ARC Group Worldwide, Inc.
Form 10-Q
February 13, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended December 30, 2012

OR

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

For the transition period from ___________________________

000-18122
(Commission File Number)

ARC Group Worldwide, Inc.
(Exact name of registrant as specified in its charter)

Utah	87-0454148
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)

810 Flightline Blvd.,
Deland, FL 32724
(Address of principal executive offices including zip code)

(386) 736-4890
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

As of February 1, 2013, the Registrant had 5,672,618 shares outstanding of its $.0005 par value common stock.

ARC Group Worldwide, Inc.

Quarterly Report on FORM 10-Q For The Period Ended

December 30, 2012

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Item 1. Financial Statements

ARC Group Worldwide, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

		December 30, 2012 (unaudited)		June 30, 2012 *
ASSETS				
Current Assets:				
Cash and cash equivalents	$	2,181	$	1,448
Accounts receivable, net		9,798		3,705
Inventories, net		11,155		3,873
Due from related party		—		205
Prepaid and other current assets		888		440
Total current assets		24,022		9,671
Property and Equipment, net		25,085		4,514
Long-Term Assets				
Goodwill and intangible assets		18,832		6,964
Other		290		184
Total long-term assets		19,122		7,148
Total Assets	$	68,229	$	21,333
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	4,623	$	715
Accrued expenses		2,023		955
Due to related party		20		367
Deferred income		656		132
Current portion of long-term debt		8,496		1,491
Total current liabilities		15,818		3,660
Long-Term Liabilities:				
Bank debt, noncurrent		11,584		5,377
Convertible debt		17,600		—
Total long-term liabilities		29,184		5,377
Total Liabilities		45,002		9,037
Commitments (Note H)				
Stockholders' Equity:				
Preferred stock, $0.001 par value, 2,000,000 authorized, no shares issued and outstanding		—		—
Common stock, $0.0005 par value, 250,000,000 shares authorized, 5,672,618 and 4,029,700 shares outstanding at December 30, 2012 and June 30, 2012, respectively		3		2

Treasury stock, at cost		(1)		—
Additional paid-in capital		10,673		—
Note Receivable from Member		(303)		(303)
Accumulated earning/deficit		11,920		11,753
Non-Controlling Interest		935		844
Total Stockholders' Equity		23,227		12,296
Total Liabilities and Stockholders' Equity	$	68,229	$	21,333

* These numbers were derived from the audited financial statements for the year ended June 30, 2012.
See accompanying notes.

ARC Group Worldwide, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands except share and per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	Dec 30, 2012	Jan 1, 2012	Dec 30, 2012	Jan 1, 2012
Sales	$ 17,492	$ 7,839	$ 30,973	$ 15,174
Cost of sales	13,166	4,561	22,948	9,002
Gross Profit	4,326	3,278	8,025	6,172
Operating Expense:				
Selling, general and administrative	3,253	1,785	5,564	3,355
Merger expenses	—	—	1,637	—
Income from Operations	1,073	1,493	824	2,817
Other Income (Expense):				
Other income (expense)	(9)	59	11	75
Gain on bargain purchase	—	—	381	—
Interest expense, net	(225)	(133)	(392)	(251)
Total other income (expense)	(234)	(74)	0	(176)
Income before Income Taxes	839	1,419	824	2,641
Current income tax expense				
Deferred income tax benefit	—	—	—	—
Net Income	$ 839	$ 1,419	$ 824	$ 2,641
Less: Net Income Attributable to Non-Controlling Interest	47	192	120	357
Net Income Attributable to ARC Group Worldwide, Inc	$ 792	$ 1,227	$ 704	$ 2,284
Net Income per Common Share:				
Basic and diluted	0.14	0.30	0.13	0.57
Diluted	0.14	0.30	0.13	0.57
Weighted Average Common Shares Outstanding:				
Basic and Diluted	5,672,618	4,029,700	5,322,488	4,029,700

See accompanying notes.

ARC Group Worldwide, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	For the Six Months Ended December 30, 2012	For the Six Months Ended January 1, 2012
Cash Flows from Operating Activities		
Net Income	$ 824	$ 2,641
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used In) Operating Activities		
Operating Activities:		
Depreciation and Amortization	1,334	413
Gain on Bargain Purchase	(381)	
Loss on Disposition of Assets	(5)	(6)
(Increase) Decrease in Assets		
Accounts Receivable	1,240	(736)
Due from Related Party	205	—
Inventory	(24)	582
Prepaid Expenses and Other Assets	(144)	(40)
Other Long-Term Assets	(101)	—
Increase (Decrease) in Liabilities		
Accounts Payable	(1,130)	(22)
Other Accrued Expenses	286	(22)
Due to Related Party	(347)	385
Unearned Mold Income	(43)	(93)
Net Cash Provided by Operating Activities	1,714	3,102
Cash Flows from Investing Activities		
Net Assets Acquired in a Business Combination, Net of Cash and Cash Equivalents	(31,591)	(129)
Investment in Plant and Equipment	(216)	(436)
Proceeds from Sale on Assets	143	—
Due from Related Party	—	(499)
Stock Issued for Cash	450	—
Net Cash Used In Investing Activities	(31,214)	(1,064)
Cash Flows from Financing Activities		
Proceeds from Issuance of Debt	42,600	2,041
Principal Payments on Debt	(11,788)	(2,555)
Loan Costs on Issuance of Debt	—	(18)
Capital Lease Obligations	(9)	—
Repurchase of Shares	(1)	—
Payments on Recalled Share Options	—	(10)
Proceeds from Members Shares Issued	—	10
Distribution Payments to Non-controlling Interest Members	(29)	—
Distributions to Members	(540)	(657)
Net Cash Provided by (Used in) Financing Activities	30,233	(1,189)

Net Increase in Cash and Cash Equivalents		733		849
Cash and Cash Equivalents, Beginning of Period		1,448		1,740
Cash and Cash Equivalents, End of Period	$	2,181	$	2,589
Supplemental Disclosures of Cash Flow Information				
Cash Paid During the Year for Interest		361		259
Non-Cash Financing Activity				
Membership units of FloMet transferred to the Company		—		1,375
Membership units of Tekna Seal transferred to the Company		—		513

See accompanying notes.

ARC Group Worldwide, Inc.
Notes to Condensed Consolidated Financial Statements
December 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

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

Advanced Forming Technology, Inc. ("AFT") is comprised of two operating units, AFT-US and AFT Hungary. AFT-US was founded in 1987. From 1991 until its acquisition by ARC, AFT was operated as a division of Precision Castparts Corporation, a publicly traded company.

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

Completion of Acquisitions

On August 8, 2012, ARC completed the acquisition of QMT and AFT (referred to herein as the “QMT Acquisition” and the “AFT Acquisition”). The QMT Acquisition was accounted for as a reverse acquisition under generally accepted accounting principles, whereby QMT was deemed to be the accounting acquirer in the acquisition. The financial statements for periods prior to August 8, 2012 reflect only the operations of QMT. ARC’s historical accumulated deficit for periods prior to August 8, 2012, in the amount of $10.2 million was eliminated against additional paid in capital, and the accompanying financial statements present the previously issued shares of ARC common stock as having been issued pursuant to the merger on August 8, 2012. The shares of common stock issued to QMT pursuant to the merger are presented as having been outstanding for since July 1, 2011. All transactions between divisions and/or wholly owned subsidiaries of the Company or the Predecessor Company have been eliminated in the financial statements.

The accompanying financial statements include the results of operations of ARC, QMT and AFT for periods subsequent to the acquisition; for periods prior to the acquisition the results of operations are presented only for QMT.

Unaudited Interim Financial Information

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of December 30, 2012, the results of its operation and its cash flows for the three months and six months then ended. For further information, refer to the predecessor financial statements and footnotes thereto included in the

Company's Report on Form 8-K/A, filed on September 28, 2012, for the year ended June 30, 2012.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Prior to the date of the acquisitions noted above, the Predecessor Company operated in two business segments, identified as the Precision Components Group, consisting of FloMet and TeknaSeal, and the Flanges and Fittings Group, consisting of GF&F and TubeFit. After completion of the acquisitions mentioned above, ARC operates three business segments: the Precision Components Group, consisting of FloMet, AFT-US, AFT-Hungary, and TeknaSeal; the Flanges and Fittings Group, consisting of GF&F and TubeFit; and the Wireless Group, consisting of ARC Wireless LLC and ARC Wireless Ltd.

Operating results for the six months ended December 30, 2012 are not necessarily indicative of the results to be expected for the full year or any future period.

Significant Business Acquisitions

The purchase price was allocated based on the information currently available, and may be adjusted after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of preliminary estimates. The Company is still obtaining the information regarding intangibles which may result in adjustments to the carrying amounts of intangibles and goodwill within the measurement period once the information is obtained. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

To record the assets and liabilities for the reverse merger of ARC by QMT (in thousands):

Purchase price	$	10,225
Less fair value of assets acquired:		
Cash and cash equivalents		10,590
Accounts receivable, net		1,096
Inventories, net		737
Prepaid and other current assets		40
Property and equipment, net		236
Intangible assets		109
Other		6
Fair value of liabilities assumed:		
Accounts payable		(2,030)
Accrued expenses		(169)
Current portion of capital lease		(9)
Non-controlling interest		–
Fair value of net assets acquired		10,606
Negative goodwill resulting from the acquisition, accounted for as a bargain purchase	$	(381)

To record the assets and liabilities purchased in the acquisition of AFT (in thousands):

Purchase price	$	42,722
Less fair value of assets acquired:		
Cash and cash equivalents		735

Accounts receivable, net		6,236
Inventories, net		6,521
Prepaid and other current assets		264
Property and equipment, net		21,590
Other		12
Fair value of liabilities assumed:		
Accounts payable		(3,007)
Accrued expenses		(1,375)
Fair value of net assets acquired		30,976
Goodwill resulting from the acquisition	$	11,746

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reasons for the acquisitions at the agreed upon purchase price include synergies between the businesses, including cross fertilization of product/customer applications, expanded R&D capabilities, and operational synergies, among others. It is also believed that the acquisitions will help generate further scale and lead to enhanced revenue and earnings growth. The combination of two of the largest recognized leaders in the metal injection molding ("MIM") industry will provide distinct scale advantages creating substantial barriers to entry for other companies and providing ARC with long-term strategic positioning as the clear market leader in the MIM industry.

Pro forma Financial Information (Unaudited)

The historical operating results of ARC and AFT have not been included in the Company's historical consolidated operating results prior to their acquisition dates. The following unaudited pro forma information presents the combined results of operations for the three and six months ended December 30, 2012 and January 1, 2012 as if the acquisition had been completed on July 1, 2012 and July 1, 2011, respectively. The unaudited pro forma results do not reflect any material adjustments, operating efficiencies or potential cost savings which may result from the consolidation of operations but do reflect certain adjustments expected to have a continuing impact on the combined results.

(In thousands, except per share data)	Three-month Period Ended Dec 30, 2012	Three-month Period Ended Jan 1, 2012	Six-month Period Ended Dec 30, 2012	Six-month Period Ended Jan 1, 2012
Revenue	$17,492	$16,999	$34,416	$33,139
Net income (loss)	$792	$1,221	$(54)	$1,117
Basic net income (loss) per common share	$.14	$.22	$(.01)	$.20
Diluted net income (loss) per common share	$.14	$.22	$(.01)	$.20

QMT acquired a 90% ownership of TubeFit on October 31, 2011 for $150 thousand. TubeFit began business on October 31, 2011. TubeFit purchased the assets of Fittube Piping Products, Inc. for $150 thousand. The allocation of the purchase price for Fittube Piping Products, Inc. is as follows (in thousands):

Inventory	$17
Fixed Assets	4
Goodwill	129

TubeFit sells imported flanges in carbon steel, stainless steel and alloys. All activity since the date of the acquisition of TubeFit has been reflected in the consolidated statement of income.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Business Acquisitions (continued)

QMT acquired a 90% ownership of GF&F on March 1, 2011 with an initial cash investment in GF&F of $2.3 million. GF&F began business on March 1, 2011. With the initial cash investments of its shareholders and a bank loan, GF&F purchased assets and assumed liabilities of General Flange & Forge Corporation for $5.507 million on April 18, 2011. The allocation of the purchase price of General Flange & Forge, Inc. is as follows (in thousands):

Cash	$	326
Accounts Receivable		933
Inventory		2,113
Fixed Assets		573
Other Assets		16
Goodwill		1,711
Accounts Payable		(165)

GF&F distributes imported and domestic flanges in carbon steel, stainless steel and alloys. All activity from the date of the acquisition of GF&F has been reflected in the consolidated statement of income.

QMT acquired an 85.03% ownership of TeknaSeal on May 1, 2011 by exchanging membership units of Quadrant Metals Technologies LLC for membership units of TeknaSeal that were originally owned by the members of QMT. The investment in TeknaSeal has been recorded on the books of QMT at the TeknaSeal book value. TeknaSeal manufactures hermetic glass-to-metal components to meet customer specifications. The annual activity of TeknaSeal in 2011 is reported in the consolidated statement of income as it was under common control for all of fiscal 2011.

QMT acquired an 84.99% ownership of FloMet on June 30, 2011 by exchanging membership units of QMT for membership units of FloMet that were originally owned by the members of QMT. The investment in FloMet has been recorded on the books of QMT at the FloMet book value. FloMet manufactures component parts from metal powder, primarily stainless steel base, to customer specifications. The annual activity of FloMet in 2011 is reported in the consolidated financial statements as it was under common control for all of fiscal 2011.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. 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 and cash equivalents. At times, cash in the bank may exceed FDIC insurable limits.

Accounts Receivable

The Company uses the allowance method to account for uncollectible accounts receivable. The allowance is sufficient to cover both current and anticipated future losses. Uncollectible amounts are charged against the allowance account. Management estimates this amount based upon prior experience with customers and an analysis of individual trade accounts. An allowance for doubtful accounts of $139 thousand and $125 thousand has been reserved as of December 30, 2012 and June 30, 2012, respectively.

The Company offers most customers between net 30 and 45-day terms. In special situations, the Company may offer extended terms or discounts to selected customers. Accounts are considered past due if a payment is not received within credit terms.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

The Company values inventories at the lower of average cost or market using the first-in, first-out (FIFO) method. It is the Company's practice to provide a valuation allowance for inventories to account for potential 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. An allowance for inventory obsolescence of $228 thousand and $45 thousand has been reserved as of December 30, 2012 and June 30, 2012, respectively.

Plant and Equipment

Plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life
Building and Improvements	7 to 40 years
Machinery and Equipment	3 to 12 years

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.

Depreciation expense totaled $.8 million and $.2 million for the three months ended December 30, 2012 and January 1, 2012, respectively and $1.3 million and $0.4 million for the six months ended December 30, 2012 and January 1, 2012, respectively.

Long-lived Assets

The carrying value of long-lived assets are reviewed annually; if at any time the facts or circumstances at any of our individual subsidiaries indicate impairment of long-lived asset values, as a result of a continual decline in performance, or as a result of fundamental changes in a subsidiary's market conditions, a determination is made as to whether the carrying value of the property's long-lived assets exceeds estimated realizable value. Long-lived assets consist primarily of Property and Equipment. No impairment was determined as of December 30, 2012 and June 30, 2012.

Goodwill and Intangibles

Goodwill is recognized as a result of a business combination when the price paid for the acquired business exceeds the fair value of its identified net assets. Identifiable intangible assets are recognized at their fair value when acquired. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

The Predecessor Company identified no material separately identifiable intangible assets in 2011 as a result of its acquisitions.

The Company has evaluated its goodwill and intangibles, that were acquired in prior periods, for impairment and has determined that goodwill and intangibles were not impaired.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill and Intangibles (continued)

Acquisitions during fiscal year 2012 and 2013 resulted in an increase in goodwill and intangibles of approximately $129 thousand and $11.8 million, respectively. The carrying amounts of these assets are as follows (in thousands):

	December 30, 2012	June 30, 2012
Precision Components	$ 16,880	$ 5,123
Flanges and Fitting	1,841	1,841
Wireless	111	—
Total	$ 18,832	$ 6,964

The Company is obtaining information needed in connection with the business combination that may result in material adjustments within the measurement period to the carrying amounts of intangibles and goodwill. The Company expects to engage an independent third party valuation consultant to assist the Company to ascertain the value of such intangibles and to assist the Company to assign the useful life over which amortization will occur.

Deferred Income

Unearned income consists of customer deposits for the development of molds used in the manufacturing process. As of December 30, 2012 and June 30, 2012 unearned income was $656 thousand and $132 thousand respectively. The Company recognizes revenue and the related expenses when the customer approves the mold for production. Accordingly, as of December 30, 2012 and June 30, 2012, the Company and Predecessor has incurred costs of $745 thousand and $101 thousand, respectively, related to molds in the process of being developed which have been deferred and are included as part of the total current assets on the accompanying balance sheet.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable net of sales tax, trade discounts and customer returns.

Revenue from the sale of goods is recognized when the following conditions are satisfied: (1) the Company and the Predecessor has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Company and the Predecessor retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the economic benefits associated with the transaction will flow to the entity; and (5) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 fees paid to consultants for services rendered. For the three months ended December 30, 2012 and January 1, 2012, the Company incurred $196 thousand and $197 thousand, respectively, and for the six months ended December 30, 2012 and January 1, 2012, the Company incurred $397 thousand and $435 thousand, respectively, for research and development, which is included in selling, general and administrative expenses on the accompanying statement of income.

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, notes and accounts receivable, accrued liabilities, and notes and accounts payable. It is management's opinion that the Company is not exposed to significant interest rate or credit risks arising from these instruments. The fair values of these financial instruments approximate their carrying values.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company accounts for income taxes pursuant to Accounting Standards Codification (“ASC”) 740, Income Taxes, which utilizes the asset and liability method of computing deferred 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 current and deferred tax provision is allocated among the members of the consolidated group on the separate income tax return basis.

ASC 740 also provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a “more-likely-than-not” recognition threshold at the effective date to be recognized. During the six months ended December 30, 2012 the Company recognized no adjustments for uncertain tax positions.