Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

ARC Group Worldwide, Inc.

810 Flightline Blvd.
Deland, FL 32724

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

Annual Report
For the Period Ending: 6/30/2021
(the "Reporting Period")

As of 6/30/2021, the number of shares outstanding of our Common Stock was:

24,477,771

As of 3/28/2021, the number of shares outstanding of our Common Stock was:

24,164,639

As of 6/30/2020, 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[5] of the company has occurred over this reporting period:

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[5] "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 and address(es) of the issuer and its predecessors (if any)**

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

ARC Group Worldwide, Inc.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; 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.

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

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:

Common stock dividends are issued on Series A-1 and A-2 Preferred Shares on a quarterly basis since 9/28/2020.

The address(es) of the issuer's principal executive office:

810 Flightline Blvd, Deland FL 32724

The address(es) of the issuer's principal place of business:
Check box if principal executive office and principal place of business are the same address: ☒

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:

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: 6/30/2021
Total shares outstanding:	24,777,771	as of date: 6/30/2021

Total number of shareholders of record: 108 as of date: 6/30/2021

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: 6/30/2021
Total shares outstanding: 17,925,055 as of date: 6/30/2021

Transfer Agent

Name: American Stock Transfer & Trust Company (AST)
Phone: 800-937-5449
Email: help@astfinancial.com
Address: 6201 15th Avenue, Brooklyn, NY 11219

Is the Transfer Agent registered under the Exchange Act?[6] Yes: ☒ No: ☐

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: Opening Balance Date 6/30/2019 Common: 23,377,256 Preferred: -0-			*Right-click the rows below and select "Insert" to add rows as needed.						
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.**

[6] To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

8/5/19	Issuance	97,563	Common	Per terms of plan – see below	Yes	All Participants	Employee Stock Purchase	See below	See below
5/14/20	Retirement	-361	Common	See below	No	Cede & Co.	Retire to Unallocated	See below	See below.
6/11/20	Issuance	73,984	Common	Per terms of plan – see below	Yes	All Participants	Employee Stock Purchase	See below	See below
9/28/20	Issuance	3,362,611	Preferred	$1.00	No	Quadrant Management	Equity Exchange	Restricted/ Control	See below.
9/28/20	Issuance	14,562,444	Preferred	$1.00	No	McLarty Capital Partners SBIC	Equity Exchange	Restricted/ Control	See below.
1/4/21	Issuance	500,603	Common	$0.44	Yes	Quadrant Management	Stock Dividend	Restricted/ Control	See below.
1/4/21	Issuance	115,594	Common	$0.44	Yes	McLarty Capital Partners SBIC	Stock Dividend	Restricted/ Control	See below.
4/5/21	Issuance	254,391	Common	$0.87	Yes	Quadrant Management	Stock Dividend	Restricted/ Control	See below.
4/5/21	Issuance	58,741	Common	$0.87	Yes	McLarty Capital Partners SBIC	Stock Dividend	Restricted/ Control	See below.
Shares Outstanding on Date of This Report: Ending Balance Ending Balance: Date 6/30/21 Common: 24,477,771 Preferred: 17,925,055									

Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended June 30, 2021, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2019 through June 30, 2021 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 June 30, 2021 (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)[7]:

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

[7] The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

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 Retained Earnings (Statement of Changes in Stockholders' 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.

<u>The Company's Financial Statements are incorporated therein.</u>

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")

<u>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.</u>

B. Please list any subsidiaries, parents, or affiliated companies.

<u>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.</u>

<u>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).</u>

C. Describe the issuers' principal products or services.

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 and the extent in which the facilities are utilized.

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, plastic injection molding, general offices.	40,000 owned
ARC Colorado, Inc.	Longmont, Colorado	MIM manufacturing, plastic injection molding, general officers	105,000 leased
AFT-Hungary Kft.	Retsag, Hungary	MIM Manufacturing, general office	70,000 leased
ARC Colorado, Inc.	Longmont, Colorado	Specialized tool making	23,000 leased

7) Company Insiders (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% of more of any class of the issuer's securities, as well as any officer, and any director of the company, or any person that performs a similar function, regardless of the number of shares they own. **If any insiders 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 (City, State) 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 Title /Director/Owner of more than 5%)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Everest Hill Group, Inc.	Owner of more than 5%	14,562,444 15,005,625	Preferred Common	81.25% 61.30%	**(1)**
McLarty Capital Partners SBIC (D.B.A. The Firmament Group)	Owner of more than 5%	3,362,611 174,335	Preferred Common	18.75% 0.71%	
Alan G. Quasha	Chief Executive Officer until 7/31/20, Chairman of the Board	-0-	N/A	N/A	
Eli Davidai	Vice Chairman	538,000	Common	1.00%	**(2)**
Eddie W. Neely	Director	19,777	Common	0.08%	
Jedidiah D. Rust	Chief Executive Officer as of 8/1/20, Director	388,709	Common	0.00%	**(3)**
Michael J. Dini	Director	117,376	Common	0.00%	**(4)**
Aaron M. Willman	Director	191,672	Common	0.00%	**(5)**
Adam Tantleff	Director	-0-	N/A	N/A	
Cheryl L. Reynolds	Chief Financial Officer	180,939	Common	0.00%	**(6)**

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"), Quadrant Management, Inc. ("QMI") 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 245,835 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, 75,496 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 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 or entities 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, 10th Floor
Address 2:	New York, NY 10005
Phone:	212-509-5050
Email:	travis.gering@wg-law.com

Accountant or Auditor

Firm:	BDO LLP
Address 1:	303 E. 17th 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
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, broker-dealer(s), 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) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Jedidiah D. Rust certify that:

1. I have reviewed this annual 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.

11/15/2021 [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 annual 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.

11/15/2021 [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 Years Ended June 30, 2021 and 2020

ARC Group Worldwide, Inc.

Contents

ARC Group Worldwide, Inc.

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

	Year ended June 30,	
	2021	2020
Sales	$ 62,157	$ 48,526
Cost of sales	48,093	41,724
Gross profit	14,064	6,802
Selling, general and administrative	7,288	8,436
Income/(loss) from operations	6,776	(1,634)
Other expense, net	41	(38)
Interest expense, net	(2,025)	(3,556)
Income/(loss) before income taxes	4,792	(5,228)
Income tax (expense) benefit	(175)	138
Net income/(loss) from continuing operations	4,617	(5,090)
Loss on sale of subsidiaries and loss from discontinued operations, net of tax	—	(197)
Net income/(loss)	$ 4,617	$ (5,287)
Net income/(loss) per common share, basic and diluted:		
Continuing operations	$ 0.19	$ (0.22)
Discontinued operations	$ —	$ (0.01)
ARC Group Worldwide, Inc.	$ 0.19	$ (0.23)
Weighted average common shares outstanding:		
Basic and diluted	23,886,481	23,469,268

See accompanying notes to consolidated financial statements.

ARC Group Worldwide, Inc.

Unaudited Consolidated Statements of Comprehensive Income/Loss
(in thousands, except for share and per share amounts)

	Year ended June 30,	
	2021	2020
Net income/(loss)	$ 4,617	$ (5,287)
Foreign currency translation adjustment, net	(136)	(57)
Comprehensive income/(loss)	$ 4,481	$ (5,344)

See accompanying notes to consolidated financial statements.

ARC Group Worldwide, Inc.

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

	As of June 30, 2021	As of June 30, 2020
ASSETS		
Current assets:		
Cash	$ 2,517	$ 3,942
Accounts receivable, net	7,260	5,876
Inventories, net	7,042	5,530
Prepaid expenses and other current assets	2,970	2,410
Total current assets	19,789	17,758
Property and equipment, net	22,769	22,198
Right of use assets, net	756	1,869
Goodwill	6,412	6,412
Intangible assets, net	4,579	6,012
Other	167	32
Total assets	$ 54,472	$ 54,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,708	$ 2,804
Accrued expenses and other current liabilities	2,130	3,048
Deferred revenue	893	14
Current portion of long-term debt, net of unamortized financing costs	4,413	6,806
Operating lease liability, current portion	71	695
Finance lease obligation, current portion	874	836
Accrued buyer obligations	—	272
Total current liabilities	13,089	14,475
Long-term debt, net of current portion and net of unamortized financing costs	21,627	23,991
Operating lease liability, net of current portion	716	1,188
Finance lease obligation, net of current portion	9,732	10,486
Other long-term liabilities	95	168
Total liabilities	45,259	50,308
Commitments and contingencies		
Stockholders' Equity:		
Common stock, $0.0005 par value, 225,000,000 shares authorized; 24,486,172 shares issued and 24,477,771 shares issued and outstanding at June 30, 2021, and 23,556,843 shares issued and 23,548,442 shares issued and outstanding at June 30, 2020	13	12
Treasury stock, at cost; 8,401 shares at June 30, 2021 and June 30, 2020	(94)	(94)
Additional paid-in capital	43,226	42,468
Accumulated deficit	(33,726)	(38,343)
Accumulated other comprehensive loss	(206)	(70)
Total stockholders' equity	9,213	3,973
Total liabilities and stockholders' equity	$ 54,472	$ 54,281

See accompanying notes to consolidated financial statements.

ARC Group Worldwide, Inc.

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

	Common Stock		Treasury Stock				Accumulated	
	Shares	Amount (Par value $0.0005)	Shares	Amount (at cost)	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total equity
Balance, June 30, 2019	**23,385**	**$ 12**	**(8)**	**$ (94)**	**$ 42,159**	**$ (33,065)**	**$ (13)**	**$ 8,999**
Net loss	—	—	—	—	—	(5,287)	—	(5,287)
Share-based compensation expense	—	—	—	—	285	—	—	285
Shares issued under employee stock purchase plan	172	—	—	—	24	—	—	24
Currency translation adjustment	—	—	—	—	—	—	(57)	(57)
Other	—	—	—	—	—	9	—	9
Balance, June 30, 2020	**23,557**	**$ 12**	**(8)**	**$ (94)**	**$ 42,468**	**$ (38,343)**	**$ (70)**	**$ 3,973**
Net income	—	—	—	—	—	4,617	—	4,617
Share-based compensation expense	—	—	—	—	218	—	—	218
Currency translation adjustment	—	—	—	—	—	—	(136)	(136)
Common stock dividend on mandatorily redeemable preferred stock	929	1	—	—	540	—	—	541
Balance, June 30, 2021	**24,486**	**$ 13**	**(8)**	**$ (94)**	**$ 43,226**	**$ (33,726)**	**$ (206)**	**$ 9,213**

See accompanying notes to consolidated financial statements.

ARC Group Worldwide, Inc.

Unaudited Consolidated Statements of Cash Flows
(in thousands)

	For the Years ended June 30, 2021	2020
Cash flows from operating activities:		
Net income/(loss)	$ 4,617	$ (5,287)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,437	6,114
Share-based compensation expense	218	285
Amortization of deferred financing costs	152	406
(Gain)/loss on sale of assets	(19)	84
Loss on sale of subsidiaries	—	153
Bad debt expense and other	10	43
Deferred income taxes	47	24
Changes in operating assets and liabilities:		
Accounts receivable	(1,588)	2,895
Inventory	(1,512)	2,426
Prepaid expenses and other assets	(695)	(175)
Accounts payable	1,904	(5,087)
Accrued expenses and other liabilities	(770)	1,272
Deferred revenue	880	(13)
Net cash provided by operating activities	8,681	3,140
Cash flows from investing activities:		
Purchases of property and equipment	(3,855)	(1,198)
Proceeds from sale of assets	21	—
Proceeds from sale leaseback	—	10,000
Proceeds from sale of subsidiary	—	10,500
Net cash (used in)/provided by investing activities	(3,834)	19,302
Cash flows from financing activities:		
Proceeds from debt issuance	47,769	33,859
Repayments of long-term debt, finance and capital lease obligations	(53,362)	(52,554)
Payments of deferred loan costs related to new financings	(608)	—
Issuance of common stock under employee stock purchase plan and exercise of stock options	—	24
Net cash used in financing activities	(6,201)	(18,671)
Effect of exchange rates on cash	(73)	(92)
Net (decrease)/increase in cash	(1,427)	3,679
Cash, beginning of year	3,942	263
Cash, end of year	$ 2,517	$ 3,942
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,405	$ 1,059
Cash paid for income taxes, net of refunds	$ 3	$ 6
Non-cash investing and financing activities:		
Equipment acquired under finance leases and debt	$ 513	$ 133
Subordinated debt exchanged for redeemable preferred stock	$ 19,725	$ —

See accompanying notes to consolidated financial statements.

1. OVERVIEW AND NATURE OF BUSINESS

Corporate History

ARC Group Worldwide, Inc. (the "Company", "we" or "ARC") was incorporated in the State of Utah on September 30, 1987. On August 8, 2012, we acquired Advanced Forming Technology, Inc. ("AFT"), a provider of Metal Injection Molding components to a variety of industries. AFT was comprised of two operating units, AFT-U.S. and AFT-Hungary. Concurrently, we acquired all of the shares of Quadrant Metals Technology, LLC ("QMT") and its subsidiary, FloMet LLC ("FloMet").

On April 7, 2014, we acquired two companies, Advance Tooling Concepts, LLC ("ATC") and Thixoforming LLC ("Thixoforming"). On June 25, 2014, we acquired substantially all of the assets of Kecy Corporation ("Kecy") and 411 Munson Holding ("Munson") and formed ARC Metal Stamping ("AMS").

The Company merged and consolidated its subsidiaries ATC, a Colorado limited liability company, and Thixoforming, a Colorado limited liability company, into AFT, a Colorado corporation. Following the merger and consolidation on June 22, 2018, AFT changed its name to ARC Colorado, Inc.

In July 2019, the Company's Board of Directors approved a plan to market and divest AMS, which was sold on December 27, 2019 (see Note 3).

Basis of Presentation

The Company's fiscal year begins July 1 and ends June 30. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of ARC and its wholly owned subsidiaries. As of June 30, 2021 and 2020, our business consists of one reportable segment – the Precision Components Group. All material intercompany transactions have been eliminated in consolidation.

COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Stimulus Act ("CARES Act") was signed into law in response to the COVID-19 pandemic. The CARES Act includes many measures to provide relief to Companies. See Notes 8 and 9 for further information.

The Company had seen declines in both revenue and sales backlog as a result of COVID-19 starting in the fourth quarter of fiscal year 2020, specifically in the elective medical and dental, aerospace and automotive industries. These negative impacts have been offset by significant increases in both revenue and orders in the defense and firearms sector.

The COVID-19 pandemic remains ongoing and the potential duration and magnitude of the pandemic's future impact on the Company's customers and on the Company's operations and supply chain remains unknown and depends on factors outside of the Company's control including the duration and intensity of the pandemic, the availability and efficacy of treatments and vaccines, and the impact of COVID-19 on financial markets, industry supply chains and consumer behavior. The potential impact of these factors on the Company's future liquidity, financial condition and results of operations cannot be estimated.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. 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 share-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. On an ongoing basis, the Company reviews its estimates to ensure that they appropriately reflect changes in its business or new information available.

Concentration of Credit Risk

The Company places its cash with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash. At times, such cash amounts may exceed FDIC limits. The Company has not experienced any losses related to these balances.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the original invoiced amount due from the Company's customers less an allowance for any potential uncollectible amounts. ARC controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring processes. In making the determination of the appropriate allowance for doubtful accounts, management considers prior experience with customers, analysis of accounts receivable aging reports, changes in customer payment patterns, and historical write-offs. The allowance for doubtful accounts totaled approximately $0.1 million as of June 30, 2021 and 2020. The amounts charged to operations and write-offs were immaterial for the periods presented.

Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method, net of reserves for excess or obsolete inventory. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. It is the Company's practice to provide a valuation allowance for inventories to account for actual market pricing deflation and inventory shrinkage. Management actively reviews this inventory to determine that all materials are for products still in production to determine any potential obsolescence issues. The cost of inventories includes purchases of materials, direct and indirect labor and manufacturing overhead costs.

The reserve for excess and obsolete inventory totaled approximately $0.5 million and $0.8 million as of June 30, 2021 and 2020, respectively.

Assets and Liabilities Held for Sale and Discontinued Operations

Assets to be disposed of that meet all of the criteria to be classified as held for sale are reported at the lower of their carrying amounts or fair values less cost to sell. Assets are not depreciated while they are classified as held for sale. Assets held for sale that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company's assets are reported in discontinued operations when it is determined that the operations and cash flows of the assets will be eliminated from the Company's ongoing operations and the Company will not have any significant continuing involvement in the operations of the assets after the disposal transaction.

As the divestiture of AMS represented a strategic shift that had, and will have, a significant effect on the Company's operations and financial results, the results of operations of this business is presented separately as discontinued operations for the years ended June 30, 2020, in accordance with GAAP.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of the related assets and is allocated between cost of sales and selling, general and administrative expenses. Major additions and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred.

Construction in Process

Construction in process is stated at cost, which includes the cost of construction and other direct costs attributable to the construction of the asset. No provision for depreciation is made on construction in process until such time as the relevant assets are completed and ready for their intended use. Construction in process at June 30, 2021 and 2020 primarily consisted of leasehold improvements, machinery and equipment, and capitalized tooling projects.

Goodwill, Intangible Assets and Other Long-lived Assets

Goodwill

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Topic 350* ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative step, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for all public business entities that are not an SEC filer for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020, and early adoption is permitted. Further, ASU 2017-04 is applied prospectively after adoption. The Company early adopted the provisions of ASU 2017-04 during fiscal year 2020, which did not have an impact on its consolidated financial statements.

The Company evaluates the carrying value of goodwill annually and also between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill was allocated to below its carrying amount. Such circumstances could include, but are not limited to: (i) a significant adverse change in legal factors, market conditions, or in business climate, (ii) unanticipated competition, or (iii) an adverse action or assessment by a regulator, or (iv) overall financial performance such as negative or declining cash flows. When evaluating goodwill for impairment, we may first perform an assessment qualitatively whether it is more likely than not that a reporting unit's carrying amount exceeds its fair value, referred to as a "step zero" approach. Subsequently (if necessary after step zero), an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying value. The fair value of a reporting unit is estimated using the discounted cash flow methodology. If the carrying amount exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss represents the excess of the carrying amount of the reporting unit over its fair value and cannot exceed the reporting unit's carrying amount of goodwill. During the fourth quarter of 2021, we performed our annual impairment test of goodwill for our one reporting unit. Based on the results of our impairment testing, we believe indicators of impairment do not exist and no impairment was recorded during the year ended June 30, 2021.

Intangible Assets and Other Long-lived Assets

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

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

Recoverability is measured by comparing their carrying amount to the projected undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment loss recognized, if any, is the amount by which the carrying amount of the finite-lived intangible assets or long-lived assets exceeds fair value.

Based on the results of our impairment testing, we believe indicators of impairment do not exist and no impairment was recorded during the year ended June 30, 2021.

Accrued Expenses

As of June 30, 2021 and 2020, accrued expenses that exceeded 5% of current liabilities consisted of approximately $1.4 million and $0.7 million, respectively, of payroll related costs.

Fair Value Measurements

The carrying value of the Company's accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these items. The carrying value of the Company's debt outstanding approximates fair value as interest rates on these instruments approximate current market rates.

Revenue Recognition

Overview

The Company accounts for revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* (the "new revenue standard").

The following table sets forth the Company's revenue by source:

	For the Years Ended June 30,	
	2021	**2020**
Product	$ 60,094	$ 46,707
Tooling	1,512	1,361
Services and other	551	458
Total Sales	$ 62,157	$ 48,526

Revenue from Product, Tooling and Services

The Company recognizes revenue in a manner which depicts the transfer of goods or services to its customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company historically has recognized revenue from three main revenue sources: product revenue, tooling revenue and service revenue. The Company determined that their terms and conditions of sale combined with the customers' purchase order represent the contract with a customer. For each contract, the Company considers the promise to transfer products, tooling and services, each of which are distinct, to be the identified performance obligations.

Tooling consists of the manufacture of multiple tools, molds, and assembly equipment as part of a tooling program for a customer. Each tooling program consists of a significant service of production, with highly customized products being produced for each customer. As such, each tooling agreement consists of a single performance obligation. The transaction price is agreed upon in the contract, and generally does not contain variable consideration.

The majority of the Company's revenue from product and tooling contracts are recognized over time, as the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date at all times during the contract term if the customer terminates the contract for reasons other than the Company's nonperformance. For product revenue recognized over time, the Company utilizes an output method to measure progress that is based on units produced, which approximates a cost-to-cost measurement of progress towards completion of its performance obligations. For tooling revenue recognized over time, the Company utilizes a percent of completion methodology based on the completion towards certain milestones in the production process. For contracts that do not include the enforceable right provision, revenue is recognized at a point in time, either upon shipment of the product, or for tooling, upon customer acceptance and transfer of legal ownership.

Service revenue, representing maintenance and engineering activities, are recognized over time as the services are performed.

Contract Assets and Liabilities

Contract assets are recognized when the Company has a conditional right to consideration for performance completed on contracts. Contract asset balances totaled approximately $0.7 million and $1.1 million as of June 30, 2021 and 2020, respectively, and are presented in prepaid expenses and other current assets. Accounts receivable balances represent unconditional rights to consideration from customer and are presented separate from contract assets.

Contract liabilities are recognized when payment is received from customers prior to revenue being recognized. Contract liabilities totaled zero and $0.2 million at June 30, 2021 and 2020, respectively, and are presented in deferred revenue.

The timing of customer payments most often occurs after performance obligations are satisfied.

Other Revenue Recognition Considerations

The Company has elected to exclude from measurement of the transaction price all taxes (e.g., sales, use, value added and certain excise taxes) that are assessed by a governmental authority in connection with a specific revenue producing transaction and collected by the Company from the customer. Accordingly, the Company recognizes revenue net of taxes. The revenue and cost for freight and shipping is recorded when control over the sale of goods passes to the Company's customers.

The Company offers assurance-type warranties for its products and does not have any material separate performance obligations related to these warranties. The Company's historical rates of return are insignificant as a percentage of sales and, as a result, the Company does not record a reserve for returns at the time the Company recognizes revenue.

Applying the practical expedient in ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred since the amortization period of the assets that the Company otherwise would have recognized is one year or less.

The Company has elected the practical expedient detailed at ASC 606-10-50-13, whereas revenue for unsatisfied performance obligations that will be billed in future periods has not been disclosed.

The Company does not examine the effects of a financing component as the timing difference between performance and payment is less than 12 months.

Research and Development Costs

Research and development costs are expensed as incurred. The majority of these expenditures consist of salaries for engineering and manufacturing personnel and outside services. For each of the years ended June 30, 2021 and 2020, the Company incurred $0.1 million for research and development, which is included in selling, general and administrative expenses on the accompanying statements of operations.

Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method of computing income taxes. The objective of this method is to establish deferred tax assets and liabilities for any temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

The Company also provides for the accounting of uncertainty in income taxes recognized in financial statements and the impact of a tax position in the financial statements if that position is more likely than not of being sustained by the taxing authority.

Foreign Currency

The financial position and results of operations of AFT-Hungary Kft. ("AFT-Hungary"), a wholly owned subsidiary of the Company, are measured using the Euro. Accordingly, all assets and liabilities of AFT-Hungary are translated into U.S. dollars at the currency exchange rates as of the respective balance sheet dates. Revenue and expense items are translated at the average exchange rates prevailing during the period. Resulting translation adjustments, net of applicable deferred income taxes, are recorded in accumulated other comprehensive income. Foreign currency transaction gains and losses are included in other income (expense), net in our consolidated statements of operations. Such gains and losses were not material for any period presented.

Share Based Compensation

The Company recognizes the cost resulting from all share-based compensation arrangements based on their grant date fair value. For awards subject to service conditions, compensation expense is recognized over the vesting period on a straight-line basis. Awards subject to performance conditions are attributed separately for each vesting tranche of the award and are recognized ratably from the service inception date to the vesting date for each tranche, based on the probability of vesting. The probability of awards with future performance conditions is evaluated each reporting period and compensation expense is adjusted based on the probability assessment.

Leases

Lessee Accounting

On July 1, 2019, the Company adopted ASU No. 2016-02, *Leases: Topic 842* ("ASC 842") and all related amendments, using the modified retrospective transition method applying the guidance to leases existing as of the effective date. ASC 842 requires, among other items, lessees to recognize an ROU asset and a related lease liability for most leases on the balance sheet. Lessees are required to disclose quantitative and qualitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Company determined that there was no cumulative effect adjustment to beginning retained earnings on the consolidated balance sheet.

The Company's adoption of ASC 842 resulted in recognition of operating and finance right-of-use assets of approximately $2.6 million and $2.4 million at July 1, 2019, respectively, and did not have a material impact to the Company's consolidated statements of operations or its consolidated statements of cash flows. The Company elected the package of practical expedients included in this guidance, which allowed it to not reassess: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and, (iii) the initial direct costs for existing leases.

Lessee Accounting- After Adoption of ASC 842

The Company determines if an arrangement is a lease at inception. 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.

As we elected the package of practical expedients, we were not required to reassess the classification of these existing leases at adoption date, and as such, the ground lease continues to be accounted for as an operating lease. In the event we modify our existing ground lease or enter into new ground leases in the future, such leases may be classified as finance leases.

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. The Company elected the practical expedient related to treating lease and non-lease components as a single lease component for all leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the ROU assets and lease liabilities. 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 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.

See Note 12 for additional lessee disclosures required under ASC 842.

Recent Accounting Pronouncements – Future Adoption

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 fiscal years beginning after December 15, 2022, 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 March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference the London Inter-bank offered rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The Company is continuing to evaluate the provisions of ASU 2020–04 and the impacts of transitioning to an alternative rate.

3. DIVESTITURES

ARC Metal Stamping ("AMS")

On December 27, 2019, the Company finalized an agreement with Kecy Holdings, LLC to sell all of the issued and outstanding membership interests of AMS for $10.5 million. Kecy 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 summary of the net assets sold, are as follows:

Sale proceeds	$	10,500
Total assets		15,192
Total liabilities		(4,539)
Net assets		10,653
Loss from sale of subsidiary	$	(153)

The operating results of AMS classified as discontinued operations is as follows, for the year ended June 30, 2020 (in thousands):

		Year ended June 30,
		2020
Sales	$	8,330
Cost of sales		7,566
Gross profit		764
Selling, general and administrative		298
Asset impairment charges		—
Income/(loss) from discontinued operations, before income taxes		466
Interest expense		(6)
Other expense, net		(657)
Loss from discontinued operations, before income taxes		(197)
Income tax benefit on discontinued operations		—
Loss from discontinued operations, net of tax	$	(197)

The Company did not reclassify its Statements of Cash Flows to reflect the various discontinued operations. Cash flows from AMS for the year ended June 30, 2020 are combined within each of the categories presented.

		June 30, 2020
Net Cash provided by Operating Activities	$	289
Net Cash used in Investing Activities		(96)
Net Cash (used in) Financing Activities		(20)

4. INVENTORY

Inventories consisted of the following (in thousands):

		June 30, 2021		June 30, 2020
Raw materials and supplies	$	2,322	$	1,627
Work-in-process		3,045		2,457
Finished goods		2,211		2,237
		7,578		6,321
Reserve for obsolescence		(536)		(791)
	$	7,042	$	5,530

5. PROPERTY AND EQUIPMENT

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

	Depreciable Life (in years)	June 30, 2021	June 30, 2020
Land	—	$ 535	$ 535
Building and improvements	7 - 40	7,248	6,333
Machinery and equipment	3 - 12	38,968	37,030
Office furniture and equipment	3 - 10	1,013	1,244
Construction-in-process	—	843	141
Assets acquired under finance lease		11,446	11,428
		60,053	56,711
Accumulated depreciation		(33,104)	(31,005)
Accumulated amortization on finance leases		(4,180)	(3,508)
		$ 22,769	$ 22,198

Depreciation and amortization expense totaled approximately $3.8 million and $4.5 million in the years ended June 30, 2021 and 2020, respectively. Depreciation and amortization expense classified within cost of sales totaled $3.8 million and $4.4 million, in the years ended June 30, 2021 and 2020, with the remainder classified in selling, general and administrative. No impairment charges were recorded for the years ended June 30, 2021 and 2020.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table summarizes the activity in the Company's goodwill account by segment during the years ended 2021 and 2020 (in thousands):

	Precision Components Group	Consolidated
Balance, June 30, 2020	$ 6,412	$ 6,412
Balance, June 30, 2021	$ 6,412	$ 6,412

Intangible Assets

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

	As of June 30, 2021			As of June 30, 2020		
Intangible assets:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and tradenames	$ 2,038	(985)	$ 1,053	$ 2,038	(849)	$ 1,189
Customer relationships	15,281	(11,755)	3,526	15,071	(10,260)	4,811
Non-compete agreements	3,654	(3,654)	—	3,654	(3,642)	12
Total	$ 20,973	$ (16,394)	$ 4,579	$ 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 total $1.6 million and $1.6 million for identifiable intangible assets for the years ended June 30, 2021 and 2010, respectively. Estimated future amortization expense for the next five years as of June 30, 2021, is as follows (in thousands):

Fiscal Years	Amount
2022	$ 1,649
2023	1,203
2024	935
2025	178
2026	178
Thereafter	435
Total	$ 4,579

7. DEBT

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

	Balance as of June 30, 2021	Balance as of June 30, 2020
Senior secured mortgage-based term loans	$ 1,189	$ 1,122
Senior secured equipment-based term loans	3,967	—
Subordinated term loan	—	15,841
PPP Loan	3,416	3,416
Junior revolving credit facility	—	10,418
Mandatorily redeemable preferred stock	17,925	—
Total debt	26,497	30,797
Unamortized deferred financing costs	(457)	—
Total debt, net	26,040	30,797
Current portion of long-term debt, net of unamortized deferred financing costs	(4,413)	(6,806)
Long-term debt, net of current portion and unamortized deferred financing costs	$ 21,627	$ 23,991

Senior Credit Agreement – Prior 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. ("Citizens") which was subsequently amended by amendments one through eight (collectively, the "Prior Senior ABL Credit Facility").

The Prior Senior ABL Credit Facility provided the Company with the following extensions of credit and loans: (1) a Revolving Commitment in the principal amount of $25.0 million (the "Prior Senior Revolving Loan") and (2) a mortgage-based Term Loan Commitment in the principal amount of $17.5 million (the "Prior Term Loan"), payable in installments over the term, as defined.

The loans under the Prior Senior ABL Credit Facility were 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 Prior Senior ABL Credit Facility.

The Prior Senior Revolving Loan had a maturity date in December 2020, and the Prior Term Loan had a maturity date in September 2021.

In December 2020, the Prior Senior ABL Credit Facility was extinguished, through proceeds received from a sale-leaseback transaction (see Note 12), the sale of AMS (see Note 3), and borrowings received from an amendment to the Junior Revolving Credit Facility. Upon extinguishment, unamortized deferred financing costs of approximately $0.4 million were written off.

Senior Credit and Security Agreement – New Agreement

On September 29, 2020, the Company and certain subsidiaries entered into a new 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 (the "Senior Revolving Loan") (2) a Machinery & Equipment based Term Loan in the principal amount of $3.8 million ("Senior M&E Term Loan") and (3) a Capital Expenditure Term Loan Commitment in the principal amount of $1.0 million ("Senior CAPEX Term Loan").

Borrowings under the Senior Revolving Loan may not exceed a borrowing base, consisting of certain eligible accounts receivable and inventory, as defined. As of June 30, 2021, the Company had $6.6 million available under the borrowing base. Borrowings under the Senior Revolving Loan will be made, at the Company's election, as a Referenced Rate Loan or as a LIBOR Rate Loan, payable monthly. The Referenced Rate Loan will bear interest per annum at the lender's own prime rate plus an applicable margin of 0.50% and the LIBOR Rate Loan will bear interest per annum at the greater of (a) 0.75% and (b) LIBOR rate, as defined, plus an applicable margin of 3.25% (3.75% as of June 30, 2021). In addition, the Company pays commitment fees of 0.375% on undrawn amounts. The maturity date of the Senior Revolving Loan is September 29, 2023. As of June 30, 2021, no amounts were outstanding under the Senior Revolving Loan.

Borrowings under the Senior M&E Term Loan are payable in equal monthly principal installments commencing November 1, 2020 through maturity on September 29, 2023. Borrowings under the Senior M&E Term Loan will be made, at the Company's election, as a Referenced Rate Loan or as a LIBOR Rate Loan, payable monthly. The Referenced Rate Loan will bear interest per annum at the lender's own prime rate plus an applicable margin of 1.0% and the LIBOR Rate Loan will bear interest per annum at the greater of (a) 0.75% and (b) LIBOR rate, as defined, plus an applicable margin of 3.75% (4.25% as of June 30, 2021). As of June 30, 2021, approximately $3.5 million was outstanding under the Senior M&E Term Loan.

Borrowings under the Senior CAPEX Term Loan shall not exceed $1.0 million in the aggregate, each amount advanced shall be a minimum of at least $0.1 million, and advances are available through the draw period expiration on March 29, 2023. Repayment of the Senior CAPEX Term Loan commences on January 1st of each calendar year beginning January 1, 2021 and continuing on the first day of each month thereafter payable in equal installments over an assumed term of 60 months, with all remaining outstanding principal due on maturity in September 2023. Borrowings under the Senior CAPEX Term Loan will be made, at the Company's election, as a Referenced Rate Loan or as a LIBOR Rate Loan, payable monthly. The Referenced Rate Loan will bear interest per annum at the lender's own prime rate plus an applicable margin of 1.0% and the LIBOR Rate Loan will bear interest per annum at the greater of (a) 0.75% and (b) LIBOR rate, as defined, plus an applicable margin of 3.75% (4.25% as of June 30, 2021). As of June 30, 2021, no amounts were outstanding under the Senior CAPEX Term Loan.

The Senior Credit and Security Agreement contains certain prepayment provisions, including early termination fees as defined and mandatory prepayments due in respect to sale of assets, events of default and other customary events.

The loans under the Senior Credit and Security Agreement are secured by liens on substantially all domestic assets of the Company and guaranteed by the Company's domestic subsidiaries. The Senior Credit and Security Agreement contains certain financial and non-financial covenants, which the Company was in compliance with at June 30, 2021. The primary use of cash at closing were used to pay down $7.0 million of Subordinated Debt.

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 bore 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 increased automatically by 2.00% annually. The maturity date of the Subordinated Loan Agreement was March 31, 2021.

In September 2020, a portion of the Subordinated Loan Agreement balance was refinanced under the Senior Credit and Security Agreement and remaining amounts due were exchanged and extinguished through issuance of Series A-1 redeemable preferred stock. As of June 30, 2021 and 2020, the balance outstanding was $0 and $15.8 million, respectively.

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.

At various times in fiscal year 2020, the Company amended the Junior Revolving Credit Facility to borrow additional funds, and in September 2020 amounts due were exchanged and extinguished through issuance of Series A-2 redeemable preferred stock. As of June 30, 2021 and 2020, the balance outstanding was $0 and $10.4 million, respectively.

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.

Paycheck Protection Program 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") under Division A, Title I of the CARES Act. The PPP provides for loans to eligible businesses for amounts up to 2.5 times of the average monthly payroll expenses. The application for these funds requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support ongoing operations of the Company. The loans and accrued interest are forgivable after a twenty-four week covered period if the funds are used for eligible expenses which include, payroll costs, benefits, rent and utilities, and the Company maintains its workforce. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period, as defined. Any unforgiven portion of the PPP loan is payable over two-year or five-year term at an interest rate of 1% per annum, as defined in the existing promissory note or allowable under subsequently issued rulings by the Small Business Administration ("SBA"). In October 2020, the Company applied for PPP loan forgiveness and as of the date these consolidated financial statements were available to be issued, is pending a response from the SBA. The Company's forgiveness application and supporting documentation is subject to audit by the SBA, which is required for those borrowers who received funds in excess of $2.0 million. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualification for the forgiveness of such loan based on adherence to the forgiveness criteria. Regulation surrounding the PPP loan continues to evolve and is subject to differing interpretation, 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 PPP loan for any portion found to be ineligible.

Hungary Loans

ERSTE Bank

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 represents 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. Due to the Pandemic, ERSTE Bank has automatically deferred principal payments.

Oberbank AG – Equipment Loan

On January 3, 2021, AFT Hungary, a wholly owned subsidiary of the Company, entered into a Loan Contract with Oberbank AG. in an amount equal to 1.45 million HUF ("Oberbank Loan Contract"). The Company is required to make fifty-five monthly principal payments in an amount equal to 2.64 million HUF beginning on October 31, 2021. The loan was used to cover 50% of the cost of manufacturing equipment, with the other 50% of the equipment cost covered by grants awarded by the Hungarian Government for investments in machinery and equipment. The interest rate escalates over the term of the loan; 0.55% per annum for the first year, then increases to 0.8% per annum in years 2 and 3, and the remainder of the loan interest is at 1.3% per annum.

Mandatorily Redeemable Preferred Stock

On September 29, 2020, the Company entered into Securities Exchange and Purchase Agreements with Firmament and QMI to convert remaining debt balances to preferred equity. The Company issued 3,362,611 shares of Series A-1 Preferred Shares with a stated value of $1.00 per share, in exchange for $3.4 million in remaining unpaid principal with Firmament. The Company issued 14,562,444 shares of Series A-2 Preferred Shares with a stated value of $1.00 per share, in exchange for $14.6 million in remaining unpaid principal and interest with QMI. Both the Series A-1 and Series A-2 Preferred Stock are entitled to receive preferential cumulative dividends at the per annum rate of 6.0% on the stated value, payable quarterly in shares of common stock on January 1, April 1, July 1 and October 1. The dividend shares shall be determined at an issuance value per share equal to the average of the daily volume weighted average price of the common stock during the twenty trading days immediately preceding the dividend payment date. The dividends on the shares are included in interest expense in the consolidated statements of operations. During the year ended June 30, 2021, 929,329 of common stock dividends were paid, with approximately $0.5 million recognized as interest expense.

The Series A-1 and Series A-2 Preferred Stock are mandatorily redeemable by the Company at their stated value of $1.00 per share on March 31, 2024 and September 28, 2026, respectively, or at any time at the option of the Company. As the Series A-1 and Series A-2 Preferred Stock are mandatorily redeemable at a specific date, the securities have been classified as a liability in accordance with GAAP and characterized as long-term debt in the accompanying consolidated balance sheets.

The fair value of each share of Series A-1 and A-2 Preferred Stock on the issuance date was determined to equal its stated value based on the transaction price.

See Note 9 for further information on terms of the Series A-1 and A-2 Preferred Stock.

In August 2021, the Company exercised its redemption right and redeemed the Series A-1 Preferred Stock (See Note 15).

Future Debt Payments

Future maturities of long-term debt as of June 30, 2021 are as follows (in thousands):

2022	4,520
2023	1,131
2024	6,086
2025	107
2026	89
2027 and thereafter	14,563
Total	$ 26,496

8. INCOME TAXES

Income tax expense for the years ended June 30, 2021 and 2020 consist of the following:

	For the Years ended June 30,	
	2021	2020
Current:		
Federal	$ -	$ (264)
State	9	1
Foreign	119	101
Total current expense/(benefit)	128	(162)
Deferred:		
Federal	43	22
State	4	2
Total deferred expense/(benefit)	47	24
Income tax expense/(benefit)	$ 175	$ (138)

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

	For the Years ended June 30,	
	2021	2020
Federal income taxes	21.0 %	21.0 %
State income taxes	2.9 %	1.9 %
Share-based compensation	0.8 %	(3.5) %
Permanent items	0.2 %	(0.1) %
Foreign taxes	2.5 %	(2.1) %
CARES Act loss carryback	0.0 %	5.3 %
Uncertain tax positions	0.0 %	0.1 %
Preferred stock interest	3.5 %	0.0 %
Valuation allowance and other	(27.2) %	(19.8) %
Effective rate	3.7 %	2.8 %

Changes in the effective rate from the prior year to the current year are primarily due to foreign taxes being a greater percentage of pre-tax income (loss) in the current year. In addition, the prior year included tax benefits related to the expected realization of deferred tax assets due to the enactment of the CARES Act, which did not recur in the current year. The CARES Act reinstated a five-year carryback period for net operating losses, which provided the Company the ability to file carryback claims and recover taxes paid in prior years.

The CARES Act included several significant business tax provisions that, among other things, would allow businesses to carry back net operating losses arising in 2018, 2019 and 2020 to the five prior years, accelerate refunds of previously generated corporate alternative minimum tax credits, and generally loosen the business interest limitation under IRC section 163(j) from 30 percent to 50 percent. In the prior year, the Company performed an analysis of the CARES Act and determined that the Act would allow the Company to carryback $3.1 million of net operating losses. The carry back will result in the Company receiving $0.3 million of refunds. Prior to the enactment of the CARES Act, the Company had no ability to carry net operating losses back to prior years and had recognized a valuation allowance on all of the net operating loss deferred tax assets. The Company recognized a tax benefit of $0.3 million during the prior year. The other provisions of the CARES Act did not have a material impact on the consolidated financial statements.

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. We evaluate 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 we do 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. The Company will continue to record an income tax expense related to the amortization of goodwill as a discrete item unless and until such impairment occurs.

Significant components of the Company's deferred tax assets at June 30, 2021 and 2020 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 decrease in the valuation allowance in fiscal year 2020 represents the decrease in deferred tax assets that the Company has determined is not more likely than not of being recovered. If the Company's judgement changes and it is determined that the Company will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance 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, 2021	June 30, 2020
Deferred tax assets arising from:		
Accrued liabilities and reserves	$ 171	$ 24
Deferred revenue	4	4
Bad debt reserves	16	18
Tangible property	32	24
Inventory reserve	129	180
Intangible assets	1,054	1,198
Interest expense carryforward	—	1,117
Other	4	7
Share-based compensation	60	49
Unrealized foreign currency loss	(20)	16
Foreign tax credit carryforward	1,572	1,452
Research and development tax credits	255	232
Tax effects of net operating loss carryforwards	8,628	8,582
	11,905	12,903
Less valuation allowances	(10,898)	(12,139)
Deferred tax assets	1,007	764
Deferred tax liabilities arising from:		
Property and equipment	(1,027)	(736)
Prepaid expenses	(51)	(57)
Other	(4)	0
Deferred tax liabilities	(1,082)	(793)
Net deferred tax asset (liability)	$ (75)	$ (29)

As of June 30, 2021 and 2020, the income tax receivable was $0.3 million and $0.5 million, respectively, which were recorded in other current assets.

As of June 30, 2021 and 2020, the Company had federal net operating loss ("NOL") carryforwards of approximately $36.5 million and $36.2 million, respectively, which will begin to expire from 2027 through 2038. $14.5 million of the federal NOL carryforwards can be carried forward indefinitely. At June 30, 2021 and 2020, the Company has state net operating loss carry forwards of $23.9 million and $24.2 million, respectively, which will begin to expire from 2023 through 2041.

Pursuant to 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, 2021 and 2020, the Company had research and development tax credit carryforwards of approximately $0.3 million and $0.2 million, respectively. As of June 30, 2021 and 2020, the Company had foreign tax credit carryforwards of approximately $1.6 million and $1.5 million respectively. If unused, the research and development tax credit carryforwards will begin to expire in 2034 through 2036 and the foreign tax credit carryforwards will begin to expire in 2024 through 2031.

The Tax Cuts and Jobs Act tax reform legislation limits, for certain entities, the deduction for net interest expense to the sum of business interest income plus 30% of adjusted taxable income. As discussed above, the CARES Act increased the limitation percentage from 30% to 50% for tax years beginning in 2019 and 2020. Adjusted taxable income is defined similar to earnings before interest, taxes, depreciation and amortization for taxable years beginning after December 31, 2017 and before January 1, 2022, and is defined similar to earnings before interest and taxes for taxable years beginning after December 31, 2021. The Company has non-deductible interest for tax purposes of zero and $4.8 million as of June 30, 2021 and 2020, respectively. The disallowed interest expense can be carried forward indefinitely, but will continue to be subject to limitation.

The following table summarized the changes in the Company's unrecognized tax benefits during the year ended June 30, 2021 and 2020. The Company expects no material changes to unrecognized tax positions within the next twelve months. If recognized, all of these benefits would favorable impact the Company's income tax expense, before consideration of any related valuation allowance.

	June 30, 2021	June 30, 2020
Balance, beginning of year	$ 140	$ 152
Increase in current year position	—	—
Increase in prior year position	12	—
Decrease in prior year position	—	(12)
Lapse in statute of limitations	—	—
Balance, end of year	$ 152	$ 140

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income tax of multiple state and foreign jurisdictions. As of June 30, 2021, tax years from 2019 and forward remain subject to federal examination, tax years from 2018 forward remain subject to state examination and tax years from 2017 forward remain subject to foreign examination.

During the years ended June 30, 2021 and 2020, the Company did not recognize interest and penalties. As of June 30, 2021 and 2020, no amounts of interest or penalties were accrued.

9. COMMON STOCK, PREFERRED STOCK AND EARNINGS PER SHARE

Authorized Capital

The Company has 225,000,000 authorized shares of Common Stock at $0.0005 par value and 27,000,000 authorized shares of Preferred Stock at a par value of $0.001.

Common Stock

General

Holders of common stock do not have any conversion, redemption, preemptive or cumulative voting rights. In the event of our dissolution, liquidation or winding-up, common shareholders share ratably in any assets remaining after all creditors are paid in full, including holders of our debt securities and after the liquidation preference of holders of preferred stock has been satisfied.

Dividends

Common stockholders are entitled to participate equally in dividends when dividends are declared by our board of directors out of funds legally available for dividends.

Voting Rights

Each holder of common stock is entitled to one vote for each share for all matters voted on by common stockholders.

Preferred Stock

On September 28, 2020, the Company filed two certificates of designation in the State of Utah authorizing and creating 3,400,000 shares of Series A-1 Preferred Stock and 14,600,000 shares of Series A-2 Preferred Stock (collectively, the "Preferred Stock"). The Preferred Stock was issued in exchange for remaining unpaid debt with Firmament and QMI, as described in Note 7.

Terms of the Preferred Stock are described below:

Voting Rights

Holders of Preferred Stock shall be entitled to one vote per share on any and all matters presented to all stockholders of the Company. The Company shall not, without the affirmative vote of the holders of a majority interests in the Preferred Stock (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend the designation of rights, (b) authorize or create any class of stock ranking as to dividends, redemption or distribution of assets upon liquidation senior to, or otherwise *pari passu* with, the Preferred Stock, (c) amend its articles of incorporation or other charter documents in any manner that adversely affects any rights of the holders, (d) increase the number of authorized Preferred Stock, or (e) enter into any agreement with respect to any of the foregoing.

Dividends

The Preferred Stock are entitled to receive preferential cumulative dividends at the per annum rate of 6.0% on the stated value, payable quarterly in arrears on January 1, April 1, July 1 and October 1. Dividends begin to accrue from date of issuance through the end of the applicable dividend payment date, whether or not declared, and shall accrue whether or not there are profits, surplus or other funds of the Company legally available. Payment of the dividends on Series A-1 Preferred Stock and Series A-2 Preferred Stock are only payable in shares of Common Stock. The dividend shares shall be determined at an issuance value per share equal to the average of the daily volume weighted average price of the Common Stock during the twenty trading days immediately preceding the dividend payment date.

Liquidation Preference

Upon any liquidation, dissolution or winding up of the Company, the holders of the Preferred Stock shall be entitled to receive an amount equal to the stated value of the Preferred Stock, plus any accrued declared and unpaid dividends thereon and any other fees or liquidated damages then due and owing thereon, for each share of the Preferred Stock before any distribution or payment shall be made on any junior securities. The Series A-1 Preferred Stock ranks senior to the Series A-2 Preferred stock, and the Preferred Stock ranks senior to the Common Stock.

Redemption

The Series A-1 and Series A-2 Preferred Stock are mandatorily redeemable by the Company at their stated value of $1.00 per share on March 31, 2024 and September 28, 2026. At any time, the

Company shall have the right (but not the obligation) to redeem all, or any part, of the Preferred Stock then outstanding. The Preferred Stock subject to redemption shall be redeemed by the Company in cash in an amount equal to the stated value of the shares of the Preferred Stock being redeemed plus all accrued declared and unpaid dividends. If, on any redemption date, the Company is unable (a) unable, by virtue of applicable law or provisions in its articles of incorporation, to redeem the Preferred stock, or (b) cannot redeem the shares of Preferred Stock without constituting a default under any borrowing agreement, then such redemption obligation shall be documented with a promissory note, payable on demand by the holder, accruing interest at a rate per annum of 10%, compounding quarterly.

Other

The respective certificates of designations contain customary protective provisions for the benefit of the Preferred Stock holders. The shares of Preferred Stock are restricted securities and may not be sold or transferred absent registration or an available exemption.

In August 2021, the Company exercised its redemption right and redeemed the Series A-1 Preferred Stock (See Note 15).

Net Income (Loss) Per Share – Basic and Diluted

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income available to common stockholders by the diluted weighted-average shares of common stock outstanding during each period.

10. RELATED PARTY TRANSACTIONS

Everest Hill Group Inc.

Everest Hill Group is the controlling shareholder of ARC, owning approximately 61.3% of its shares outstanding as of June 30, 2021. Everest Hill Group also owns 100% of QMI, which indirectly owned 74% of the membership interests of 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 is the Chairman and CEO of QMI. On March 31, 2016, Mr. Quasha was appointment as Chairman of the Board of Directors of the Company. Additionally, the Board of Directors appointed Mr. Quasha to serve as Chief Executive Officer of the Company from May 3, 2018 to August 1, 2020. Mr. Quasha serves the Company without payment of salary or other compensation;

- 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. Additionally, Mr. Davidai served as a member of the Company's Board of Directors from June 5, 2018 through December 5, 2019.

The Company has a variety of transactions with related parties as further discussed in Notes 3, 7 and 12.

11. 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, 2021, there were no 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 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, 2020, there were no 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, 2021 is as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of June 30, 2020	1,700,857	$ 0.44	$ 47,537
Granted	94,651	$ 0.50	$ 1,500
Exercised	—	$ —	$ -
Forfeited	(50,001)	$ 2.77	$ -
Outstanding as of June 30, 2021	1,745,507	$ 0.38	$ 1,875,539
Vested and exercisable as of June 30, 2021	1,169,109	$ 0.42	$ 1,237,364
Vested and expected to vest as of June 30, 2021	1,745,507	$ 0.38	$ 1,875,539

	Shares	Weighted Average Grant Date Fair Value
Unvested Outstanding as of June 30, 2020	1,058,524	$ 0.21
Granted	94,651	$ 0.43
Cancelled/Forfeited	(2,157)	$ 1.20
Vested, outstanding shares	(574,620)	$ 0.22
Unvested Outstanding as of June 30, 2021	576,398	$ 0.23

Stock options granted during the year ended June 30, 2021 have contractual lives of seven years. The weighted-average grant date fair value of stock options granted during the years ended June 30, 2021 and 2020 was $0.43 and $0.21, respectively. The total fair value of shares vested during the years ended June 30, 2021 and 2020 was $0.2 million and $0.3 million, respectively.

Two individual option grants were issued during the year ended June 30, 2021 outside of the established 2015 and 2016 Plans. The first, for 190,098 options granted at an exercise price of 0.37 per share, has a fair value cost of the grant of $60 thousand and a seven-year term. The second, for 67,263 options granted at an exercise price of 0.62 per share, has a fair value cost of the grant of $38 thousand and a seven-year term. These miscellaneous grants are excluded from all tables presented.

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, 2021 and 2020 were as follows:

	2021	2020
Expected term	7.0 years	6.4 years
Expected volatility	117.3 %	114.3 %
Expected dividend yield	— %	— %
Risk-free interest rate	0.37 %	0.30 %

Expected Term – The expected term represents the period of time the options are expected to be outstanding.

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

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

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, 2021 and 2020 was $0.2 million and $.3 million, respectively, and is included in selling, general and administrative expense. As of June 30, 2021, there was $0.2 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 year. 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 $0.3 million and $0.2 million for the years ended June 30, 2021 and 2020, respectively.

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, 2021, there were 416,692 shares available for issuance.

After the ESPP purchase for the window that ended January 31, 2020, the Company suspended purchases under the ESPP plan. The suspension does not currently have an estimated ending date as of June 30, 2021.

12. COMMITMENTS AND CONTINGENCIES

Leases

Leasing Transactions

The Company leases land, facilities, and equipment under various non-cancellable operating and finance lease agreements and contain various renewal options.

During the year ended June 30, 2020, the Company entered into a sale-leaseback with a related party under a ten-year base term with an option to extend for an additional five years. The lease provides for monthly base payments of $83,333 and the Company is reasonably certain to exercise the option. This lease meets the criteria for a finance lease, and as such, the transaction does not qualify for sale-leaseback treatment. The “sold” assets remain within property and equipment for the duration of the lease and a liability equal to the amount of proceeds received is recorded with finance lease obligations. Upon lease termination, the sale will be recognized by removing the remaining carrying values of the capital assets and financing liability, with any difference recognized as a gain.

At June 30, 2021 and 2020, the Company had the following balances recorded in the consolidated balance sheet related to its leasing arrangements (in thousands):

	Classification	As of June 30, 2021	As of June 30, 2020
Right-of-use Assets			
Operating Leases	Operating Lease right-of-use assets	$ 756	$ 1,869
Finance Leases	Property and equipment, net	7,267	7,920
Total right-of-use assets		**$ 8,023**	**$ 9,789**
Lease Liabilities			
Current:			
Operating Leases	Operating lease liability, current portion	$ 71	$ 695
Finance Leases	Finance/capital lease obligations, current portion	874	836
Non-current			
Operating Leases	Operating lease liability, net of current portion	716	1,188
Finance Leases	Finance/capital lease obligations, net of current por	9,732	10,486
Total, lease liabilities		**$ 11,393**	**$ 13,205**

Weighted average remaining lease term and discount rate for our leases are as follows:

	As of June 30,	
	2021	2020
Weighted Average Remaining Lease Term		
Operating Leases	1.1	1.8
Finance Leases	12.3	13.0
Weighted Average Discount Rate		
Operating Leases	7.3	8.7
Finance Leases	6.2	6.3

The ground lease term of 20 years and 5.5% discount rate are excluded from the weighted average remaining lease term and weighted average discount rate presented above.

Lease Expense

The components of lease expense were as follows:

	Year ended June 30	
	2021	2020
Amortization of ROU Assets	$ 608	$ 672
Interest on finance lease liabilities	679	436
Finance lease expense	1,287	1,108
Operating lease expense	237	1,160
Short-term lease expense	-	144
Total lease expense	**$ 1,524**	**$ 2,412**

Supplemental Cash Flow

Supplemental cash flow information related to leases was as follows:

	Year ended June 30,	
	2021	2020
Operating cash flows from operating and short term leases	$ 845	$ 1,304
Operating cash flows from finance leases	679	436
Financing cash flows from finance leases	735	1,225
Cash paid for amounts included in the measurement of lease liabilities	**$ 2,259**	**$ 2,965**

Maturities

Maturities of lease liabilities by fiscal year for our leases are as follows:

	Operating Leases	Finance Leases	Total
2022	113	1,515	1,628
2023	69	1,501	1,570
2024	65	1,205	1,270
2025	65	1,076	1,141
2026	65	1,002	1,067
Thereafter	837	9,170	10,007
Undiscounted Cash Flows	$ 1,214	$ 15,469	$ 16,683
Less: imputed interest	$ 427	$ 4,863	$ 5,290
Present value of lease liabilities	**$ 787**	**$ 10,606**	**$ 11,393**
Reconciliation to lease liabilities			
Lease liabilities - current	$ 71	$ 874	$ 945
Lease liabilities - long-term	716	9,732	10,448
Total Lease Liabilities	**$ 787**	**$ 10,606**	**$ 11,393**

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.

13. SEGMENT INFORMATION

During fiscal 2020, the Company decided to market AMS, and on December 27, 2019, completed the sale of AMS. As such, AMS is reported as discontinued operations for the fiscal year ended June 30, 2020.

As a result of the above transaction, the Company will report one segment as part of continuing operations: The Precision Components Group.

Summarized segment information for the years ended June 30, 2021 and June 30, 2020 is as follows (in thousands):

	For the Years ended June 30, 2021	2020
Sales:		
Precision Components Group	$ 62,157	$ 48,526
Consolidated Sales	62,157	48,526
Operating Costs:		
Precision Components Group	$ 55,383	$ 48,542
Consolidated Operating Costs	$ 55,383	$ 48,542
Segment operating income (loss):		
Precision Components Group	$ 6,774	$ (16)
Corporate (1)	2	(1,618)
Total segment operating loss	$ 6,776	$ (1,634)
Interest expense, net	(2,025)	(3,556)
Other income (loss), net	41	(38)
Non-operating expense	(1,984)	(3,594)
Consolidated loss before income taxes and non-controlling interest	$ 4,792	$ (5,228)

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

	As of June 30, 2021	2020
Total assets:		
Precision Components Group	$ 52,566	$ 50,057
Corporate	1,906	4,224
Consolidated total assets	$ 54,472	$ 54,281

	Fiscal Years Ended June 30, 2021	2020
Capital expenditures:		
Precision Components Group	$ 4,368	$ 1,240
Stamping Group	-	91
Consolidated capital expenditures	$ 4,368	$ 1,331

Depreciation and amortization expense:		
Precision Components Group	$ 5,437	$ 6,114
Consolidated depreciation and amortization expense	$ 5,437	$ 6,114

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

	For the Years ended June 30,	
	2021	2020
Sales:		
U.S.	$ 55,259	$ 42,214
International	6,898	6,312
	$ 62,157	$ 48,526

	As of June 30,	
	2021	2020
Property and equipment, net:		
U.S.	$ 14,588	$ 14,799
International	8,181	7,399
	$ 22,769	$ 22,198

14. SIGNIFICANT CUSTOMERS

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

	Percentage of Sales	
Customer	2021	2020
1	37.3 %	18.5 %
2	14.3 %	13.1 %
3	12.4 %	12.7 %
4	5.1 %	7.0 %
Total	69.1 %	51.3 %

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

	Percentage of Receivables			
Customer	2021		2020	
1	29.3	%	13.2	%
2	16.9	%	17.3	%
3	**	%	12.6	%
4	**	%	8.1	%
5	**	%	5.2	%
Total	46.2	%	56.4	%

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

15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 15, 2021, the date the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure, other than the matters described below.

On August 27, 2021, the Company exercised its redemption right and paid $3.4 million to The Firmament Group to voluntarily redeem the Series A-1 Preferred Shares. The Series A-1 Preferred Shares were subsequently cancelled.