sources, including carrybacks (if applicable), reversal of taxable temporary differences, forecasted operating earnings and available tax



planning strategies. If the Company's judgment changes and it is determined that the Company will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance will be accounted for as a reduction to income tax expense.

**NOTE 9 Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding and dilutive potential common shares for the period. In connection with the acquisitions of ATC and Kegy, the Company issued a total of 905,414 shares, which were placed in escrow to satisfy certain working capital adjustments and/or indemnification obligations. As these escrow shares will be returned to the

Table of Contents

Company, the escrow shares have been excluded from the basic and diluted share computations. As of September 27, 2015 and September 28, 2014, the Company had no outstanding stock equity awards, therefore there was no computation of dilutive securities.

**NOTE 10 Related Party Transactions**

*Quadrant Management Inc. and Everest Hill Group, Inc.*

ARC, Everest Hill Group, QMI, and QMT are under common control. Prior to the ARC acquisition of QMT and AFT, QMI, through Everest Hill Group, owned 74.0% of the membership interests of QMT. As a result of the ARC acquisition of QMT and AFT, Everest Hill Group became the controlling shareholder of ARC. Specifically, Everest Hill Group controls 100% of the ownership interests of QMI, as well as, via certain wholly-owned intermediaries, 47.5% of the shares of ARC.

**NOTE 11 Commitments and Contingencies**

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through August 31, 2019, 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 9.2%.

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

**NOTE 12 Segment Information**

Information regarding segments is presented in accordance with ASC 280, *Segment Reporting*. Based on the criteria outlined in this guidance, the Company's operations are classified into four reportable business segments: Precision Components Group, 3DMT Group, Flanges and Fittings Group, and Wireless Group.

- The Precision Components Group companies provide highly engineered fabricated metal components using processes consisting of metal injection molding, precision metal stamping, and the hermetic sealing of certain components. Industries served include medical and dental devices, firearms and defense, automotive, aerospace, consumer durables, and electronic devices.

- The 3DMT Group was established in the second quarter of fiscal year 2014 to meet customer needs of reducing costs and accelerating the speed-to-market through rapid prototyping, short-run production, and rapid tooling. The segment consists of our legacy tooling product line, 3DMT (our 3D printing and additive manufacturing operations), and ATC, which was acquired in April 2014.
- The Flange and Fittings Group consists of GF&F. GF&F provides custom machining solutions and special flange facings.
- The Wireless Group focuses on wireless broadband technology related to propagation and optimization. It designs and develops hardware, including antennas, radios, and related accessories, used in broadband, industrial, and other wireless networks. Products are sold to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value added resellers, and other original equipment manufacturers.

Summarized segment information for the Company's four segments for three month periods ended September 27, 2015 and September 28, 2014 is as follows:

Table of Contents

	Three months ended,	
	September 27, 2015	September 28, 2014
<b>Sales:</b>		
Precision Components Group	\$ 17,927	\$ 21,800
3DMT Group	5,056	4,682
Flanges and Fittings Group	1,172	1,527
Wireless Group	334	689
<b>Consolidated sales</b>	<b>\$ 24,489</b>	<b>\$ 28,698</b>
<b>Operating costs:</b>		
Precision Components Group	16,945	18,903
3DMT Group	5,209	5,039
Flanges and Fittings Group	968	1,324
Wireless Group	288	676
<b>Consolidated operating costs</b>	<b>\$ 23,410</b>	<b>\$ 25,942</b>
<b>Segment operating income (loss):</b>		
Precision Components Group	982	2,897
3DMT Group	(153)	(357)
Flanges and Fittings Group	204	203
Wireless Group	46	13
Corporate expense (1)	(808)	(1,448)
<b>Total segment operating income</b>	<b>\$ 271</b>	<b>\$ 1,308</b>
Interest expense, net	(1,141)	(921)
Other non-operating income (expense)	3	(2)
<b>Non-operating income (expense)</b>	<b>(1,138)</b>	<b>(923)</b>
<b>Consolidated (loss) income before income tax expense and non-controlling interest</b>	<b>\$ (867)</b>	<b>\$ 385</b>

---

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

Table of Contents

	Three months ended,	
	September 27, 2015	September 28, 2014
<b>Capital expenditures:</b>		
Precision Components Group	\$ 407	\$ 2,340
3DMT Group	222	117
Flanges and Fittings Group		
Wireless Group		
Consolidated capital expenditures	\$ 629	\$ 2,457
<b>Depreciation and amortization expense:</b>		
Precision Components Group	\$ 1,553	\$ 1,440
3DMT Group	780	831
Flanges and Fittings Group	20	22
Wireless Group	5	18
Corporate	4	
Consolidated depreciation and amortization expense	\$ 2,362	\$ 2,311

	As of	
	September 27, 2015	June 30, 2015
<b>Total assets:</b>		
Precision Components Group	\$ 75,864	\$ 78,675
3DMT Group	21,626	21,567
Flanges and Fittings Group	1,486	1,528
Wireless Group	1,136	963
Corporate	23,991	23,290
Consolidated total assets	\$ 124,103	\$ 126,023

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

	Three Months Ended,	
	September 27, 2015	September 28, 2014
<b>Sales: (1)</b>		
U.S.	\$ 22,792	\$ 25,705
International	1,697	2,993
	\$ 24,489	\$ 28,698

(1) Sales are attributable to the country in which the product is manufactured or service is provided.

	As of	
	September 27, 2015	June 30, 2015
<b>Long-lived assets:</b>		
U.S.	\$ 73,952	\$ 75,656
International	9,371	9,399
	\$ 83,323	\$ 85,055



Table of Contents

**NOTE 13 Significant Customers**

The Company had sales to five significant customers for the three month period ended September 27, 2015 and three significant customers for the three month periods ended September 28, 2014, which represented approximately 39.4%, and 25.3%, respectively, of the Company's total sales. 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 customer for non-financial related issues.

Customer	Percentage of Sales	
	September 27, 2015	September 28, 2014
1	9.6%	8.9%
2	9.1%	8.8%
3	8.0%	7.6%
4	7.4%	*%
5	5.3%	*%

---

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

For the quarters ended September 27, 2015 and September 28, 2014 these customers represented 28.8% and 23.2%, respectively, of the Company trade account receivables.

Customer	Percentage of Receivables	
	September 27, 2015	June 30, 2015
1	**%	7.0%
2	9.5%	9.0%
3	8.1%	**%
4	5.7%	6.2%
5	5.5%	**%

---

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

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

**Cautionary Statement Concerning Forward-Looking Statements**

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

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 U.S. Securities and Exchange Commission (SEC), including but not limited to those under the caption Risk Factors contained herein. In addition, these statements are based on a number of assumptions that are subject to change. The forward-looking statements contained in this Report may include all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by, or that include the words targets, plans, believes, expects, aims, intends, will, may, anticipates, estimates, approximates, projects, seeks, sees, should, would, expect, positioned, str similar substance or derivative variation or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and management strategies and the expansion and



Table of Contents

growth of ARC; (iii) the effects of government regulation on ARC's business; and (iv) 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 risk factors as disclosed herein under the caption "Risk Factors." Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

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

**Overview**

We are a global advanced manufacturer offering a full suite of products and services to our customers, including metal injection molding, 3D printing (also referred to as Additive Manufacturing or AM), precision stamping, traditional and clean room plastic injection molding, and advanced rapid tooling. Through our product offering we provide our customers with a holistic prototyping and full-run production solution for both precision metal and plastic fabrication. We 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, software, and 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 rapid quoting, in-house rapid and advanced conformal tooling, and a full suite of prototype-to production capabilities.

The two key pillars of our business strategy are centered on the following areas:

- ***Holistic Manufacturing Solution.*** The metal and plastic fabrication industries are fragmented 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 customer s 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 across a variety of proprietary base materials, 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

Table of Contents

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, we believe that U.S. manufacturing is poised for a rejuvenation as global wage disparities mitigate and traditional labor-intensive processes are displaced by technology. We believe these macroeconomic trends may aid in the adoption of our business strategy.

Our overall enterprise growth strategy is centered on: (i) driving organic growth through the expansion and cross-selling of our core services to our existing customer base; (ii) accelerating the adoption of our technology by new customers in traditional manufacturing markets; (iii) expanding our holistic service offerings through strategic vertical and horizontal acquisitions; and (iv) improving financial and operational results from the implementation of operational best practices. Accordingly, all of our business divisions are managed consistent with this strategy in order to drive organic sales growth, operational efficiencies, and improve quality, speed, and service to our customers.

Our Company's 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, precision, net-shape metal components to market-leading companies in numerous sectors, including the medical and dental, firearms and defense, automotive, aerospace, consumer durable, and electronic devices industries. Further, our process is highly automated, utilizing advanced robotics and automation to ensure high levels of quality and efficiency.
- **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, we believe the metal 3D printing sector to be one of the more attractive segments of the overall Additive Manufacturing (AM) industry. Furthermore, metal 3D printing, while a complex technology still in its early stages, shares several fundamental similarities with our MIM business, thereby helping to accelerate our research and development. Separately, our metal 3D printing capabilities enable ARC to offer a variety of new services, including rapid prototyping, rapid tooling and short-run production, helping our customers improve their product speed-to-market. Given our established customer base, diverse metallurgy background, and scalable injection molding capabilities, we believe we are well-positioned in the industrial metal 3D printing market.
- **Additional 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), hermetic seal assemblies, and fitting and flange manufacturing.

- **Wireless.** Our wireless business designs and develops hardware, including antennas, radios, and related accessories, used in broadband and other wireless networks. Products are sold to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value-added resellers, and other original equipment manufacturers ( OEM ). Further, we believe there is an opportunity to increase utilization of our antenna technology to wirelessly connect the manufacturing floor and industrial products/applications, as the world moves to a more wireless based framework.

Table of Contents**Reporting Segments**

Our operations are classified into four reportable business segments: Precision Components Group, 3DMT Group, Flanges and Fittings Group, and Wireless Group.

- The Precision Components Group companies provide highly engineered fabricated metal components using processes consisting of metal injection molding, precision metal stamping, and hermetic sealing. Industries served include medical and dental devices, firearms and defense, automotive, aerospace, consumer durables, and electronic devices.
- The 3DMT Group was established in the second quarter of fiscal year 2014 to meet customer needs of reducing costs and accelerating speed-to-market through rapid prototyping, short-run production, and rapid tooling. The segment consists of our legacy tooling product line, 3D Material Technologies (our Additive Manufacturing operations), and Advance Tooling Concepts, LLC.
- The Flange and Fittings Group consists of General Flange & Forge which provides custom machining solutions and special flange facings.
- The Wireless Group focuses on wireless broadband technology related to propagation and optimization. It designs and develops hardware, including antennas, radios, and related accessories, used in broadband, industrial and other wireless networks. Products are sold to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value-added resellers and other original equipment manufacturers.

**Results of Operations for the three months ended September 27, 2015 compared to the three months ended September 28, 2014**

The following table sets forth, for the periods indicated, certain statements of operations data expressed as a percentage of net sales:

	Three Months Ended			
	September 27, 2015		September 28, 2014	
	Amount	Percent of sales	Amount	Percent of sales
Sales	\$ 24,489	100.0%	\$ 28,698	100.0%
Cost of sales	20,005	81.7	21,715	75.7
Gross profit	4,484	18.3	6,983	24.3

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

Selling, general and administrative	4,213	17.2	5,499	19.2
Merger expense			176	0.6
Income from operations	271	1.1	1,308	4.5
Other income (expense), net	3		(2)	
Interest expense, net	(1,141)	(4.6)	(921)	(3.2)
(Loss) income before income taxes	(867)	(3.5)	385	1.3
Income tax benefit (expense)	426	1.7	(153)	(0.5)
Net (loss) income	\$ (441)	(1.8)%	\$ 232	0.8%

Table of Contents

*Sales*

Sales during the three month period ended September 27, 2015 totaled \$24.5 million, representing a decrease of \$4.2 million, or 14.6%, from \$28.7 million during the three month period ended September 28, 2014. The change in sales by reportable segment was as follows:

- **Precision Components Group** sales were \$17.9 million during the three month period ended September 27, 2015, representing a decrease of approximately \$3.9 million, or 17.9%, as compared with sales of \$21.8 million in the prior year period. The decrease in sales was primarily due to lower MIM sales of \$3.1 million, generally the result of: (i) a decline in sales to our European automotive customers; (ii) delayed product launches by certain U.S. customers; and (iii) attrition related to certain medical and consumer products customers. Metal stamping sales decreased \$0.7 million primarily due to lower prices for steel and scrap.
- **3DMT Group** sales were \$5.1 million during the three month period ended September 27, 2015, representing an increase of approximately \$0.4 million, or 8.5%, as compared with sales of \$4.7 million in the prior year period.
- **Flanges and Fitting Group** sales were \$1.2 million during the three month period ended September 27, 2015, representing a decrease of approximately \$0.3 million, or 20.0%, as compared with sales of \$1.5 million in the prior year period. The decrease was primarily due to lower sales to customers in the oil and gas industry.
- **Wireless Group** sales were \$0.3 million during the three month period ended September 27, 2015 representing a decrease of approximately \$0.4 million, or 57.1%, as compared with sales of \$0.7 million in the prior year period. The decrease was primarily due to increased competition in the frequency space in which our products are used.

*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 as a result of acquisitions and new customer programs, and capacity utilization. In the case of acquisitions and new customer programs, profitability normally lags revenue growth due to product start-up costs, lower manufacturing volumes in the start-up phase, operational inefficiencies, and under-absorbed overhead. Gross margin often improves over time and manufacturing volumes increase, as our utilization rates and overhead absorption improves. As a result of these various factors, our gross margin varies from period to period.

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

On a consolidated basis gross profit was \$4.5 million during the three month period ended September 27, 2015, representing a decrease of approximately \$2.5 million, or 35.8%, as compared with gross profit of \$7.0 million in the prior year period. Gross margin decreased to 18.3% in the three month period ended September 27, 2015, compared with 24.3% in the three month period ended September 28, 2014. The primary reason for the decrease in gross profit was lower sales in our Precision Component Group segment as a result of decreased factory utilization and lower scrap metal prices. Gross profit by reportable segment was as follows:

- **Precision Components Group** gross profit was \$3.1 million during the three month period ended September 27, 2015, representing a decrease of approximately \$2.4 million, or 43.6%, as compared with gross profit of \$5.5 million in the prior year period. Gross margin decreased to 17.2% in the three month period ended September 27, 2015, compared with 25.3% in the three month period ended September 28, 2014. The primary reason for the decreases in gross profit and gross margin were due to lower production volume and decreased factory utilization at our MIM facilities, as well as lower scrap metal prices at our metal stamping facilities.



Table of Contents

- **3DMT Group** gross profit was \$0.9 million during the three month period ended September 27, 2015, which was comparable to the prior year period. Gross margin decreased to 17.8% in the three month period ended September 27, 2015, compared with 18.9 % in the three month period ended September 28, 2014. The primary reason for the decrease in gross margin was lower margins on molding and tooling sales at ATC due to higher material costs, labor costs, and contracting costs as we are building more complex products.
- **Flanges and Fitting Group** gross profit was \$0.4 million during the three month period ended September 27, 2015, which was comparable to the gross profit of \$0.4 million in the prior year period. Gross margin increased to 33.4% in the three month period ended September 27, 2015, compared with 26.7% in the three month period ended September 28, 2014. The primary reason for the increase in gross margin was due to lower cost of materials from certain non-recurring refunds of duties.
- **Wireless Group** gross profit was \$0.1 million during the three month period ended September 27, 2015, as compared with gross profit of \$0.2 million in the prior year period. Gross margin increased to 31.6% in the three month period ended September 27, 2015, compared with 24.9% in the three month period ended September 28, 2014. The primary reason for the decrease in gross profit was lower sales. The primary reason for the increase in gross margin was due to a charge in the prior year for obsolete inventory.

*Selling, General and Administrative Expenses*

Selling, general and administrative expense, or SG&A, totaled \$4.2 million, or 17.2% of sales, during the three month period ended September 27, 2015, compared with \$5.5 million, or 19.2% of sales during the three month period ended September 28, 2014. The decrease in SG&A expense during the three month period ended September 27, 2015 was primarily due to lower professional fees of \$0.5 million and lower compensation related costs of \$0.4 million.

*Interest Expense, Net*

Interest expense, net was \$1.1 million during the three month period ended September 27, 2015, compared to \$0.9 million during three month period ended September 28, 2014. The increase in expense was primarily the result of a higher weighted cost of debt, the result of entering into our \$20.0 million Subordinated Loan Agreement in November 2014. This increase was partially offset by less debt outstanding, the result of: (i) prepaying a portion of the principal outstanding under our Senior Credit Facility with approximately \$15.5 million in proceeds from sale of shares of ARC common stock in April 2015; and (ii) net principal payments totaling approximately \$5.1 million over the period from July 2014 through September 2015.

*Income Taxes Benefit (Expense)*

Income tax benefit was \$0.4 million (49.1% effective benefit rate) for the three-month period ended September 27, 2015, compared to income tax expense of \$0.2 million (39.7% effective expense rate) for the three-month period ended September 28, 2014. The primary reason for the tax benefit in the period ended September 27, 2015 was the Company's net loss.

### **Liquidity and Capital Resources**

As of September 27, 2015, we had cash and cash equivalents of \$4.1 million. We believe that the combination of funds currently available to us and funds expected to be generated from operations will be adequate to finance our operations for the next twelve months.

Table of Contents

In summary, our cash flows were (in thousands):

	<b>Three months ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>
Net cash provided by (used in) operating activities	\$ 1,506	\$ (2,546)
Net cash used in investing activities	(629)	(2,457)
Net cash (used in) provided by financing activities	(1,589)	2,931

***Operating Activities***

Cash provided by operating activities was \$1.5 million for three month period ended September 27, 2015 as compared to \$2.5 million of cash used in operating activities in the three month period ended September 28, 2014. The increase in cash provided by operating activities in the three month period ended September 27, 2015 was primarily attributable to increases in working capital, the largest of which were an increase in accounts payable of \$3.4 million and a decrease in accounts receivable of \$1.3 million, partially offset by lower net income of \$0.7 million.

***Investing Activities***

Cash used in investing activities was \$0.6 million in the three month period ended September 27, 2015 as compared to \$2.5 million of cash used in the three month period ended September 28, 2014. The decrease in cash used was primarily due to the completion of the expansion of our MIM production facilities in Colorado.

***Financing Activities***

Cash used in financing activities was \$1.6 million for the three month period ended September 27, 2015, compared with cash provided by financing activities of \$2.9 million for the three month ended September 28, 2014. The decrease in cash provided by financing activities was generally due to the Company making principal payments on debt, while borrowing \$3.5 million from our Senior Credit Facility in the prior year period.

**Debt and Credit Arrangements**

***Amended & Restated Credit Agreement***

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

On November 10, 2014 (the *Effective Date* ), the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement with Citizens Bank (the *Amended & Restated Credit Agreement* ), which amended and restated the Credit Agreement, dated as of April 7, 2014 (the *Original Credit Agreement* ), as amended by the First Amendment to Credit Agreement, dated as of June 25, 2014 (the *June 2014 Amendment* ), by and among the Company and its certain subsidiaries, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders from time to time party thereto, regarding loans and extensions of credit in the principal amount of up to \$90.0 million. On December 23, 2014, the parties to the Amended & Restated Credit Agreement entered into a first amendment (the *Citizens First Amendment* ).

The Amended & Restated Credit Agreement provides the Company with the following loans and extensions of credit: (1) a Revolving Commitment in the principal amount of \$20.0 million (the *Revolving Loan* ); (2) a Term Loan Commitment in the principal amount of \$45.0 million (the *Term Loan* ); and (3) a Delayed Draw Term Loan Commitment in the principal amount of \$25.0 million (the *Delayed Draw Term Loan* ); and together with the Revolving Loan and the Term Loan, the *Credit Facility* ). All of the loans under the Credit Facility are secured by liens on substantially all assets of the Company and guaranteed by the Company's subsidiaries who are not borrowers under the Credit Facility.

Borrowings under the Credit Facility may be made as Base Rate Loans or Eurocurrency 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)

Table of Contents

Citizen's 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: (i) 3.00% with respect to Base Rate Loans; and (ii) 4.00% with respect to Eurodollar Rate Loans, in each case until December 31, 2014, and thereafter the Applicable Rate will be adjusted quarterly responsive to the Company's total leverage ratio, in a range of 1.50% to 3.00% for Base Rate Loans, and 2.50% to 4.00% for Eurodollar Rate Loans. In addition to interest payments on the Credit Facility loans, the Company will pay commitment fees to the lenders, ranging from 0.25% to 0.45% per quarter on undrawn revolving loans and 0.50% per annum on undrawn term loan amounts. The Company will also pay other customary fees and reimbursements of costs and disbursements to the Administrative Agent and the Lenders.

The Term Loans and the Delayed Draw Term Loans mature in incremental quarterly installments over five years following the Effective Date. The final Maturity Date with respect to the Revolving Loans, the Term Loans, and the Delayed Draw Term Loans is five (5) years after the Effective Date. The Amended & Restated Credit Agreement contains certain mandatory prepayment provisions, including prepayments due in respect of sales of assets, sales of equity securities, events of default, and other customary events.

The Amended & Restated Credit Agreement 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.

On May 11, 2015, the Company and its subsidiaries Advanced Forming Technology, Inc., ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, and Quadrant Metals Technologies, LLC, entered into the Limited Waiver and Second Amendment (the "Citizens Second Amendment") to the Amended and Restated Credit Agreement, as amended by the Citizens First Amendment, by and among the Company and its certain subsidiaries, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders from time to time party thereto. In consideration for the Company and its subsidiaries entering into the Citizens Second Amendment, the Administrative Agent and the Lenders waived non-compliance of the Company and its subsidiaries with respect to certain covenants in the Amended & Restated Credit Agreement and the First Amendment.

The foregoing descriptions of the Amended & Restated Credit Agreement and the Citizens First Amendment do not purport to be complete and are subject to, and are qualified in their entirety by, the full text of the respective documents.

***Subordinated Term Loan Agreement***

On the Effective Date, the Company and its subsidiaries Advanced Forming Technology, Inc., ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, and Quadrant Metals Technologies, LLC, entered into a subordinated term loan credit agreement, together with McLarty Capital Partners SBIC, L.P., ( "McLarty" ) as administrative agent, and other lenders from time to time party thereto ( "Subordinated Loan Agreement" ), regarding an extension of credit in the form of a subordinated term loan in an aggregate principal amount of \$20.0 million. McLarty is indirectly a related party to one of the officers and directors of the Company and 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.

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

The subordinated term loan under the Subordinated Loan Agreement will mature five years after the Effective Date. The interest rate set forth in the Subordinated Loan Agreement is 11.00% per annum. Upon an event of default under the Subordinated Loan Agreement, the interest rate increases automatically by 2.00% per annum. The Subordinated Loan Agreement contains customary representations and warranties, events of default, affirmative covenants and negative covenants, and prepayment terms that are substantially similar to those contained in the Amended & Restated Credit Agreement. The Subordinated Loan Agreement has been subordinated to the Amended & Restated Credit Agreement pursuant to First Lien Subordination Agreement.

Table of Contents

The foregoing description of the Subordinated Loan Agreement does not purport to be complete and is subject to, and is qualified in its entirety by, the full text of the respective document.

On the Effective Date, the Company repaid a portion of the previously borrowed loans under the Credit Facility using net proceeds from the Subordinated Loan Agreement.

**Financial Ratio Covenants**

The terms and conditions of the respective agreements governing the Senior Credit Facility and the Subordinated Credit Facility (together, our Credit Facilities ) each contain covenants requiring the Company to maintain certain financial ratios. Non-compliance by the Company with any of the financial ratio covenants would constitute events of default under both of the Credit Facilities pursuant to cross-default provisions and 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 Credit Facility Financial Ratios.** The Company's Senior Credit Facility contains financial ratio covenants, summarized as follows:

Minimum Fixed Charge Coverage Ratio. Pursuant to the Citizens Second Amendment, compliance by the Company with the Fixed Charge Coverage Ratio was waived for the fiscal quarter ended March 29, 2015 and scheduled principal payments on indebtedness for the fiscal quarters ending March 29, 2015 and June 30, 2015 are excluded from the fixed charge coverage calculation. The Company may otherwise not have a Fixed Charge Coverage Ratio less than 1.25:1.00 as of the last day of any fiscal quarter ending on or prior to the maturity date. The Fixed Charge Coverage Ratio is defined as the ratio of (a) consolidated EBITDA minus the unfinanced portion of capital expenditures minus expense for taxes paid in cash; to (b) fixed charges, all calculated for the Company and its subsidiaries on a consolidated basis in accordance with GAAP. The summary calculations of the Company's Senior Credit Facility Fixed Charge Coverage Ratio as of September 27, 2015 are as follows:

(in thousands, except ratio)	Amount
Consolidated EBITDA	\$ 14,864
Less unfinanced portion of capital expenditures	(2,983)
Less expense for taxes paid in cash	(1,311)
Coverage Amount (a)	\$ 10,570
Fixed Charges (b)	\$ 7,483
Fixed Charge Coverage Ratio (a:b)	1.41:1.00

Maximum Total Leverage Ratio. Pursuant to the Citizens Second Amendment, compliance by the Company with the Maximum Total Leverage Ratio was waived for the fiscal quarter ended March 29, 2015. The Company may not permit the Maximum 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 Maximum Total Leverage Ratio is defined as the ratio of (a) funded indebtedness of the Companies, consisting of our Revolving Loan, Term Loan, Delayed Draw Term Loan, Senior Subordinated Debt, and capital lease obligations, net of cash on hand, and its subsidiaries as of such date, to (b) consolidated EBITDA of the Company and its subsidiaries for the Test Period ended as of such date.



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

### Table of Contents

Period	Total Leverage Ratio
June 30, 2015 through September 26, 2015	4.75:1.00
September 27, 2015 through December 26, 2015	4.50:1.00
December 27, 2015 through June 29, 2016	4.25:1.00
June 30, 2016 through December 24, 2016	4.00:1.00
December 25, 2016 and thereafter	3.50:1.00

The summary calculation of the Company's Senior Credit Facility Maximum Total Leverage Ratio as of September 27, 2015 is as follows:

(in thousands, except ratio)	Amount
Funded Indebtedness (a)	\$ 60,107
Consolidated EBITDA (b)	\$ 14,864
Maximum Total Leverage Ratio (a:b)	4.04:1.00

**Maximum Senior Leverage Ratio.** The Company may not permit the Maximum Senior 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 Maximum Senior Leverage Ratio means, as to the Company and its subsidiaries on a consolidated basis as of the date of its determination, the ratio of (a) funded indebtedness of the Company and its subsidiaries, less the aggregate amount of junior financing of the Company and its subsidiaries included therein as of such date; to (b) Consolidated EBITDA of the Company and its subsidiaries for the Test Period ended as of such date.

Period	Senior Leverage Ratio
June 30, 2015 through September 26, 2015	3.25:1.00
September 27, 2015 through December 26, 2015	3.00:1.00
December 27, 2015 through June 29, 2016	2.75:1.00
June 30, 2016 through December 24, 2016	2.50:1.00
December 25, 2016 and thereafter	2.25:1.00

The summary calculation of the Company's Senior Credit Facility Maximum Senior Leverage Ratio as of September 27, 2015 is as follows:

(in thousands, except ratio)	Amount
Funded Indebtedness	\$ 60,107
Less aggregate amount of junior financing	(20,000)
Senior Leverage Amount (a)	\$ 40,107
Consolidated EBITDA (b)	\$ 14,864
Senior Leverage Ratio (a:b)	2.70:1.00

**Subordinated Credit Facility Financial Ratios.** The Company's Subordinated Credit Facility contains the following financial ratio covenants, summarized as follows:

Minimum Fixed Charge Coverage Ratio. The Company may not have a Fixed Charge Coverage Ratio less than 1.10:1.00 as of the last day of any fiscal quarter ending on or prior to the maturity date. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Consolidated EBITDA minus the unfinanced portion of capital expenditures minus expense for taxes paid in cash; to (b) fixed charges, all calculated for the Company and its subsidiaries on a consolidated basis in accordance with GAAP. The summary calculation of the Company's Subordinated Credit Facility Fixed Charge Coverage Ratio as of September 27, 2015 is as follows:

Table of Contents

(in thousands, except ratio)	Amount	
Consolidated EBITDA	\$	14,864
Less unfinanced portion of capital expenditures		(2,983)
Less expense for taxes paid in cash		(1,311)
Coverage Amount (a)	\$	10,570
Fixed Charges (b)	\$	7,483
Fixed Charge Coverage Ratio (a:b)		1.41:1.00

**Maximum Total Leverage Ratio.** The Company 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, as to the Company and its subsidiaries on a consolidated basis as of the date of its determination, the ratio of (a) funded indebtedness of the Company and its subsidiaries as of such date, to (b) Consolidated EBITDA of the Company and its subsidiaries for the Test Period ended as of such date.

Period	Total Leverage Ratio
June 30, 2015 through September 29, 2015	5.00:1.00
September 30, 2015 through March 30, 2016	4.75:1.00
March 31, 2016 through September 29, 2016	4.50:1.00
September 30, 2016 and thereafter	4.00:1.00

The summary calculations of the Company's Subordinated Credit Facility Total Leverage Ratio as of September 27, 2015 are as follows:

(in thousands, except ratio)	Amount	
Funded Indebtedness (a)	\$	60,107
Consolidated EBITDA (b)	\$	14,864
Maximum Total Leverage Ratio (a:b)		4.04:1.00

**Compliance with Financial Ratio Covenants**

For the period ended September 27, 2015, the Company was in compliance with all financial ratio covenants. On April 8, 2015, the Company sold to the public 3,450,000 shares of ARC common stock in a registered public offering at a price of \$5.00 per share, including 450,000 shares sold pursuant to a fully-exercised option to purchase additional shares granted to the underwriters by the Company. The Company received net proceeds from the offering of approximately \$15.5 million after underwriting discounts, commissions, fees, and expenses. The net proceeds were then used to prepay a portion of the principal outstanding under the Amended & Restated Credit Agreement. On May 11, 2015, as a result of the prepayment, the Company, Citizens Bank, N.A., as Administrative Agent, issuing bank and swingline lender, and Capital One, N.A., as Syndication Agent, and other lenders entered into the Citizens Second Amendment to the Amended and Restated Credit Agreement. Under the terms of the Citizens Second Amendment, the Administrative agent and the lenders agreed to waive certain covenants in the Amended and Restated Credit Agreement with respect to which the Company was not in compliance and agreed to exclude from the fixed charge coverage calculation scheduled principal payments on indebtedness for the fiscal quarters ended March 29, 2015 and June 30, 2015. Aside from the aforementioned items, there have been no other changes to the terms and conditions of the Amended & Restated Credit Agreement.

**GAAP to Non-GAAP Reconciliation**

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

Table of Contents

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 the Company's 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 three quarters annualized to estimate a full year of obligations.

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 is as follows (in thousands):

<b>For the twelve months ended:</b>	<b>September 27, 2015</b>
Net loss (1)	\$ (674)
Plus: Interest expense, net (2)	5,068
Plus: Income taxes	929
Plus: Depreciation and amortization	9,521
Plus: Other non-recurring expenses (3)	20
Consolidated EBITDA (4)	\$ 14,864

(1) Prior to the Effective Date of the Amended & Restated Credit Agreement, the methodology used to calculate net income included a portion of income attributable to non-controlling interest.

(2) Prior to the Effective Date of the Amended & Restated Credit Agreement, the methodology used to calculate interest expense included certain non-cash fees.

(3) Other non-recurring expenses primarily consist of professional fees related to acquisitions and severance payments.

(4) Consolidated EBITDA excludes interest expense, net and income taxes because these items are associated with our capitalization and tax structures. Consolidated EBITDA also 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.

**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 September 27, 2015.

**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, 2015.

**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.

Table of Contents

**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 Securities and Exchange Commission ( 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 the Company s disclosure controls and procedures. Based on this evaluation, we have concluded that disclosure controls and procedures were not effective as of September 27, 2015 at the reasonable assurance level due to weaknesses in our internal control over financial reporting.

Our management has identified deficiencies in our internal control over financial reporting that constitutes material weaknesses under standards established by the Public Company Accounting Oversight Board as of September 27, 2015. Specifically, we did not maintain effective internal controls over the accounting for taxation from operations in the British Virgin Islands and 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*

To address the material weakness associated with the Company s income tax obligation, planned actions in fiscal year 2016 include:

- document the processes and procedures to evaluate the tax status of the Company s foreign subsidiaries; and
- assess the U.S. and foreign tax requirements for the Company s foreign subsidiaries to ensure its obligations are being properly recorded and reported.

To address the material weaknesses associated with the Company s information technology infrastructure, planned actions in fiscal year 2016 include:

- implement a new enterprise resource planning system at ATC;
- upgrade to the latest version of the enterprise resource planning system used at AFT;
- evaluation of our information technology policies and procedures to ensure that they are documented, reviewed, and circulated to appropriate Company personnel;
- review of access and change management processes and implementation of any necessary controls;
- evaluation of segregation of duties and implementation of any necessary controls;
- evaluation of manual controls and policies to ensure that they are documented, reviewed, and operating at a sufficient level of precision to compensate for the automated controls which are lacking; and
- evaluation of our current information technology staff, staffing levels, and associated technical expertise.

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.



Table of Contents

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, particularly at the Company's smaller reporting entities, will be dependent on certain factors, including, but not limited to, financial performance. As such, the timing and effectiveness of the remediation cannot be accurately forecasted at the 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.

Except as described above, there have been no changes in our internal control over financial reporting during the quarterly period ended September 27, 2015 that have materially affected, or are reasonably likely to materially affect, our control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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

---

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

Table of Contents

**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: November 5, 2015

/s/ Jason T. Young

Name:

Jason T. Young

Title:

Principal Executive Officer

Date: November 5, 2015

/s/ Drew M. Kelley

Name:

Drew M. Kelley

Title:

Principal Financial Officer and  
Principal Accounting Officer