DCT Industrial Trust Inc.
Form 8-K
October 13, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 12, 2011

DCT INDUSTRIAL TRUST INC.

(Exact Name of Registrant as Specified in Charter)

Maryland	001-33201	82-0538520
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

518 17th Street, Suite 800

Denver, CO	**80202**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (303) 597-2400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2.):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On October 12, 2011, Michael J. Ruen s employment agreement with DCT Industrial Trust Inc. was amended to extend the term through October 9, 2012. This summary of the amendment to the employment agreement is qualified in its entirety by reference to the copy of the amendment to the employment agreement, which is being filed with this Current Report on Form 8-K as Exhibit 10.1, and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description of Exhibits
10.1	First Amendment to Employment Agreement, dated as of October 10, 2011, by and between DCT Industrial Trust Inc. and Michael J. Ruen.

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 hereunto duly authorized.

DCT INDUSTRIAL TRUST INC.

By: /s/ Philip L. Hawkins
Name: Philip L. Hawkins
Title: President and Chief Executive Officer

Date: October 13, 2011

10pt;">

Liabilities:

Bank borrowings, current portion of long-term debt

$

15,909

$

(261)

$

15,648

Long-term debt, net of current portion

$

37,857

$

(1,088)

$

36,769

Total liabilities

$

77,255

$

(1,349)

$

75,906

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued or available to be issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern. ASU 2014-15 is effective for all entities for the annual period ending after December 15, 2016, and for annual and interim periods thereafter, with early adoption permitted. The Company adopted ASU 2014-15 as of June 30, 2017, and its adoption did not have any significant impact on the Company's financial statements.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses Topic 326 ("ASU 2016-13"), which requires entities to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within that year. Early adoption is permitted. The adoption of ASU 2016-03 is not expected to have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases: Topic 842 ("ASU 2016-02"), to supersede nearly all existing lease guidance under GAAP. ASU 2016-02 requires the recognition of lease assets and lease liabilities on the

50

Table of Contents

balance sheet by lessees for those leases currently classified as operating leases. ASU 2016-02 also requires qualitative disclosures along with specific quantitative disclosures and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on its consolidated financial position, results of operations and cash flows; however, the Company's current operating lease commitments are disclosed in Note 13, Commitments and Contingencies.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 which defers the effective date for one year beyond the originally specified effective date. ASU 2014-09 is effective in the Company's first quarter of fiscal 2019 and may transition to the standard using either the full retrospective approach or retrospectively with a cumulative effect of initially applying the amendments recognized at the date of initial application. The Company has completed its initial assessment of the effect of adoption. Based on this initial assessment, the majority of the Company's revenues will not be affected upon adoption. The Company is still analyzing the disclosure requirements of this new standard.

NOTE 3 – Divestitures

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

During the quarter ended June 30, 2017, the Company decided to divest its flanges and fittings operations, which comprises the Flanges and Fittings segment. The assets and liabilities of the segment are classified as assets and liabilities held for sale in the consolidated balance sheets and the operations are classified as discontinued operations in the consolidated statements of operations.

The operating results of GF&F classified as discontinued operations are summarized below (in thousands):

For the year ended

	June 30, 2017	June 30, 2016
Sales	$ 4,782	$ 4,757
Cost of sales	(3,619)	(3,480)
Gross profit	1,163	1,277
Selling, general and administrative	(671)	(764)
Income from discontinued operations, before income taxes	492	513
Income tax expense on discontinued operations	(168)	(172)
Income from discontinued operations, net of tax	$ 324	$ 341

Table of Contents

The following table presents the carrying amount as of June 30, 2017 and 2016, of GF&F's major classes of assets and liabilities held for sale in the consolidated balance sheets (in thousands):

	June 30, 2017	June 30, 2016
Current assets:		
Accounts receivable, net	$ 687	$ 509
Inventories, net	717	1,085
Prepaid expenses and other current assets	48	67
Total current assets	1,452	1,661
Property and equipment, net	181	184
Goodwill	1,712	1,712
Total assets of discontinued operations	$ 3,345	$ 3,557
Current liabilities:		
Accounts payable and accrued expenses	$ 283	$ 266
Total current liabilities	283	266
Other long-term liabilities	260	225
Total liabilities of discontinued operations	$ 543	$ 491

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

Tekna Seal LLC

On September 30, 2016, the Company sold its non-core subsidiary, Tekna Seal LLC ("Tekna Seal"), to Winchester Electronics Corporation ("Winchester") pursuant to a Membership Interests Purchase Agreement for $10.5 million in cash. The sale to Winchester covered all of the membership interests of Tekna Seal, including 95.7% owned by the Company and 4.3% held by the Tekna Seal minority stakeholders. The proceeds of the sale, after giving effect to any working capital adjustments, were allocated among the Company and the minority sellers proportionate to their respective ownership of pre-closing membership interests. The Company used the net cash proceeds of the sale to

repay principal outstanding under the Company's revolving loan. During the second quarter of 2017, the Company finalized the working capital adjustments with Winchester and paid the former minority stakeholders.

Table of Contents

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

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

In connection with the sale, the Company recorded a pre-tax gain of approximately $5.4 million, which includes a non-cash charge of $3.4 million related to goodwill associated with Tekna Seal, and transaction costs of approximately $0.4 million. The income from operations of Tekna Seal attributable to the Company was approximately $0.1 million and $1.1 million for the years ended June 30, 2017 and 2016, respectively.

The consolidated statements of operations for the year ended June 30, 2017 include the results of operations of Tekna Seal through the sale date of September 30, 2016 and the gain on the sale of Tekna Seal. Financial information for discontinued operations for the years ended June 30, 2017 and 2016 is as follows (in thousands):

	For the year ended	
	June 30, 2017	June 30, 2016
Sales	$ 1,277	$ 4,959
Cost of sales	(943)	(2,935)
Gross profit	334	2,024
Selling, general and administrative	(242)	(846)
Income from discontinued operations, before income taxes	92	1,178
Gain on sale of discontinued operations	5,374	—
Total income from discontinued operations, before income taxes	5,466	1,178
Income tax expense on discontinued operations	(1,789)	(400)
Income from discontinued operations, net of tax	$ 3,677	$ 778

53

Table of Contents

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

	June 30, 2016
Current assets:	
Accounts receivable, net	$ 727
Inventories, net	1,028
Prepaid expenses and other current assets	89
Total current assets	1,844
Property and equipment, net	153
Goodwill	3,374
Total assets of discontinued operations	$ 5,371
Current liabilities:	
Accounts payable and accrued expenses	$ 714
Capital lease obligations	9
Total current liabilities	723
Capital lease obligations	19
Other long-term liabilities	442
Total liabilities of discontinued operations	$ 1,184

Cash flows from Tekna Seal for the years ended June 30, 2017 and 2016 are combined with the cash flows from operations within each of the categories presented on the consolidated statements of cash flows. There were no significant operating or investing activities from discontinued operations during the years ended June 30, 2017 and 2016.

ARC Wireless, LLC

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

NOTE 4 – Inventory

Inventories consisted of the following (in thousands):

	June 30, 2017	June 30, 2016
Raw materials and supplies	$ 5,357	$ 6,299
Work-in-process	7,767	7,505
Finished goods	4,113	4,664
	17,237	18,468

Reserve for obsolescence	(2,151)	(855)
Inventory of discontinued operations	(717)	(2,113)
	$ 14,369	$ 15,500

During the fourth quarter of fiscal year 2017, the Company increased its inventory reserves for excess and obsolete inventory due to a change in business strategy related to the Company's pricing structure, returned parts that the Company determined could not be profitably re-worked and sold, and increased reserves for slow moving inventory as a result of lower forecasted demand from certain customers, primarily related to firearms industry.

Table of Contents

NOTE 5 – Property and Equipment

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

	Depreciable Life (in years)	June 30, 2017	June 30, 2016
Land	—	$ 1,264	$ 1,264
Building and improvements	7 - 40	18,125	17,460
Machinery and equipment	3 - 12	40,715	39,350
Office furniture and equipment	3 - 10	1,280	1,050
Construction-in-process	—	2,462	1,838
Assets acquired under capital lease		7,235	5,482
		71,081	66,444
Accumulated depreciation		(27,201)	(23,018)
Accumulated amortization on capital leases		(2,350)	(1,445)
Property and equipment of discontinued operations		(181)	(337)
		$ 41,349	$ 41,644

Depreciation expense totaled $6.6 million and $6.2 million in the years ended June 30, 2017 and 2016, respectively.

In June 2016, the Company entered into an agreement to purchase two 3D printers valued at $2.2 million. As of June 30, 2016, the Company received one 3D printer valued at $0.6 million, which was included in machinery and equipment, and made payments totaling $1.1 million on the second 3D printer, which was included in construction-in-process. Also in June 2016, the Company entered into a Master Lease Agreement with Citizens Asset Finance, Inc. for $1.7 million of secured financing related to these 3D printers. As of June 30, 2016, the Company had received approximately $1.5 million in cash advances under this financing agreement. The lease commenced upon receipt of the second 3D printer, which was in the first quarter of fiscal year 2017.

NOTE 6 – Goodwill and Intangible Assets

The following table summarizes the activity in the Company's goodwill account by segment during the years ended 2017 and 2016 (in thousands):

	Precision Components Group	3DMT Group	Flanges and Fittings Group	Consolidated
Balance, June 30, 2015	$ 10,285	$ 2,804	$ 1,712	$ 14,801
Held for sale	(3,374)	—	(1,712)	(5,086)
Balance, June 30, 2016	6,911	2,804	—	9,715
Adjustments (1)	2,804	(2,804)	—	—
Impairments (2)	(3,303)	—	—	(3,303)
Balance, June 30, 2017	$ 6,412	$ —	$ —	$ 6,412

(1) During the fiscal fourth quarter of 2017, the Company revised its business segments, which resulted in transferring the goodwill related to its ATC subsidiary from the 3DMT Group to the Precision Components Group.

(2) The Company reviewed its future projections during the fourth quarter of 2017. By utilization of a discounted cash flow analysis, which takes into account projected revenues and expenses, the Company determined that the goodwill of ATC and Kecy were impaired, resulting in a charge of $3.3 million.

Table of Contents

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

	As of June 30, 2017			As of June 30, 2016		
Intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and tradenames	$ 3,418	(717)	$ 2,701	$ 3,773	$ (766)	$ 3,007
Customer relationships	24,077	(8,429)	15,648	24,077	(6,021)	18,056
Non-compete agreements	3,642	(2,367)	1,275	3,642	(1,639)	2,003
Total	$ 31,137	$ (11,513)	$ 19,624	$ 31,492	$ (8,426)	$ 23,066

Intangible assets are amortized over estimated useful lives ranging from five to fifteen years. Amortization expense totaled $3.4 million for other identifiable intangible assets for the years ended June 30, 2017 and 2016. Estimated future amortization expense for the next five years as of June 30, 2017, is as follows (in thousands):

Fiscal Years	Amount
2018	$ 3,364
2019	3,182
2020	2,636
2021	2,636
2022	2,636
Thereafter	5,170
Total	$ 19,624

NOTE 7 – Accrued Escrow Obligations

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

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

Table of Contents

NOTE 8 – Debt

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

	Balance as of June 30, 2017	June 30, 2016
Senior secured revolving loan	$ 10,071	$ 7,560
Senior secured mortgage-based term loans	20,493	4,449
Senior secured term loan	—	16,248
Senior secured delayed draw term loan	—	5,509
Subordinated term loan	15,000	20,000
Total debt	45,564	53,766
Unamortized deferred financing costs	(1,041)	(1,349)
Total debt, net	44,523	52,417
Current portion of long-term debt, net of unamortized deferred financing costs	(1,701)	(15,648)
Long-term debt, net of current portion and unamortized deferred financing costs	$ 42,822	$ 36,769

Senior Credit Agreement

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

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

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

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

The Maturity Date with respect to the Revolving Loan and the Term Loan is August 11, 2019, provided, however, upon repayment of Company subordinated indebtedness the maturity date will automatically extend to five years after the Closing Date for Revolving Loans and Revolving Commitments, and with respect to the Term Loans, the earlier of the date that is (i) ten years after the Closing Date and (ii) the maturity date of the Revolving Loans. The Senior ABL Credit

Table of Contents

Facility contains certain mandatory prepayment provisions, including mandatory prepayments due in respect of sales of assets, sales of equity securities, events of default and other customary events, with exceptions for non-core business dispositions.

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

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

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

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

On September 21, 2017, the Company entered into a third amendment to the Senior ABL Credit Facility and is in compliance with its fixed charge coverage ratio at June 30, 2017, as modified.

Prior Amended & Restated Credit Agreement

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

Subordinated Term Loan Credit Agreement

On November 10, 2014, the Company and certain of its subsidiaries entered into a $20.0 million, five-year Subordinated Term Loan Credit Agreement ("Subordinated Loan Agreement") with McLarty Capital Partners SBIC, L.P. ("McLarty"), which bears interest at 11% annually. Upon an event of default under the Subordinated Loan

Agreement, the interest rate increases automatically by 2.00% annually. The proceeds were used to repay certain outstanding loans under the Company's senior credit facility. ARC's Chairman is indirectly related to McLarty; therefore, the Board of Directors appointed a special committee consisting solely of independent directors to assure that the Subordinated Loan Agreement is fair and reasonable to the Company and its shareholders.

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

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

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

Table of Contents

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

On September 22, 2017, the Company entered into a fourth amendment to the Subordinated Loan Agreement and is in compliance with its fixed charge coverage ratio at June 30, 2017, as modified.

Loan Contract

On March 23, 2016, AFT-Hungary Kft ("AFT-Hungary") entered into a Loan Contract with Erste Bank Hungary Zrt. in an amount equal to €4.0 million ("Loan Contract"). Approximately $3.0 million of the net proceeds from the Loan Contract were used to partially repay obligations outstanding under the Company's senior credit facility, with the remaining net proceeds used for capital expenditures and other investments to facilitate the export of goods and services provided by AFT-Hungary.

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

Future Debt Payments

The following schedule represents the Company's future debt payments as of June 30, 2017 (in thousands):

2018	$ 1,787
2019	1,787
2020	41,077
2021	913
2022	—
Total	$ 45,564

NOTE 9 - Income Taxes

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

	June 30, 2017	June 30, 2016
United States	$ (16,560)	$ (3,053)
Foreign	(245)	(763)
Total	$ (16,805)	$ (3,816)

59

Table of Contents

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

	June 30, 2017	June 30, 2016
Current:		
Federal	$ (2,272)	$ (967)
State	15	62
Foreign	166	122
Total current benefit	(2,091)	(783)
Deferred:		
Federal	(496)	267
State	(44)	25
Total deferred (benefit) expense	(540)	292
Income tax benefit	$ (2,631)	$ (491)

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

	June 30, 2017		June 30, 2016	
Federal income taxes	34.0	%	34.0	%
State income taxes	2.1	%	1.7	%
Foreign income inclusions	—	%	(1.3)	%
Share-based compensation	(0.7)	%	(1.5)	%
Permanent items	(0.1)	%	—	%
Research and development tax credits	0.8	%	7.0	%
Foreign taxes	(1.0)	%	(3.2)	%
Uncertain tax positions	(0.1)	%	(1.4)	%
Valuation allowance and other	(19.3)	%	(22.4)	%
Effective rate	15.7	%	12.9	%

Changes in the effective tax rate from the prior year to the current year are due to the allocation of tax expense between continuing operations and discontinued operations when applying intraperiod allocation rules.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis, as well as from net operating loss and tax credit carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets and liabilities represent amounts available to reduce or increase taxes payable on taxable income in future years. Management evaluates the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including carrybacks (if applicable), reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. To the extent the Company does not consider it

more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Goodwill recorded as part of an asset purchase agreement is deductible for tax purposes and only recorded as a book charge if it is impaired. A deferred tax liability is recorded as the tax deduction is realized, which will not be reversed unless and until the goodwill is disposed of or impaired. Due to the goodwill impairments recognized during fiscal year 2017, there was no deferred tax liability at June 30, 2017.

Significant components of the Company's deferred tax assets at June 30, 2017 and 2016 are shown below. A valuation allowance has been established as realization of such deferred tax assets has not met the more likely-than-not threshold requirement. The Company has recognized a valuation allowance to an amount it expects to realize via carry back based on fiscal year 2017 operations and the reversal of existing temporary differences. The increase in the valuation allowance in fiscal year 2017 represents the increase in deferred tax assets that the Company has determined is not more likely than not of being recovered. If the Company's judgment changes and it is determined that the Company will be

Table of Contents

able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be accounted for as a reduction to income tax expense.

Components of our deferred tax assets and liabilities were as follows (in thousands):

	June 30, 2017	June 30, 2016
Deferred tax assets arising from:		
Accrued liabilities and reserves	$ 492	$ 216
Deferred revenue	95	9
Bad debt reserves	52	93
Tangible property	127	117
Inventory reserve	756	343
Intangible assets	2,381	1,323
Other	43	44
Share-based compensation	161	4
Unrealized foreign currency gain	—	2
Foreign tax credit carryforward	288	122
Research and development tax credits	311	201
Alternative minimum tax credits	318	319
Tax effects of net operating loss carryforwards	3,855	2,117
Less valuation allowances	(4,933)	(1,925)
Deferred tax assets	3,946	2,985
Deferred tax liabilities arising from:		
Property and equipment	(3,533)	(3,136)
Prepaid expenses	(126)	(154)
Unrealized foreign currency gain	(27)	—
Deferred tax liabilities	(3,686)	(3,290)
Net deferred tax asset (liability)	$ 260	$ (305)

As of June 30, 2017 and 2016, the income tax receivable was $0.5 million and $1.6 million, respectively, which were recorded in other current assets. As of June 30, 2017, the deferred tax asset of $0.3 million is included in other long-term assets.

As of June 30, 2017, the Company had federal net operating loss carryforwards of approximately $10.3 million expiring beginning in 2027 and state net operating loss carryforwards of approximately $10.7 million expiring beginning in 2023.

Pursuant to the Internal Revenue Code Sections 382 and 383, use of the Company's U.S. federal and state net operating loss carryforwards may be limited in the event of a cumulative change in ownership of more than 50% within a three-year period. The Company had an ownership change in 2012 and, as a result, certain of the Company's net operating loss carryforwards are subject to an annual limitation, reducing the amount available to offset income tax liabilities absent the limitation.

As of June 30, 2017, the Company had research and development tax credit carryforwards of approximately $0.3 million, foreign tax credit carryforwards of approximately $0.3 million, and alternative minimum tax credit carryforwards of approximately $0.3 million. If unused, the research and development tax credit carryforwards will begin to expire in 2035 and the foreign tax credit carryforwards will expire in 2026. The alternative minimum tax credits can be carried forward indefinitely.

61

Table of Contents

The following table summarizes the changes in the Company's unrecognized tax benefits during the year ended June 30, 2017 and 2016 (in thousands). The Company expects no material changes to unrecognized tax positions within the next twelve months. If recognized, all of these benefits would favorably impact the Company's income tax expense, before considerations of any related valuation allowance.

	June 30, 2017	June 30, 2016
Balance, beginning of year	$ 783	$ 924
Increase in current year position	40	131
Decrease in prior year position	—	(272)
Balance, end of year	$ 823	$ 783

NOTE 10 – Earnings Per Share

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

As a result of the Company's net loss for the fiscal year ended June 30, 2017 and 2016, potentially dilutive stock options of approximately 376,755 and 8,563 were considered anti-dilutive and were excluded from the computation of diluted earnings per share.

NOTE 11 – Related Party Transactions

Everest Hill Group Inc.

Everest Hill Group Inc. ("Everest Hill Group") is the controlling shareholder of ARC, owning approximately 49.9% of its shares outstanding as of June 30, 2017. Everest Hill Group also owns 100% of Quadrant Management Inc. ("QMI"), which indirectly owned 74% of the membership interests of Quadrant Metals Technologies LLC ("QMT") prior to ARC's acquisition of QMT in August 2012. ARC and QMI are under common control of Everest Hill Group.

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

- Mr. Alan Quasha, the Company's Chairman and an officer of QMI, and Mr. Jason Young, the Company's former Chief Executive Officer, each served on the Board of Directors of QMT during fiscal 2016 and received fees for such services.

- Mr. Eli Davidai, the Company's General Manager of Operations as of May 2017, has been a Managing Director at QMI since 1992, where he is responsible for making investments and overseeing companies at the firm.

NOTE 12 – Share-Based Compensation and Employee Benefit Plans

In November 2015, the Company's stockholders approved the ARC Group Worldwide, Inc. 2015 Equity Incentive Plan ("2015 Plan"), which is administered by the Compensation Committee ("Committee") of the Board of Directors. The 2015 Plan reserves for issuance a total of 950,000 shares of common stock, which may be in the form of incentive stock options, non-qualified stock options, restricted stock, restricted stock units, or other types of awards as authorized under the plan. As of June 30, 2017, there were approximately 178,126 shares of common stock available to be granted under the 2015 Plan. In the case of stock options, the exercise price of the options granted may not be less than the fair market

62

Table of Contents

value of a share of common stock at the date of grant. The Committee determines the vesting conditions of awards; however, the performance period for an award subject to the satisfaction of performance measures may not exceed five years. The 2015 Plan will terminate ten years after its adoption, unless terminated earlier by the Company's Board of Directors.

In November 2016, the Company's stockholders approved the 2016 ARC Group Worldwide, Inc. Equity Incentive Plan ("2016 Plan"), which reserves for issuance a total of 950,000 shares of common stock. The 2016 Plan contains terms and conditions substantially similar to the 2015 Plan. As of June 30, 2017, there were 534,295 shares of common stock available to be granted under the 2016 Plan.

A summary of stock option activity under the 2015 Plan and 2016 Plan as of June 30, 2017 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding as of June 30, 2016	759,050	$ 1.51	-
Granted	1,065,030	$ 4.06	
Forfeited	(636,500)	$ 3.59	
Outstanding as of June 30, 2017	1,187,580	$ 2.68	7.07
Vested and exercisable as of June 30, 2017	451,754	$ 1.90	5.78
Vested and expected to vest as of June 30, 2017	1,093,214	$ 2.65	7.02

The vesting of 415,705 shares granted under the 2016 Plan is contingent upon the achievement of a market condition. If vesting occurs, the compensation expense related to the vested awards that has not been previously amortized will be recognized upon vesting. As of June 30, 2017, the market-based condition has not been achieved.

Stock options granted during the year ended June 30, 2017 have contractual lives of seven to ten years. The weighted-average grant date fair value of stock options granted during the years ended June 30, 2017 and 2016 was $2.17 and $0.98, respectively. The total fair value of shares vested during the years ended June 30, 2017 and 2016 was $0.4 million and $0.1 million, respectively.

Determining Fair Value

The Company estimated the fair value of stock options granted under the 2015 Plan using the Black-Scholes method. The Company estimated the fair value and derived service period of stock options granted under the 2016

Plan with market-based vesting conditions on the date of grant using a Monte Carlo simulation, with assumptions comparable to those used under the Black-Scholes method. The assumptions used to determine the value of the Company's stock options granted to employees during the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Expected term	3.50 - 4.75 years	4.5 - 4.75 years
Expected volatility	78.8% - 85.0%	84.0% - 85.1%
Expected dividend yield	- %	- %
Risk-free interest rate	1.02% - 2.41%	1.37% - 1.41%

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

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

Table of Contents

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

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

Share-Based Compensation Expense

Compensation expense recognized during the years ended June 30, 2017 and 2016 was $0.7 million and $0.2 million, respectively, and is included in selling, general and administrative expense. As of June 30, 2017, there was $0.8 million of total unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.7 years. The Company estimated expected forfeitures and is recognizing compensation expense only for those option grants expected to vest. The Company’s estimate of forfeitures may be adjusted throughout the requisite service period based on the extent to which actual forfeitures differ, or are likely to differ, from the Company’s previous estimates. At the end of the service period, compensation cost will have been recognized only for those awards for which the employee has provided the requisite service.

401(k) Plan

The Company sponsors a safe harbor 401(k) plan that covers employees in the United States. The Company matches employee contributions based upon the amount of the employees’ contributions subject to certain limitations and may make a discretionary contribution. Company matching contributions to the 401(k) plan totaled $0.6 million for the years ended June 30, 2017 and 2016.

Employee Stock Purchase Plan

Under the terms of the Company’s employee stock purchase plan ("ESPP"), eligible employees may authorize payroll deductions up to 10% of their base pay to purchase shares of the Company’s common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each six-month purchase period. A total of 750,000 shares were authorized under the ESPP. The purchase period began on August 1, 2016. As of June 30, 2017, there were 702,266 shares available for issuance.

During the year ended June 30, 2017, 47,734 shares were purchased under the ESPP at a price of $2.05 and a grant date fair value of $2.42. The assumptions used to value the shares under the ESPP using the Black-Scholes method were as follows:

Expected term	6 months	
Expected volatility	77.7	%
Expected dividend yield	-	%
Risk-free interest rate	0.40	%

NOTE 13 – Commitments and Contingencies

Leases

The Company leases land, facilities, and equipment under various non-cancellable operating lease agreements expiring through 2022, and contain various renewal options. Rent expense was $1.4 million and $0.9 million for the years ended June 30, 2017 and 2016, respectively. The Company also leases equipment and a building under non-cancellable capital lease agreements expiring through 2024. The capital leases have interest rates ranging from 3.0% to 6.3%.

Table of Contents

At June 30, 2017, approximate future rental commitments were as follows (in thousands):

June 30,	Capital Leases	Operating Leases
2018	$ 1,581	$ 1,846
2019	1,373	1,679
2020	354	1,106
2021	150	434
2022	48	74
Thereafter	96	—
Total minimum lease payments	3,602	$ 5,139
Amount representing interest	(244)	
Present value of total minimum lease payments	3,358	
Current portion	(1,470)	
Capital lease obligation, net of current portion	$ 1,888	

Business Interruption Claim

During the third quarter of fiscal 2017, Kecy experienced a wind-generated power disruption that temporarily halted production for several days and severely damaged key equipment. The Company is insured for these business interruption and equipment repair costs and filed an insurance claim with its insurance provider. The estimated loss of $0.8 million was covered by insurance and $0.4 million was collected during the fourth quarter of fiscal 2017. The remaining $0.4 million is recorded as an insurance claim receivable at June 30, 2017.

Legal Proceedings

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 14 – Segment Information

During fiscal 2017, the Company sold its non-core subsidiaries, Tekna Seal and ARC Wireless. Separately, the Company classified its Flanges and Fittings Group segment as held for sale as of June 30, 2017. The completed and planned divestiture of these non-core businesses, along with the growth in its 3D metal printing business, has changed the way in which management and its chief operating decision maker evaluate performance and allocate resources. As a result, during the quarter ended June 30, 2017, the Company revised its business segments, consistent with its

management of the business and internal financial reporting structure. Specifically, the Precision Components Group now includes the results of its plastic injection molding operations and its tooling product line, which were previously included within the 3DMT Group. Results depicted in its 3DMT Group business unit now solely reflect those operations associated with metal 3D printing and associated services. In addition, its precision metal stamping operations are now reported within the newly created Stamping Group, which were previously included in the Precision Components Group.

As a result of the above transactions, the Company will report three segments as part of continuing operations: Precision Components Group, Stamping Group, and 3DMT Group.

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

· The Stamping Group consists of our precision metal stamping operations.

Table of Contents

- The 3DMT Group consists of 3D Material Technologies, LLC ("3DMT"), our metal 3D printing and additive manufacturing operations.

The historical results of Tekna Seal, which were included in the Precision Components Group segment, and the historical results of the Flanges and Fittings Group segment have been reflected as discontinued operations. Historical segment information has been restated. Summarized segment information for the years ended June 30, 2017 and 2016 is as follows (in thousands):

	Fiscal Year Ended June 30,	
	2017	2016
Sales:		
Precision Components Group	$ 75,053	$ 68,573
Stamping Group	21,061	22,383
3DMT Group	2,528	1,659
Wireless Group	427	1,509
Consolidated sales	$ 99,069	$ 94,124
Operating costs:		
Precision Components Group	$ 80,133	$ 64,364
Stamping Group	21,766	21,751
3DMT Group	3,963	2,541
Wireless Group	554	1,390
Consolidated operating costs	$ 106,416	$ 90,046
Segment operating income (loss):		
Precision Components Group	$ (5,080)	$ 4,209
Stamping Group	(705)	632
3DMT Group	(1,435)	(882)
Wireless Group	(127)	119
Corporate (1)	(5,397)	(3,616)
Total segment operating income (loss)	$ (12,744)	$ 462
Interest expense, net	(4,008)	(4,449)
Loss on extinguishment of debt	(723)	—
Other income, net	670	171
Non-operating expense	(4,061)	(4,278)
Consolidated loss before income taxes and non-controlling interest	$ (16,805)	$ (3,816)

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

Fiscal Year Ended June 30,

	2017	2016
Capital expenditures:		
Precision Components Group	$ 4,710	$ 2,016
Stamping Group	1,292	477
3DMT Group	568	119
Flanges and Fittings Group	71	21
Consolidated capital expenditures	$ 6,641	$ 2,633

66

Table of Contents

Depreciation and amortization expense:		
Precision Components Group	$ 6,750	$ 6,698
Stamping Group	2,323	2,249
3DMT Group	765	490
Flanges and Fittings Group	73	71
Wireless Group	19	21
Consolidated depreciation and amortization expense	$ 9,930	$ 9,529

	As of June 30,	
	2017	2016
Total assets:		
Precision Components Group	$ 50,641	$ 69,623
Stamping Group	19,944	21,841
3DMT Group *	(3,033)	(725)
Flanges and Fittings Group	1,182	1,279
Wireless Group	—	1,006
Corporate	30,889	27,488
Consolidated total assets	$ 99,623	$ 120,512

*Negative assets reflect intersegment accounts eliminated in consolidation.

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

	Fiscal Year Ended June 30,	
	2017	2016
Sales:		
U.S.	$ 90,607	$ 86,776
International	8,462	7,348
	$ 99,069	$ 94,124

	As of June 30,	
	2017	2016
Property and equipment, net:		
U.S.	$ 33,398	$ 33,445
International	7,951	8,199
	$ 41,349	$ 41,644

67

Table of Contents

NOTE 15 – Significant Customers

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

	Percentage of Sales			
Customer	2017		2016	
1 (a)	13.8	%	10.2	%
2 (a)	10.6	%	9.4	%
3 (a)	7.2	%	8.1	%
4 (b)	6.7	%	5.9	%
5 (b)	6.7	%	8.8	%
Total	45.0	%	42.4	%

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

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

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

	Percentage of Receivables			
Customer	2017		2016	
1	11.6	%	10.5	%
2	**	%	8.3	%
3	**	%	8.3	%
4	6.8	%	**	%
5	**	%	5.2	%
Total	18.4	%	32.3	%

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

68

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Under the supervision of and with the participation of management, including our interim Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2017. Based on this evaluation, and the identification of a material weakness in our control over financial reporting described in "Management's Report on Internal Control over Financial Reporting" below, our interim Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2017.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ARC's Consolidated Financial Statements for external purposes in accordance with GAAP.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission as of June 30, 2017. Based upon that evaluation, management identified the following material weaknesses as of June 30, 2017 in the Company's internal control over financial reporting:

· Insufficient Information Technology and Accounting Infrastructure. Management did not maintain a sufficient complement of information technology personnel with appropriate systems knowledge, experience, and training,

which resulted in inadequate segregation of duties, access to computer systems, documentation of policies and procedures, and system maintenance. Management noted that the Company's computer systems are often running on older versions of accounting software with limited functionality that hindered our ability to automate controls. Additionally, at certain of our manufacturing facilities there are a relatively small number of professionals employed by our Company in bookkeeping and accounting functions, which has resulted in instances of inadequate segregation of duties within our internal control systems and delays in performing certain reviews. The insufficient information technology and accounting infrastructure resulted in deficiencies in the design and operating effectiveness over financial reporting that are considered a material weakness because they could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews at a level of precision necessary to identify a material error.

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

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, which was filed with the Securities and Exchange Commission on September 9, 2016, we concluded that, as of June 30, 2016, we had material weaknesses in our internal control over financial reporting existed as we had an insufficient information technology and accounting infrastructure that could lead to the untimely identification and resolution of accounting and disclosure matters.

69

Table of Contents

During fiscal year 2017, we delayed implementing certain portions of our information technology infrastructure and staffing enhancements necessary to remediate our material weakness. However, we continued improvement of our internal control environment by implementing the following changes in our internal control over financial reporting:

- we sold Tekna Seal and ARC Wireless, which were two of our smaller entities that had weak segregation of duties;
- we began the implementation of new consolidation software to improve the efficiency and control over our consolidation process;
- we improved the operation of our enterprise resource planning system at ATC, which established better access controls, segregation of duties, timely reporting and more efficient processes and operations; and
- we reviewed weaknesses in internal controls with our plant general managers and controllers to implement improved controls over information technology, segregation of duties, and policies and procedures.

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

- complete the implementation of our consolidation software package;
- upgrade to the latest version of the enterprise resource planning system used at AFT;
- ensure adequate staffing in the information technology and accounting departments to enhance the segregation of duties; and
- strengthen the documentation of processes, procedures, and the review and approval of financial activities at our facilities.

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

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

(b) Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our existing internal control structure over financial reporting during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Internal control over financial reporting may not prevent or detect all errors and all fraud. Also, projection of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included under the captions “Information Regarding the Board of Directors and Executive Officers,” and “Corporate Governance” in our Proxy Statement for the 2017 Annual Meeting of Stockholders (“2017 Proxy Statement”) to be filed with the SEC within 120 days of the fiscal year ended June 30, 2017 and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2017 Proxy Statement and is incorporated herein by reference.

Our Board of Directors has adopted an Amended & Restated Code of Ethics (“Code of Ethics”) applicable to all officers, directors and employees, which is available on our website, www.arcw.com, under “Investor Relations.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Ethics by posting such information on our website within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included under the captions “Director Compensation,” “Executive Compensation,” “Corporate Governance” and “Compensation Committee Interlocks and Insider Participation” in the 2017 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included under the captions “Security Ownership of Certain Beneficial Owners and Management,” “Outstanding Equity Awards at Fiscal Year-End,” and “Grants of Plan-Based Awards” in the 2017 Proxy Statement and is incorporated herein by reference. Additional information required by this Item is set

forth under the caption “Securities Authorized for Issuance under Equity Compensation Plans” in Item 5, above, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be included under the captions “Certain Transactions with Management and Principal Shareholders” and “Corporate Governance” in the 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be included under the caption “Independent Registered Public Accounting Firm” in the 2017 Proxy Statement and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this annual report on Form 10-K:

(1) Consolidated Financial Statements. See the Index to Financial Statements in Part II, Item 8 of this report.

(2) Financial Statement Schedules

Schedules have been omitted since the required information is not significant or is included in the Notes to Consolidated Financial Statements.

(b) Exhibits

The exhibit list required by this Item is incorporated by reference to the Exhibit Index filed as part of this report.

Exhibit Number	Description
2.1	Membership Interest Purchase Agreement, dated September 30, 2016, between Quadrant Metals Technologies LLC, Doug McCarron and Dianna Quasha and Winchester Electronics Corporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on November 10, 2016). Schedules to the Membership Interest Purchase Agreement have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.
3.2	Bylaws of the Company as amended and restated on March 25, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K, filed on March 31, 1998).
3.3	Amended and Restated Articles of Incorporation dated August 7, 2012 (incorporated by reference to the Company's Annual Report on Form 10-K, filed on October 4, 2013).
10.1	Amended and Restated Credit Agreement, among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K, filed on November 12, 2014).
10.2	

	Credit Agreement, among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, and McLarty Capital Partners SBIC, L.P., dated as of November 10, 2014 (incorporated by reference to Exhibit 10.39 to the Company's Current Report on Form 8-K, filed on November 12, 2014).
10.3	First Amendment, dated December 23, 2014, to the Amended and Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.40 to the Company's Current Report on Form 8-K, filed on December 30, 2014).
10.4	First Amendment to the Credit Agreement, dated December 29, 2014, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, and McLarty Capital Partners SBIC, L.P., dated as of November 10, 2014 (incorporated by reference to Exhibit 10.41 to the Company's Current Report on Form 8-K, filed on December 30, 2014).

Table of Contents

Exhibit Number	Description
10.5	Schedules and Exhibits to the Amended and Restated Credit Agreement, dated November 10, 2014, by and among ARC Group Worldwide, Inc., 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, 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 (incorporated by reference to Exhibit 10.42 to the Company's Current Report on Form 8-K, filed on January 14, 2015).
10.6	Schedules and Exhibits to the Credit Agreement, dated November 10, 2014, by and among ARC Group Worldwide, Inc., 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, McLarty Capital Partners SBIC, L.P., as administrative agent, and other lenders from time to time party hereto (incorporated by reference to Exhibit 10.43 to the Company's Current Report on Form 8-K, filed on January 14, 2015).
10.7	Land Lease, dated August 7, 2014, by and between City of Deland, a Florida municipal corporation, and Flomet LLC (incorporated by reference to Exhibit 10.44 to the Company's Amendment 1 to Registration Statement on Form S-1, filed on January 20, 2015).
10.8	Second Amendment, dated as of May 11, 2015, to the Amended & Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K, filed on September 25, 2015).
10.9	2015 ARC Group Worldwide, Inc. Equity Incentive Plan (incorporated by reference to Annex A to the Company's definitive proxy statement, Form DEF 14A, filed on September 29, 2015).
10.10	Fourth Amendment to Amended and Restated Credit Agreement, dated April 20, 2016, by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A and Capital One, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 22, 2016).
10.11	Second Amendment to the Subordinated Loan Agreement, dated April 20, 2016, by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and McLarty Capital Partners SBIC, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on April 22, 2016).
10.12	Loan Contract between Erste Bank Hungary Zrt. and AFT-Hungary Kft. dated as of March 23, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on May 4, 2016).
10.13	Third Amendment, dated March 29, 2016, to the Amended and Restated Credit Agreement, by and among the Company, Advanced Forming Technology, Inc. ARC Wireless, Inc., Flomet LLC, General Flange & Forge LLC, Tekna Seal LLC, 3D Material Technologies, LLC, Quadrant Metals Technologies LLC, Citizens Bank, N.A. and Capital One National Association, dated as of November 10, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on May 4, 2016).
10.14	2016 ARC Group Worldwide, Inc. Equity Incentive Plan (incorporated by reference to Annex A to the Company's definitive proxy statement, Form DEF 14A, filed on September 23, 2016).
10.15	Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of September 29, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 3, 2016).
10.16	

Amended and Restated Guarantee and Collateral Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as guarantors, and Citizens Bank, N.A., dated September 29, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 3, 2016).

73

Table of Contents

Exhibit Number	Description
10.17	First Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of March 21, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on May 15, 2017).
10.18	Third Amendment to the Subordinated Loan Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and McLarty Capital Partners SBIC, L.P., dated as of March 31, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed May 15, 2017).
10.19	Second Amendment to Second Amended and Restated Credit Agreement by and among ARC Group Worldwide, Inc. and certain of its subsidiaries as borrowers, and Citizens Bank, N.A., dated as of May 12, 2017 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed May 15, 2017).
10.20*	Separation Agreement dated June 30, 2017 with Jason T. Young.
14.1*	Amended and Restated Code of Ethics.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Hein & Associates LLP.
31.1*	Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1&	Written Statement of the Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase

*Filed with this Form 10-K.

&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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 26, 2017	By: /s/ Drew M. Kelley Drew M. Kelley, Interim Chief Executive Officer (Principal Executive Officer), Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), Director

74

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signatures
September 26, 2017	/s/ Alan G. Quasha Alan G. Quasha, Chairman of the Board
September 26, 2017	/s/ Drew M. Kelley Drew M. Kelley, Interim Chief Executive Officer, Chief Financial Officer, Director
September 26, 2017	/s/ Todd A. Grimm Todd A. Grimm, Director
September 26, 2017	/s/ Gregory D. Wallis Gregory D. Wallis, Director
September 26, 2017	/s/ Eddie W. Neely Eddie W. Neely, Director