

# Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

## ARC Group Worldwide, Inc.

810 Flightline Blvd.  
Deland, FL 32724

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(386)736-4890  
www.arcw.com  
info@arcw.com  
SIC Code 3490

### **Quarterly Report** **For the Period Ending: 12/27/20** **(the "Reporting Period")**

As of 12/27/20, the number of shares outstanding of our Common Stock was:

23,548,442

As of 12/29/19, the number of shares outstanding of our Common Stock was:

23,474,819

As of 6/30/20, the number of shares outstanding of our Common Stock was:

23,548,442

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes:  No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes:  No:

Indicate by check mark whether a Change in Control<sup>1</sup> of the company has occurred over this reporting period:

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<sup>1</sup> "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Yes:  No:

## 1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities and the dates of the name changes.

ARC Group Worldwide, Inc.

Date and state (or jurisdiction) of incorporation (also describe any changes to incorporation since inception, if applicable) Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

ARC Group Worldwide, Inc. was organized as a corporation under the laws of the State of Utah on 9/30/1987 and is currently active.

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes:  No:

If this issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

Not applicable

## 2) Security Information

Trading symbol: ARCW  
Exact title and class of securities outstanding: Common Stock  
CUSIP: E00213H105  
Par or stated value: \$0.0005

Total shares authorized: 225,000,000 as of date: 12/27/20  
Total shares outstanding: 23,548,442 as of date: 12/27/20  
Total number of shareholders of record: 88 as of date: 12/27/20

*All additional class(es) of publicly traded securities (if any):*

Trading symbol: ARCW  
Exact title and class of securities outstanding: Preferred Stock  
CUSIP: None  
Par or stated value: \$0.001  
Total shares authorized: 27,000,000 as of date: 12/27/20  
Total shares outstanding: -0- as of date: 12/27/20

### Transfer Agent

Name: Computershare  
Phone: 877-373-6374 option 1 (U.S., Canada, Puerto Rico)  
781-575-3100 option 1 (Non- U.S.)

Email: [web.queries@computershare.com](mailto:web.queries@computershare.com)  
Website: [www.computershare.com/investor](http://www.computershare.com/investor)

Is the Transfer Agent registered under the Exchange Act?<sup>2</sup> Yes:  No:

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors:

Not applicable.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

Not applicable.

### 3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.**

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

#### A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods:

Shares Outstanding as of Second Most Recent Fiscal Year End:			*Right-click the rows below and select "Insert" to add rows as needed.						
Date <u>6/30/19</u>									
<u>Opening Balance</u> Common: <u>23,377,256</u> Preferred: <u>-0-</u>									
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) -OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>8/5/19</u>	<u>Issuance</u>	<u>97,563</u>	<u>Common</u>	<u>Per terms of plan – see below.</u>	<u>Yes</u>	<u>All Participants</u>	<u>Employee Stock Purchase</u>	<u>See below</u>	<u>See below</u>
<u>5/14/20</u>	<u>Retirement</u>	<u>-361</u>	<u>Common</u>	<u>See below</u>	<u>No</u>	<u>Cede &amp; Co</u>	<u>Retire to Unallocated</u>	<u>See below</u>	<u>See below</u>

<sup>2</sup> To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

6/11/20	Issuance	73,984	Common	Per terms of Plan – see below	Yes	All Participants	Employee Stock Purchase	See below	See below
Shares Outstanding on Date of This Report:									
Ending Balance:		Balance							
Date 12/27/20	Common:	23,548,442							
		Preferred:	-0-						

**Example:** A company with a fiscal year end of December 31<sup>st</sup>, in addressing this item for its quarter ended September 30, 2019, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2017 through September 30, 2019 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

Unless reported separately above, please note the following:

- The value of the shares issued (\$/share) at issuance were all at market value as of each respective issuance date;
- The shares were not issued at a discount to market price at the time of issuance;
- Shares purchased through the Company's Stock Purchase Plan were purchased at a discount of 15% off of the lesser of (a) fair market value on the Enrollment Date or (b) the fair market value on the Purchase Date subject to purchase limitations explained in the Plan.
- All shares were unrestricted as of September 27, 2020 (except control shares held by affiliates);
- All shares were registered as of the date of issuance.

**B. Debt Securities, Including Promissory and Convertible Notes**

Use the chart and additional space below to list and describe all outstanding promissory notes, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities.

Check this box if there are no outstanding promissory, convertible notes or debt arrangements:

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder (entities must have individual with voting / investment control disclosed).	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Use the space below to provide any additional details, including footnotes to the table above:

\_\_\_\_\_

#### 4) Financial Statements

A. The following financial statements were prepared in accordance with:

- U.S. GAAP  
 IFRS

B. The financial statements for this reporting period were prepared by (name of individual)<sup>3</sup>:

Name: **Cheryl Reynolds**  
Title: **Chief Financial Officer**  
Relationship to Issuer: **Officer of the Company**

Provide the financial statements described below for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- C. Balance sheet;  
D. Statement of income;  
E. Statement of cash flows;  
F. Statement of Changes in Shareholders' Equity  
G. Financial notes; and  
H. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below. Financial Statements must be compiled in one document.

#### **The Company's Financial Statements are incorporated herein.**

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

#### 5) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

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

<sup>3</sup> The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

- B. Describe any subsidiaries, parents, or affiliated companies, if applicable, and a description of such entity's business, contact information for the business, officers, directors, managers or control persons. Subsidiary information may be included by reference

Subsidiaries of ARC Group Worldwide, Inc. include Quadrant Metals Technologies, LLC, ARC Florida LLC (formerly FloMet LLC), ARC Colorado, Inc. (formerly Advanced Forming Technology, Inc., Advance Tooling Concepts, LLC and Thixoforming, LLC) and AFT-Hungary Kft. These subsidiaries are 100% owned by ARC Group Worldwide, Inc. and can be contacted through ARC Group Worldwide, Inc.

Subsidiaries divested in the last two fiscal years were ARC Metal Stamping LLC (divested 12/27/19) and 3D Material Technologies LLC (divested 3/29/19).

- C. Describe the issuers' principal products or services, and their markets

ARC Group Worldwide, Inc. manufactures highly-engineered, precision components for OEMs in the medical and dental device, aerospace, defense, and automotive industries, among others.

## 6) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

Segment/Entity	Location	Use	Approximate Square Feet
ARC Florida LLC	Deland, Florida	MIM manufacturing and general offices	40,000 owned
ARC Colorado, Inc.	Longmont, Colorado	MIM manufacturing, plastic injection molding, general offices	105,000 leased
AFT-Hungary Kft.	Retsag, Hungary	MIM manufacturing	70,000 leased
ARC Colorado, Inc.	Longmont, Colorado	Specialized tool making	6,500 leased
ARC Colorado, Inc.	Longmont, Colorado	Magnesium injection molding	23,000 leased

## 7) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide information, as of the period end date of this report, regarding any person or entity owning 5% or more of any class of the issuer's securities, as well as any officer, and any director of the company, regardless of the number of shares they own. **If any listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information of an individual representing the corporation or entity in the note section.**

Name of Officer/Director or Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
<u>Everest Hill Group, Inc.</u>	Owner of more than 5%	<u>14,079,534</u>	<u>Common</u>	<u>59.79%</u>	<b>(1)</b>
<u>Alan G. Quasha</u>	<u>Chairman of the Board</u>	<u>-0-</u>	<u>N/A</u>	<u>N/A</u>	
<u>Eli Davidai</u>	<u>Vice Chairman</u>	<u>487,999</u>	<u>Common</u>	<u>0.74%</u>	<b>(2)</b>
<u>Eddie W. Neely</u>	<u>Director</u>	<u>19,777</u>	<u>Common</u>	<u>0.08%</u>	
<u>Jedidiah D. Rust</u>	<u>Chief Executive Officer, Director</u>	<u>388,709</u>	<u>Common</u>	<u>0.00%</u>	<b>(3)</b>
<u>Michael J. Dini</u>	<u>Director</u>	<u>117,376</u>	<u>Common</u>	<u>0.00%</u>	<b>(4)</b>
<u>Aaron M. Willman</u>	<u>Director</u>	<u>191,672</u>	<u>Common</u>	<u>0.00%</u>	<b>(5)</b>
<u>Cheryl L. Reynolds</u>	<u>Chief Financial Officer</u>	<u>180,939</u>	<u>Common</u>	<u>0.00%</u>	<b>(6)</b>

Unless otherwise indicated, all beneficial owners have an address at c/o ARC Group Worldwide, Inc., 810 Flightline Blvd, Deland, FL 32724. Everest Hill Group is located at Tropic Isle Building, P.O. Box 3331, Road Town, Tortola, British Virgin Islands VG 1110.

- 1) Everest Hill Group Inc. is a British Virgin Islands company owned by the Everest Trust. Wayne Quasha settled the Everest Trust, which has three sub-trusts, the AQ Everest Trust, the JQ Everest Trust and the WQ Everest Trust. Q Management Services (PTC) ("Q Management"), serves as Trustee of the Everest Trust. Q Management, in its capacity as trustee of the Everest Trust, controls Herbard Limited ("Herbard"), Carret P.T., LP ("Carret P.T."), Evansville Limited ("Evansville"), QMP Holdings Corp ("QMP") and QTS Holdings Corp ("QTS"). Herbard, Carret P.T., Evansville, QMP and QTS, are the owners of record of the shares of the Company. All shares of Herbard, Carret P.T., Evansville, QMP and QTS are beneficially owned by Everest Hill Group. Q Management, in its capacity as trustee of the Everest Trust, controls all voting and disposition over the shares of Everest Hill Group. Vicali Services (BVI) Inc., a British Virgin Islands company ("Vicali"), is the sole director of Everest Hill Group and Q Management. Susan V. Demers, a United States citizen ("Demers"), and Andrea J. Douglas, a citizen of New Zealand ("Douglas") are the sole directors of Vicali. Carret P.T. is a Delaware limited partnership of which BMCC, LLC serves as the general partner and Everest Hill Group is the sole limited partner. The table above sets forth the aggregate of all shares of the Company beneficially owned by Everest Hill Group. Each of Q Management, Vicali, Demers and Douglas disclaim any beneficial ownership interest in shares of the Company owned directly or indirectly by Everest Hill Group. Alan Quasha, Chairman of the Board and Chief Executive Officer, is a contingent beneficiary of one of the trusts that owns Everest Hill Group, however, Mr. Quasha does not directly or indirectly have any current economic ownership interest in the shares of the Company owned by the Everest Hill Group and does not have any power to vote such shares and does not directly or indirectly have any power, authority or control over disposition of such shares.
- 2) Includes 175,000 shares owned by Mr. Davidai; a non-qualified stock option for the purchase of 125,000 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; a non-qualified stock option for the purchase of 344,497 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022.
- 3) Includes 213 shares owned by Mr. Rust, 75,495.54 shares purchased by Mr. Rust through ARC's employee stock purchase plan; an incentive stock option for the purchase of 117,374 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; an incentive stock option for the purchase of 117,375 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; an incentive stock option for the purchase of 21,402 shares, of which 33.3% vested on July 27, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; an incentive stock option for the purchase of 23,248 shares, of which 33.3% vested on July 27, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; a non-qualified stock option for the purchase of 190,098 shares, of which 33.3% vested on July 27, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022.
- 4) Includes an incentive stock option for the purchase of 88,031 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; an incentive stock option for the purchase of 88,031 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022.

- 5) Includes 35,172 shares purchased by Mr. Willman through ARC's employee stock purchase plan, a non-qualified stock option for the purchase of 117,374 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; a non-qualified stock option for the purchase of 117,375 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022.
- 6) Includes 24,439.35 shares purchased by Mrs. Reynolds through ARC's employee stock purchase plan, an incentive stock option for the purchase of 117,375 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022; an incentive stock option for the purchase of 117,374 shares, of which 33.3% vested on June 1, 2020, the date of grant, and the remaining options will vest annually 33.3% on January 1, 2021 and January 1, 2022.

## 8) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

## 9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

### Securities Counsel

Name: Travis Gering  
Firm: Wuersch & Gering LLP  
Address 1: 100 Wall Street, 10<sup>th</sup> Floor  
Address 2: New York, NY 10005  
Phone: 212-509-5050

Email: [travis.gering@wg-law.com](mailto:travis.gering@wg-law.com)

Accountant or Auditor

Firm: ACM LLP  
Address 1: 303 E. 17<sup>th</sup> Avenue, Suite 600  
Address 2: Denver, CO 80203  
Phone: 303-830-1120

Investor Relations

Name: ARC Group Worldwide, Inc. Investor Relations  
Email: [investorrelations@arcw.com](mailto:investorrelations@arcw.com)  
Phone: 303-467-5236

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared or provided information with respect to this disclosure statement**. This includes counsel, advisor(s) or consultant(s) or provided assistance or services to the issuer during the reporting period.

None

**10) Issuer Certification**

*Principal Executive Officer:*

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities).

The certifications shall follow the format below:

I, Jedidiah D. Rust certify that:

1. I have reviewed this quarterly disclosure statement of ARC Group Worldwide, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

2/8/2021 [Date]

/s/ JEDIDIAH D. RUST [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

*Principal Financial Officer:*

I, Cheryl L. Reynolds certify that:

1. I have reviewed this quarterly disclosure statement of ARC Group Worldwide, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

2/8/2021 [Date]

/s/ CHERYL L. REYNOLDS [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

# **ARC Group Worldwide, Inc.**

## Unaudited Consolidated Financial Statements

For the Fiscal Quarters Ended December 27,  
2020 and December 29, 2019

# ARC Group Worldwide, Inc.

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# ARC Group Worldwide, Inc.

## Unaudited Consolidated Statement of Operations (in thousands, except for share and per share amounts)

	For the three months ended		For the six months ended	
	December 27, 2020	December 29, 2019	December 27, 2020	December 29, 2019
Sales	\$ 14,456	\$ 11,717	\$ 25,898	\$ 22,336
Cost of sales	11,360	10,313	20,710	19,730
Gross profit	3,096	1,404	5,188	2,606
Selling, general and administrative	1,737	2,396	3,394	4,575
Income/(loss) from operations	1,359	(992)	1,794	(1,969)
Other income, net	11	3,349	25	3,565
Interest expense, net	(308)	(920)	(636)	(1,890)
Income/(loss) before income taxes	1,062	1,437	1,183	(294)
Income tax expense	(27)	(34)	(55)	(71)
Net income/(loss) from continuing operations	1,035	1,403	1,128	(365)
Loss from discontinued operations, net of tax	—	(568)	—	(306)
Net income/(loss)	\$ 1,035	\$ 835	\$ 1,128	\$ (671)
Net income/(loss) per common share, basic and diluted:				
Continuing operations	\$ 0.04	\$ 0.06	\$ 0.05	\$ (0.02)
Discontinued operations	\$ —	\$ (0.02)	\$ —	\$ (0.01)
ARC Group Worldwide, Inc.	\$ 0.04	\$ 0.04	\$ 0.05	\$ (0.03)
Weighted average common shares outstanding:				
Basic and diluted	23,548,442	23,474,819	23,548,442	23,455,953

*See accompanying notes to consolidated financial statements.*

# ARC Group Worldwide, Inc.

## Unaudited Consolidated Balance Sheets (in thousands, except for share and per share amounts)

	December 27, 2020	June 30, 2020
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,154	\$ 3,942
Accounts receivable, net	7,258	5,876
Inventories, net	6,913	5,530
Prepaid expenses and other current assets	1,218	2,410
Total current assets	<u>\$ 16,543</u>	<u>\$ 17,758</u>
Property and equipment, net	21,230	22,198
Right of use assets, net	1,492	1,869
Goodwill	6,412	6,412
Intangible assets, net	5,191	6,012
Other	174	32
Total assets	<u>\$ 51,042</u>	<u>\$ 54,281</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,904	\$ 2,804
Accrued expenses and other current liabilities	1,290	3,048
Deferred revenue	1,052	14
Borrowings, current portion of long-term debt and net of unamortized financing costs	1,888	6,806
Operating lease liability, current portion	543	695
Finance lease liability, current portion	905	836
Accrued buyer obligations	100	272
Total current liabilities	<u>\$ 9,682</u>	<u>\$ 14,475</u>
Long-term debt, net of current portion and net of unamortized financing costs	7,137	23,991
Operating lease liability, net of current portion	972	1,188
Finance lease liability, net of current portion	10,122	10,486
Other long-term liabilities	132	168
Total liabilities	<u>\$ 28,045</u>	<u>\$ 50,308</u>
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.001 par value, 27,000,000 shares authorized, 17,925,055 shares issued and outstanding at December 27, 2020, and no shares issued and outstanding at June 30, 2020	18	—
Common stock, \$0.0005 par value, 225,000,000 shares authorized; 23,556,843 shares issued and 23,548,442 shares issued and outstanding at December 27, 2020, and 23,556,843 shares issued and 23,548,442 shares issued and outstanding at June 30, 2020	12	12
Treasury stock, at cost; 8,401 shares at December 27, 2020 and June 30, 2020	(94)	(94)
Additional paid-in capital	60,491	42,468
Accumulated deficit	(37,215)	(38,343)
Accumulated other comprehensive income/(loss)	(215)	(70)
Total stockholders' equity	<u>\$ 22,997</u>	<u>\$ 3,973</u>
Total liabilities and stockholders' equity	<u>\$ 51,042</u>	<u>\$ 54,281</u>

*See accompanying notes to consolidated financial statements.*

# ARC Group Worldwide, Inc.

## Unaudited Consolidated Statements of Stockholder's Equity (in thousands, except for share and per share amounts)

	Preferred Stock		Common Stock		Treasury Stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total equity
	Shares	Amount (Par value \$0.001)	Shares	Amount (Par value \$0.0005)	Shares	Amount (at cost)				
<b>Balance, June 30, 2020</b>	—	\$ —	23,557	\$ 12	(8)	\$ (94)	\$ 42,468	\$ (38,343)	\$ (70)	\$ 3,973
Net income	—	—	—	—	—	—	—	1,128	—	1,128
Share-based compensation expense	—	—	—	—	—	—	117	—	—	117
Currency translation adjustment	—	—	—	—	—	—	—	—	(145)	(145)
Debt to preferred equity exchange	17,925	18	—	—	—	—	17,907	—	—	17,925
Other	—	—	—	—	—	—	(1)	—	—	(1)
<b>Balance, December 27, 2020</b>	<u>17,925</u>	<u>\$ 18</u>	<u>23,557</u>	<u>\$ 12</u>	<u>(8)</u>	<u>\$ (94)</u>	<u>\$ 60,491</u>	<u>\$ (37,215)</u>	<u>\$ (215)</u>	<u>\$ 22,997</u>

See accompanying notes to consolidated financial statements.

# ARC Group Worldwide, Inc.

## Unaudited Consolidated Statement of Cash Flows (in thousands)

	For the six months ended	
	December 27, 2020	December 29, 2019
<b>Cash flows from operating activities:</b>		
Net income/(loss)	\$ 1,128	\$ (671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,779	3,071
Share-based compensation expense	117	104
Amortization of debt discount	51	—
Loss on sale of subsidiary	—	153
Gain on sale of asset	—	(3,699)
Bad debt expense and other	7	40
Changes in operating assets and liabilities:		
Accounts receivable	(1,379)	1,971
Inventory	(1,383)	(98)
Prepaid expenses and other assets	441	1,352
Accounts payable	1,100	(2,357)
Accrued expenses and other liabilities	(1,967)	547
Deferred revenue	1,038	443
Net cash provided by operating activities	<u>\$ 1,932</u>	<u>\$ 856</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(971)	(239)
Proceeds from sale of assets	—	10,000
Proceeds from sale of subsidiary	—	10,500
Net cash provided by/(used in) investing activities	<u>\$ (971)</u>	<u>\$ 20,261</u>
<b>Cash flows from financing activities:</b>		
Proceeds from debt issuance	20,498	30,217
Principal payments of debt	(41,810)	(50,688)
Repayments of finance lease liability	(315)	(692)
Issuance of series A-1 and A-2 preferred stock	17,925	—
Issuance of common stock under employee stock purchase plan and exercise of stock options	—	13
Net cash used in financing activities	<u>\$ (3,702)</u>	<u>\$ (21,150)</u>
Effect of exchange rates on cash	(47)	(48)
Net decrease in cash	(2,788)	(81)
Cash, beginning of year	3,942	263
Cash, end of year	<u>\$ 1,154</u>	<u>\$ 182</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 1,908	\$ 657
Cash paid for income taxes, net of refunds	\$ 3	\$ 6
<b>Non-cash financing:</b>		
Assets acquired through finance leases	\$ 19	\$ 56

*See accompanying notes to consolidated financial statements.*

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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### 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

#### *Nature of Operations*

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

#### *Basis of Presentation*

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

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. This quarterly report should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended June 30, 2020. The Company follows the same accounting policies for preparing quarterly and annual reports.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of ARC and its wholly owned subsidiaries. Our business consists of one reportable segment – the Precision Components Group. All material intercompany transactions have been eliminated in consolidation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures in

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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the accompanying notes. Estimates are used for, but not limited to, accounts receivable reserves, inventory reserves, accruals, carrying value of long-lived assets (including goodwill and intangible assets), amortization periods of long-lived assets, right-of-use assets and stock-based compensation. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

### *Comprehensive Income/ (Loss)*

For each of the quarters ended December 27, 2020 December 29, 2019, there were no material differences between net income (loss) and comprehensive income (loss).

### *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 the Company beginning after December 15, 2022, including interim periods within that year. Early adoption is permitted. The Company is currently assessing the impact that the adoption of ASU 2016-03 will have on its results of operations, cash flows and financial position.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

### 3. DIVESTITURES

#### *ARC Metal Stamping (“AMS”)*

In early July 2019, the Board of Directors took actions to explore selling AMS. On December 27, 2019, the Company finalized an agreement with Keyco Holdings, LLC to sell all of the issued and outstanding membership interests of AMS for \$10.5 million. Keyco Holdings is a related party holding company owned by QMI, Zori Investments, and Mr. Aaron Willman. Zori Investments is a holding company owned by Mr. Eli Davidai, a former director and current General Manager of Operations of the Company. Mr. Aaron Willman previously served as Chief Financial Officer of the Company. A special committee consisting solely of the independent directors of the Company’s board was formed to act on behalf of the Company’s stockholders in respect of assessing the fairness of the sale of the AMS. Mr. Quasha, Mr. Davidai and Mr. Rust recused themselves from serving on the special committee or otherwise deliberating or voting on behalf of the Company in connection with the AMS transaction. As part of its review and analysis, the special committee of independent directors evaluated an independent valuation of AMS that was undertaken and performed by an independent valuator. The valuation considered similar recent market transactions and the recent performance of AMS. In addition, the special committee engaged its own legal counsel to render independent legal advice to the special committee. The special committee concluded that: (i) the sale price for AMS transaction was fair and reasonable to the Company and its stockholders; and (ii) the definitive terms and conditions governing the transaction were fair and reasonable to the Company and its stockholders.

A summary of the net assets sold, are as follows:

Gross proceeds	\$	10,500
Total assets		15,192
Total liabilities		(4,539)
Total net assets disposed		10,653
Loss on sale of discontinued operations	\$	(153)

The consolidated statement of operations for the three and six months ended December 29, 2019 include the results of ARC as discontinued operations is as follows (in thousands):

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

	<u>For the three months ended</u> <u>December 29, 2019</u>	<u>For the six months ended</u> <u>December 29, 2019</u>
Sales	\$ 4,417	\$ 8,330
Cost of sales	4,070	7,566
Gross profit	347	764
Selling, general and administrative	145	298
Income/(loss) from discontinued operations, before income taxes	202	466
Interest expense	(3)	(6)
Other expense, net	(767)	(766)
Total income (loss) from discontinued operations, before income taxes	(568)	(306)
Income tax benefit on discontinued operations	—	—
Loss from discontinued operations, net of tax	<u>\$ (568)</u>	<u>\$ (306)</u>

The balance sheets for June 30, 2020 had no assets on hand related to AMS discontinued operations.

The Company did not reclassify its Statements of Cash Flows to reflect the various discontinued operations. Cash flows from AMS for the three months ended December 29, 2019 are combined within each of the categories presented.

	<u>December 29, 2019</u>
Net Cash provided by/(used in) Operating Activities	\$ (539)
Net Cash provided by/(used in) Investing Activities	(96)
Net Cash provided by/(used in) Financing Activities	(20)

#### 4. INVENTORY

Inventories consisted of the following (in thousands):

	<u>December 27, 2020</u>	<u>June 30, 2020</u>
Raw materials and supplies	\$ 1,807	\$ 1,627
Work-in-process	3,449	2,457
Finished goods	2,429	2,237
	7,685	6,321
Reserve for obsolescence	(772)	(791)
	<u>\$ 6,913</u>	<u>\$ 5,530</u>

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

### 5. PROPERTY AND EQUIPMENT

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

	<u>Depreciable Life</u> <u>(in years)</u>	<u>December 27,</u> <u>2020</u>	<u>June 30,</u> <u>2020</u>
Property and equipment			
Land	—	\$ 535	\$ 535
Building and improvements	7 - 40	7,077	6,333
Machinery and Equipment	3 - 12	35,945	37,030
Office Furniture and Equipment	3 - 10	960	1,244
Construction-in-process		901	141
Assets acquired under finance/capital lease		11,446	11,428
Total gross property, plant & equipment		56,864	56,711
Accumulated depreciation		(31,792)	(31,005)
Accumulated amortization on finance/capital leases		(3,842)	(3,508)
Total gross property, plant & equipment		<u>\$ 21,230</u>	<u>\$ 22,198</u>

Depreciation expense totaled \$1.0 million and \$1.1 million for the three months ended December 27, 2020 and December 29, 2019, respectively, and \$1.6 million and \$2.3 million for the six months ended December 27, 2020 and December 29, 2019.

### 6. GOODWILL AND INTANGIBLE ASSETS

#### *Goodwill*

Total goodwill for the Company is \$6.4 million. The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the fiscal quarter ended June 30, 2020, the Company assessed whether any such indicators of impairment existed and concluded there were none.

#### *Intangible Assets*

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

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

	As of December 27, 2020			As of June 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Intangible assets:</b>						
Patents and tradenames	\$ 2,038	\$ (917)	\$ 1,121	\$ 2,038	\$ (849)	\$ 1,189
Customer relationships	15,071	(11,013)	4,058	15,071	(10,260)	4,811
Non-compete agreements	3,654	(3,642)	12	3,654	(3,642)	12
Total	\$ 20,763	\$ (15,572)	\$ 5,191	\$ 20,763	\$ (14,751)	\$ 6,012

Intangible assets are amortized using the straight-line method over estimated useful lives ranging from five to fifteen years. Amortization expense for identifiable intangible assets totaled \$0.4 million for the three months ended December 27, 2020 and December 29, 2019, respectively, and \$0.8 million for the six months ended December 27, 2020 and December 29, 2019. Estimated future amortization expense for the next five years as of September 27, 2020, is as follows (in thousands):

Fiscal Years	Amount
2021 (1)	822
2022	1,643
2023	1,187
2024	893
2025	136
Thereafter	509
Total	\$ 5,191

(1) Represents amortization of intangible assets for the six months ending June 30, 2021.

## 7. DEBT

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

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

	Balance as of	
	December 27, 2020	June 30, 2020
Senior secured revolving loan	\$ 730	\$ —
Senior secured machinery & equipment-based term loans	3,751	—
Senior secured mortgage-based term loans	1,219	1,122
PPP loan	3,416	3,416
Subordinated term loan	—	15,841
Junior revolving credit facility	—	10,418
Other debt	466	—
<b>Total debt</b>	<b>9,582</b>	<b>30,797</b>
Unamortized deferred financing costs	(557)	—
<b>Total debt, net</b>	<b>9,025</b>	<b>30,797</b>
Current portion of long-term debt, net of unamortized deferred financing costs	(1,888)	(6,806)
<b>Long-term debt, net of current portion and unamortized deferred financing costs</b>	<b>\$ 7,137</b>	<b>\$ 23,991</b>

### *Senior Credit and Security Agreement*

On September 29, 2020 the Company and certain subsidiaries entered into a Senior Credit and Security Agreement with Fifth Third Bank, NA. The Senior Credit and Security Agreement provides the Company with the following extensions of credit and loans: (1) a Revolving Commitment in the principal amount of \$10.0 million (2) a Machinery & Equipment based Term Loan in the principal amount of \$3.8 million, payable in installments over three-year term and (3) a Capital Expenditure Term Loan Commitment in the principal amount of \$1 million. 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. Further, the Senior Credit and Security Agreement contains certain financial covenants and matures in September 2023. The proceeds were used to repay a portion of the Subordinated Term Loan.

As of December 27, 2020, the Company was in compliance with its debt covenants under the Senior Credit and Security Agreement.

### *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 (payable in cash or paid in kind interest, as defined); subsequently the Company entered into amendments one through nine. In May 2018, McLarty rebranded to become The Firmament Group ("Firmament"). Upon an event of default under the Subordinated Loan Agreement, the interest rate increases automatically by 2.00% annually. The proceeds were used to repay certain outstanding loans under the Company's previous credit facility.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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On September 29, 2020, a portion of the Subordinated Loan Agreement balance was refinanced through the Senior Credit and Security Agreement with Fifth Third Bank, NA. The Company simultaneously entered into a Securities Exchange and Purchase Agreement with Firmament to convert their remaining debt balances to preferred equity. The Company issued 3,362,611 shares of Series A-1 Preferred Shares in exchange for \$3.4 million in remaining unpaid principal with Firmament. Effective September 29, 2020, the respective exchanges of debt obligations and corresponding issuances of shares of Preferred Stock extinguished any and all indebtedness of the Company to Firmament.

### *Junior Revolving Credit Facility*

On May 15, 2019, the Company, as borrower, entered into the \$7.5 million Junior Revolving Credit Facility with QMI. The Junior Revolving Credit Facility is not limited by any borrowing base or similar requirement. The Junior Revolving Credit Facility has an interest rate of 4.5% per annum on drawn capital, to be paid in kind and capitalized in lieu of cash payments. The maturity date of the Junior Revolving Credit Facility is March 31, 2021. No financial covenants apply to the Junior Revolving Credit Facility. There are no mandatory prepayments in respect of the Junior Revolving Credit Facility.

On December 27, 2019, the Company entered into a first amendment to the Junior Revolving Credit Facility to increase the maximum Lending Revolving Commitment from \$7.5 million to \$9.975 million to accommodate the inclusion of the Supplemental Advance as an additional Revolving Loan under the Credit Agreement.

At various times in Fiscal 2020, the Company amended the Junior Revolving Credit Facility to borrow additional funds. The proceeds were used to repay a portion of the Subordinated Term Loan.

On September 29, 2020, the Company entered into a Securities Exchange and Purchase Agreement with QMI to convert their remaining debt balances to preferred equity. The Company issued 14,562,444 shares on Series A-2 Preferred Shares in exchange for \$14.6 million in remaining unpaid principal and interest with QMI. Effective September 29, 2020, the respective exchanges of debt obligations and corresponding issuance of shares of Preferred Stock extinguished any and all indebtedness of the Company to QMI.

### *Related Party Transactions*

The Junior Revolving Credit Facility and an Intercreditor Agreement were entered into by the Company with QMI as a counterparty (collectively, the “QMI Credit Agreements”). QMI is an affiliate of the Company. The QMI Credit Agreements are therefore related party transactions.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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### ***Paycheck Protection Program (“PPP”) Loan***

On April 23, 2020, the Company was granted a loan from Crestmark Bank in the amount of \$3.4 million pursuant to the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four week period. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments of up to ten months after the close of the twenty-four week period. The Company applied for the PPP loan pursuant to its determination that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company, including, without limitation, to maintain payroll and pay expenses in the midst of the global COVID19 crisis. The Company believes that a substantial portion, if not all, of the loan has been used for eligible expenses, and accordingly, believes a substantial portion, if not all, will be forgiven. The Company has applied for loan forgiveness and the application is currently under review by the Small Business Administration. While management expects to meet the applicable criteria for forgiveness, regulation surrounding the PPP loan continues to evolve and is subject to differing interpretations, and there can be no certainty that the Company will be successful in obtaining forgiveness. As a result, the Company may be subject to repayment of the loan for any portion found to be ineligible.

### ***Loan Contract***

On February 21, 2020, AFT Hungary, a wholly owned subsidiary of the Company, entered into a Loan Contract with Erste Bank Hungary Zrt. in an amount equal to €1.2 million (“Loan Contract”). The €1.2 million represented the unpaid remainder of the original Loan Contract with Erste Bank Hungary Zrt. dated March 23, 2016.

The loan matures on September 7, 2022, and bears interest at a fixed rate of 1.25% per annum. The Company is required to make semi-annual principal payments in an amount equal to approximately €200,000 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.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

### *Future Debt Payments*

Future maturities of long-term debt as of December 27, 2020 are as follows (in thousands):

2021 (1)	\$	1,567
2022		2,056
2023		1,553
2024		3,826
2025 and thereafter		580
Total	\$	<u>9,582</u>

(1) Represents debt principal payments for the six months ending June 30, 2021.

## 8. COMMITMENTS AND CONTINGENCIES

### *Leases*

The Company has operating and finance leases for property, warehouse space, machinery and equipment, and a ground lease. The Company's property, warehouse space and machinery and equipment leases have lease terms of one year to 15 years and some include options to extend and/or terminate the lease. The ground lease provides for an initial term of five years and is renewable for 10 successive terms of five years each. The exercise of all lease renewal options is at the Company's sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term. The Company's lease agreements do not contain any material variable lease payments, material residual value guarantees or any material restrictive covenants.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease Right-of-Use ("ROU") assets and liabilities are recognized at commencement date of the lease based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is the collateralized rate of interest that we would pay to borrow over a similar term an amount equal to the lease payments, based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made, less lease incentives. The Company has lease agreements with lease and non-lease components. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Variable lease payments that are not based on an index or that result from changes to an index subsequent to the initial measurement of the corresponding lease liability are not included in the measurement of lease ROU assets or liabilities and instead are recognized in earnings in the period

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

in which the obligation for those payments is incurred. Failed sale-lease back transactions are classified as finance leases and result in the retention of the “sold” assets within property and equipment, with a finance lease liability equal to the amount of proceeds received recorded as a liability.

The Company had the following balances recorded in the consolidated balance sheet related to its leasing arrangements (in thousands):

	December 27, 2020	June 30, 2020
<b>Right of Use Assets</b>		
Operating lease right-of-use assets	\$ 1,492	\$ 1,869
Property & equipment acquired under finance lease	7,604	7,920
Total right-of-use assets	<u>\$ 9,096</u>	<u>\$ 9,789</u>
<b>Lease Liabilities</b>		
<i>Current</i>		
Operating lease liability, current portion	\$ 543	\$ 695
Finance lease liability, current portion	905	836
<i>Non-current</i>		
Operating lease liability, net of current portion	972	1,188
Finance lease liability, net of current portion	10,122	10,486
Total lease liabilities	<u>\$ 12,542</u>	<u>\$ 13,205</u>

### ***Legal Proceedings***

From time to time and in the ordinary course of business, we are subject to various litigation matters incidental to the conduct of its business. The Company is not presently a party to any legal proceeding which management believes would have a material adverse effect on our business, prospects, financial condition, cash flows, and results of operations or liquidity.

## **9. EARNINGS PER SHARE**

### ***Net Income/(Loss) Per Share – Basic and Diluted***

Basic earnings per share is computed by dividing net income/(loss) 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/(loss) available to common stockholders by the diluted weighted-average shares of common stock outstanding during the

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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period. Outstanding stock awards are not included in the weighted-average number of share of common stock outstanding, as their effect is anti-dilutive.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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### 10. STOCKHOLDERS' EQUITY

#### *Amended and Restated Articles of Incorporation – Equity Reallocation*

On May 8, 2020, the Company filed an amendment to the Amended & Restated Articles of Incorporation of the Company with the State of Utah, following approval by written consent in lieu of a meeting by the holders of the shares of the Company's outstanding capital stock representing a majority of the total number of votes of the Company's capital stock. The amendment provides for the reallocation of Twenty-Five Million (25,000,000) shares of authorized Capital Stock from the amount which may be issued as Common Stock so that such shares may be issued as shares of Preferred Stock. After giving effect to the amendment, an aggregate of Twenty-Seven Million (27,000,000) shares of Capital Stock will be authorized for issuance as Preferred Stock and Two Hundred Twenty-Five Million (225,000,000) shares will be authorized for issuance as Common Stock. The amendment, with respect to the authorized capital stock of the Corporation does not affect the number of shares issued and outstanding or the par value of any shares. All other provisions of the Amended and Restated Articles of Incorporation remain unchanged and will continue to have full force and effect.

#### *Series A-1 Preferred Stock*

On September 28, 2020, the Company filed a certificate of designation in the State of Utah authorizing and creating 3,400,000 shares of Series A-1 Preferred Stock, par value \$.001 per share. The Preferred Stock has a guaranteed dividend rate of 6% per annum. The dividends of the Preferred Stock are payable in shares of Common Stock of the Company, as defined. The Series A-1 Preferred Stock has a mandatory redemption date of March 31, 2024. Series A-1 Preferred Stock is subject to earlier mandatory redemption upon the occurrence of certain fundamental events. The holders of the Preferred Stock have one vote per share with respect to all matters presented to stockholders of the Company. The holders of Preferred Stock shall vote together with the Common Stock except to the extent otherwise required by applicable Utah laws. The Company may voluntarily redeem the Preferred Stock at an earlier date than the mandatory redemption date. The Series A-1 Preferred Stock is senior in respect of liquidation preferences to the Series A-2 Preferred Stock and all Common Stock. The Certificate of Designation contains customary protective provisions for the benefit of the holders. The shares of Preferred Stock are restricted securities and may not be sold or transferred absent registration or an available exemption.

On September 29, 2020, the Company entered into a Securities Exchange and Purchase Agreement with Firmament to convert their remaining debt balances to preferred equity. The Company issued 3,362,611 shares of Series A-1 Preferred Shares in exchange for \$3.4 million in outstanding debt principal with Firmament. Effective September 29, 2020, the respective exchanges of debt obligations and corresponding issuances of shares of Preferred Stock extinguished any and all indebtedness of the Company to Firmament.

# ARC Group Worldwide, Inc.

## Notes to the Financial Statements

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### *Series A-2 Preferred Stock*

On September 28, 2020, the Company filed a certificate of designation in the State of Utah authorizing and creating 14,600,000 shares of Series A-2 Preferred Stock par value \$0.001 per share. The Preferred Stock has a guaranteed dividend rate of 6% per annum. The dividends of the Preferred Stock are payable in shares of Common Stock of the Company, as defined. The Series A-2 Preferred Stock has a mandatory redemption date of September 28, 2026. Series A-2 Preferred Stock is subject to earlier mandatory redemption upon the occurrence of certain fundamental events. The holders of the Preferred Stock have one vote per share with respect to all matters presented to stockholders of the Company. The holders of Preferred Stock shall vote together with the Common Stock except to the extent otherwise required by applicable Utah laws. The Company may voluntarily redeem the Preferred Stock at an earlier date than the mandatory redemption date. The Series A-2 Preferred Stock is junior to the Series A-1 Preferred Stock and senior to all Common Stock in respect of liquidation preferences. The Certificate of Designation contains customary protective provisions for the benefit of the holders. The shares of Preferred Stock are restricted securities and may not be sold or transferred absent registration or an available exemption.

On September 29, 2020, the Company entered into a Securities Exchange and Purchase Agreement with QMI to convert their outstanding debt balances to preferred equity. The Company issued 14,562,444 shares on Series A-2 Preferred Shares in exchange for \$14.6 million in remaining unpaid principal and interest with QMI. Effective September 29, 2020, the respective exchanges of debt obligations and corresponding issuance of shares of Preferred Stock extinguished any and all indebtedness of the Company to QMI.

### **11. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through February 8, 2021, the date the financial statements were available for release.