

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K/A  
Amendment No. 1**

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 814-00789

**THL CREDIT, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

100 Federal St., 31st Floor, Boston, MA  
(Address of Principal Executive Offices)

27-0344947  
(I.R.S. Employer  
Identification No.)

02110  
(Zip Code)

Registrant's Telephone Number, Including Area Code: 800-450-4424

Securities registered pursuant to 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	TCRD	NASDAQ Global Select Market
6.75% Senior Notes due 2022	TCRZ	The New York Stock Exchange
6.125% Senior Notes due 2023	TCRW	The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The aggregate market value of common stock held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$255.5 million based on the closing price on that date of \$7.82 on the NASDAQ Global Select Market. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates.

As of March 5, 2019, there were 32,317,590 shares of the Registrant's common stock outstanding.

**Documents Incorporated by Reference**

Portions of the Registrant's definitive Proxy Statement relating to its 2018 Annual Meeting of Stockholders, filed pursuant to Regulation 14A with the Securities and Exchange Commission on May 3, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K as indicated herein.

## EXPLANATORY NOTE

THL Credit, Inc., a Delaware corporation, or together with its subsidiaries, where applicable, the Company, which may also be referred to as “we”, “us” or “our”, is filing this Amendment No. 1 (the “Amendment”) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which was filed with the SEC on March 6, 2019 (the “Form 10-K”), to provide stand-alone audited financial statements for our investments in two unconsolidated controlled portfolio companies, OEM Group, LLC (“OEM Group”) and Copperweld Bimetallics LLC (“Copperweld”), for the year ended December 31, 2018. The OEM Group audited consolidated financial statements for the fiscal year ended December 31, 2018 (Exhibit 99.1) and unaudited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016 (Exhibit 99.2), and Copperweld’s audited consolidated financial statements for the fiscal year ended December 31, 2018 (Exhibit 99.3) and unaudited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016 (Exhibit 99.4) are included in Part IV, Item 15 of this filing.

We have determined that each of these unconsolidated controlled portfolio companies have met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for which we are required, pursuant to Rule 3-09 of Regulation S-X, to attach separate financial statements as exhibits to the Form 10-K. The separate financial statements of OEM Group and Copperweld are being filed as an amendment to the Form 10-K.

This Amendment also updates, amends and supplements Part IV, Item 15 of the Form 10-K to include the filing of new Exhibits 31.1, 31.2, 32.1 and 32.2, certifications of our Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a-14(a) and (b) of the Securities Exchange Act of 1934, as amended.

No other changes have been made to the Form 10-K. This Amendment does not reflect subsequent events that may have occurred after the original filing date of the Form 10-K or modify or update in any way disclosures made in the Form 10-K. Among other things, forward-looking statements made in the Form 10-K have not been revised to reflect events that occurred or facts that became known to us after filing of the Form 10-K, and such forward-looking statements should be read in their historical context. Furthermore, this Amendment should be read in conjunction with the Form 10-K and with our subsequent filings with the SEC.

## PART IV

### **Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed or incorporated by reference as part of this Annual Report:

#### **1. Financial Statements**

##### **(a) OEM Group**

##### Audited

Consolidated balance sheet as of December 31, 2018

Consolidated statement of operations and comprehensive loss for the year ended December 31, 2018

Consolidated statement of members’ deficit for the year ended December 31, 2018

Consolidated statement of cash flows for the year ended December 31, 2018

Notes to consolidated financial statements

##### Unaudited

Consolidated balance sheet as of December 31, 2017 and 2016

Consolidated statement of operations and comprehensive loss for the year ended December 31, 2017 and period from March 15, 2016 through December 31, 2016

Consolidated statement of members’ equity for the year ended December 31, 2017 and period from March 15, 2016 through December 31, 2016

Consolidated statement of cash flows for the year ended December 31, 2017 and period from March 15, 2016 through December 31, 2016

Notes to consolidated financial statements

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**(b) Copperweld Financial Statements**

Audited

Consolidated balance sheet as of December 31, 2018  
Consolidated statement of comprehensive income for the year ended December 31, 2018  
Consolidated statement of changes in member's equity (deficit) for the year ended December 31, 2018  
Consolidated statement of cash flows for the year ended December 31, 2018  
Notes to consolidated financial statements

Unaudited

Consolidated balance sheet as of December 31, 2017 and 2016  
Consolidated statements of comprehensive loss for the years ended December 31, 2017 and 2016  
Consolidated statement of changes in member's equity (deficit) for the years ended December 31, 2017 and 2016  
Consolidated statement of cash flows for the years ended December 31, 2017 and 2016  
Notes to consolidated financial statements

**2. Financial Statement Schedule**

None

**3. Exhibits required to be filed by Item 601 of Regulation S-K**

Please note that the agreements included as exhibits to this Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

- 3.1 [Amended and Restated Certificate of Incorporation \(Incorporated by reference from the Registrant's pre-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 20, 2010\)](#)
- 3.2 [Certificate of Amendment of Amended and Restated Certificate of Incorporation \(Incorporated by reference from Appendix A to the Registrant's Proxy Statement, filed on April 24, 2012\)](#)
- 3.3 [Bylaws \(Incorporated by reference from the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on July 15, 2009\)](#)
- 3.4 [Amendment to Bylaws \(Incorporated by reference from the Registrant's Current Report on Form 8-K, filed on June 15, 2015\)](#)
- 3.5 [Amendment to Bylaws \(Incorporated by reference from the Registrant's Current Report on Form 8-K, filed on January 11, 2019\)](#)
- 4.1 [Form of Specimen Certificate \(Incorporated by reference from the Registrant's pre-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 20, 2010\)](#)
- 4.2 [Form of Indenture and related exhibits. \(Incorporated by reference from the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on August 25, 2011\).](#)

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- 4.3 [Second Supplemental Indenture, dated as of December 14, 2015, between the Registrant and U.S. Bank National Association. \(Incorporated by reference from the Registrant's Registration Statement on Form N-2 filed on December 14, 2015\).](#)
  - 4.4 [Form of 6.75% Note due 2022 \(included as part of Exhibit 4.3\).](#)
  - 4.5 [Third Supplemental Indenture, dated as of October 5, 2018, between the Registrant and U.S. Bank National Association. \(Incorporated by reference from the Registrant's Registration Statement on Form N-2 filed on October 5, 2018\).](#)
  - 4.6 [Form of 6.125% Note due 2023 \(included as part of Exhibit 4.5\).](#)
  - 10.1 [Dividend Reinvestment Plan \(Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q, filed on August 9, 2010\)](#)
  - 10.2 [Investment Management Agreement \(Incorporated by reference from the Registrant's pre-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 20, 2010\)](#)
  - 10.3 [Custodian Agreement \(Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q, filed on August 9, 2010\)](#)
  - 10.4 [Administration Agreement \(Incorporated by reference from the Registrant's pre-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 20, 2010\)](#)
  - 10.5 [Sub-Administration Agreement \(Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q, filed on August 9, 2010\)](#)
  - 10.6 [License Agreement \(Incorporated by reference from the Registrant's pre-effective Amendment No. 4 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 20, 2010\)](#)
  - 10.7 [Amended and Restated Senior Secured Term Loan Credit Agreement dated as of August 19, 2015, by and among the Company as borrower, each of the subsidiary guarantors party thereto, the Lenders party thereto and ING Capital LLC, as Administrative Agent. \(Incorporated by reference from the Registrant's Current Report on Form 8-K filed on August 20, 2015\)](#)
  - 10.9 [Second Amended and Restated Senior Secured Revolving Credit Agreement dated as of December 15, 2017, by and among the Company as borrower, the Lenders party thereto and ING Capital LLC, as Administrative Agent, Arranger and Borrower. \(Incorporated by reference from the Registrant's Current Report on Form 8-K filed on December 19, 2017\)](#)
  - 10.10 [THL Credit Logan JV LLC Limited Liability Company Agreement dated December 3, 2014 between THL Credit, Inc. and Perspecta Trident LLC \(Incorporated by reference from the Registrant's Current Report on Form 8-K filed on December 3, 2014\)](#)
  - 21 Subsidiaries of the Registrant
    - THL Credit Holdings, Inc.—Delaware
    - THL Corporate Finance, Inc.—Delaware
    - THL Credit SBIC, L.P. —Delaware
    - THL Credit SBIC GP, LLC—Delaware
    - THL Credit YP Holdings, Inc.—Delaware
    - THL Credit OEMG Investor, Inc.—Delaware
  - 31.1 [Certification of Chief Executive Officer Pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934\\*](#)

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- 31.2 [Certification of Chief Financial Officer Pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934\\*](#)
  - 32.1 [Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)\\*](#)
  - 32.2 [Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)\\*](#)
  - 99.1 [Financial Statements of OEM Group, LLC as of and for the year ended December 31, 2018 \(audited\)\\*](#)
  - 99.2 [Financial Statements of OEM Group, LLC as of and for the year ended December 31, 2017 and 2016\\*](#)
  - 99.3 [Financial Statements of Copperweld Bimetallics LLC as of and for the year ended December 31, 2018 \(audited\)\\*](#)
  - 99.4 [Financial Statements of Cooperweld Bimetallics LLC as of and for the year ended December 31, 2017 and as of and for the period from March 15, 2016 through December 31, 2016\\*](#)
  - (\*) Filed herewith



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Christopher J. Flynn, certify that:

1. I have reviewed this Annual Report on Form 10-K/A for the year ended December 31, 2018, of THL Credit, Inc. (the “Registrant”);
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 24, 2019

By: /S/ CHRISTOPHER J. FLYNN  
Christopher J. Flynn  
Chief Executive Officer

I, Terrence W. Olson, certify that:

1. I have reviewed this Annual Report on Form 10-K/A for the year ended December 31, 2018 of THL Credit, Inc. (the "Registrant");
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 24, 2019

By: /S/ TERRENCE W. OLSON

Terrence W. Olson  
Chief Financial Officer

**Certification of CEO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K/A of THL Credit, Inc. (the "Registrant") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Flynn, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/S/ CHRISTOPHER J. FLYNN

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Name: Christopher J. Flynn  
Title: Chief Executive Officer  
Date: May 24, 2019

**Certification of CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K/A of THL Credit, Inc. (the "Registrant") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terrence W. Olson, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/S/ TERRENCE W. OLSON

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Name: Terrence W. Olson  
Title: Chief Financial Officer  
Date: May 24, 2019

**OEM Group, LLC and  
Subsidiaries**

Consolidated Financial Report  
December 31, 2018

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## Contents

Independent auditor's report	1
Financial statements	
Consolidated balance sheet	2
Consolidated statement of operations and comprehensive loss	3
Consolidated statement of members' deficit	4
Consolidated statement of cash flows	5-6
Notes to consolidated financial statements	7-16

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## Independent Auditor's Report

To the Board of Directors  
OEM Group, LLC and Subsidiaries

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of OEM Group, LLC and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2018, the related consolidated statements of operations and comprehensive loss, members' deficit and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OEM Group, LLC and Subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP  
Phoenix, Arizona  
May 3, 2019

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**OEM Group, LLC and Subsidiaries****Consolidated Balance Sheet  
December 31, 2018**

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**Assets**

## Current assets:

Cash	\$ 526,537
Accounts receivable, net	3,889,017
Inventories, net	7,729,974
Cost and estimated earnings in excess of billings on contracts in process	818,448
Prepaid expenses and other current assets	<u>2,723,477</u>
<b>Total current assets</b>	15,687,453
Property, plant and equipment, net	3,786,185
Intangible assets, net	7,301,594
Goodwill, net	9,247,580
Other noncurrent assets	<u>409,676</u>
	<u>\$ 36,432,488</u>

**Liabilities and Members' Deficit**

## Current liabilities:

Current portion of long-term debt	\$ 1,679,090
Accounts payable	6,063,334
Customer deposits	618,754
Billings in excess of costs and estimated earnings on contracts in process	338,197
Other current liabilities and accrued expenses	<u>2,048,270</u>
<b>Total current liabilities</b>	10,747,645
Long-term debt, less current portion	<u>35,920,187</u>
<b>Total liabilities</b>	46,667,832
Members' deficit	<u>(10,235,344)</u>
	<u>\$ 36,432,488</u>

See notes to consolidated financial statements.

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OEM Group, LLC and Subsidiaries

**Consolidated Statement of Operations and Comprehensive Loss**  
**Year Ended December 31, 2018**

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Revenues	\$ 36,573,086
Cost of revenues	<u>25,818,745</u>
<b>Gross profit</b>	<u>10,754,341</u>
Operating expenses:	
General and administrative	14,638,724
Amortization	<u>2,115,524</u>
	<u>16,754,248</u>
<b>Loss from operations</b>	<u>(5,999,907)</u>
Other (expense) income:	
Interest expense	(5,471,698)
Other, net	<u>168,237</u>
	<u>(5,303,461)</u>
<b>Loss before income tax expense</b>	<u>(11,303,368)</u>
Income tax expense	<u>159,209</u>
<b>Net loss</b>	<u>(11,462,577)</u>
Other comprehensive loss:	
Foreign currency translation adjustment	<u>(24,485)</u>
<b>Comprehensive loss</b>	<u><u>\$(11,487,062)</u></u>

See notes to consolidated financial statements.

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**OEM Group, LLC and Subsidiaries****Consolidated Statement of Members' Deficit  
Year Ended December 31, 2018**

	Membership Interests		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Members' Deficit
	Class A	Class B			
Balance, December 31, 2017	\$6,648,000	\$3,312,000	\$ (8,745,520)	\$ 61,884	\$ 1,276,364
Net loss	—	—	(11,462,577)	—	(11,462,577)
Distributions	—	—	(24,646)	—	(24,646)
Foreign currency translation adjustment	—	—	—	(24,485)	(24,485)
Balance, December 31, 2018	<u>\$6,648,000</u>	<u>\$3,312,000</u>	<u>\$(20,232,743)</u>	<u>\$ 37,399</u>	<u>\$(10,235,344)</u>

See notes to consolidated financial statements.

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**OEM Group, LLC and Subsidiaries****Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2018**

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Cash flows from operating activities:	
Net loss	\$(11,462,577)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	363,122
Amortization of intangibles and goodwill	2,115,524
Amortization of debt discount	1,098,976
Amortization of debt issuance cost	527,580
Payment-in-kind interest	704,018
Bad debt expense	(8,368)
Gain on nonmonetary exchange	(303,516)
Provision for inventory reserves	526,650
Decrease (increase) in assets:	
Accounts receivable	1,423,022
Inventories	(724,277)
Cost and estimated earnings in excess of billings on contracts in process	201,679
Prepaid expenses and other assets	(898,468)
(Decrease) increase in liabilities:	
Accounts payable and other current liabilities	(449,757)
Billings in excess of costs and estimated earnings on contracts in process	41,066
Customer deposits	62,457
<b>Net cash used in operating activities</b>	<u>(6,782,869)</u>
Cash flows from investing activities:	
Purchases of property and equipment	(476,791)
<b>Net cash used in investing activities</b>	<u>(476,791)</u>
Cash flows from financing activities:	
Payment of deferred financing costs	(345,695)
Borrowings on revolving credit notes payable	7,940,000
Payments on revolving credit notes payable	(750,000)
Payments on long-term debt	(151,175)
Distribution	(24,646)
<b>Net cash provided by financing activities</b>	<u>6,668,484</u>
Effect of exchange rates on cash	(59,876)
<b>Net decrease in cash</b>	<u>(651,052)</u>
Cash:	
Beginning of year	1,177,589
End of year	<u>\$ 526,537</u>

(Continued)

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**OEM Group, LLC and Subsidiaries**

**Consolidated Statement of Cash Flows (Continued)**  
**Year Ended December 31, 2018**

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Supplemental disclosures of cash flow information:

Cash paid for interest	<u>\$2,885,000</u>
Cash paid for income taxes	<u>\$ 164,000</u>
Supplemental schedule of noncash investing and financing activities:	
Commitment and consent fees incurred pursuant to increase in revolving credit note	<u>\$3,043,750</u>
Equipment purchase financed through note payable	<u>\$ 54,277</u>
Nonmonetary exchange of inventories for equipment	<u>\$ 881,500</u>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Operations and Significant Accounting Policies**

**Nature of operations:** OEM Group, LLC (OEMG) and Subsidiaries (collectively, the Company) are suppliers of semiconductor capital equipment solutions to the global market of manufacturers of computer chips, and adjacent markets such as LED lighting and sensors. The Company designs, manufactures, sells, installs and services its products worldwide. In addition to supplying the capital equipment, the Company also supplies spare parts, field service, upgrades and software to support the equipment in its customers' global manufacturing sites.

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of OEMG and its wholly owned subsidiaries, OEM Group Japan, G.K. (OEMJ), OEM Technologies, LLC (OEMT), OEM-TEG, LLC (OEM-TEG), OEM Spares, LLC (OEMS), OEM Group, Inc. Taiwan Branch (OET), OEM Group East, LLC (OEE), OEM Group Austria GmbH (OEA), OEM Group Singapore Pte. Limited (OES) and OEM Group IC-DISC, Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Foreign operations:** Assets located outside of the United States approximated \$4,427,000 at December 31, 2018 (of which approximately \$295,000 were deposited in bank accounts outside of the United States). Revenues earned outside of the United States approximated \$7,984,000 for year ended December 31, 2018.

**Foreign currency translation:** The functional currency of OEMT, OEM-TEG, OEMS, OET, OEE, OEA and OES is the U.S. dollar. Accordingly, the financial statements of such foreign subsidiaries are remeasured from the applicable foreign currency to the U.S. dollar for balance sheet accounts using current exchange rates in effect at the balance sheet date with the exception of nonmonetary assets and liabilities, which are remeasured at historical rates, and using an appropriate average exchange rate during each year for revenue and expenses. The resulting remeasurement adjustments are recorded as a component of net loss. The functional currency of OEMJ is the Japanese yen. Assets and liabilities measured in Japanese yen have been translated into U.S. dollars using exchange rates in effect at balance sheet dates. Revenues and expenses measured in Japanese yen have been translated using average exchange rates prevailing during the year ended December 31, 2018. Capital accounts have been translated using exchange rates in effect when the capital was originally contributed. Translation adjustments have been accounted for as other comprehensive (loss) income in the consolidated statements of members' deficit.

Transactions in foreign currencies are translated at the current exchange rates as of the date on which they are recognized. During 2018, the Company recorded a loss of approximately \$125,000, which amount is included within operating expenses in the accompanying consolidated statement of operations and comprehensive loss.

**Accumulated other comprehensive loss and comprehensive loss:** The Company's accumulated other comprehensive loss is comprised of foreign currency translation adjustments.

**Cash:** The Company maintains its U.S. cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company does not believe it is exposed to a significant credit risk.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

**Accounts receivable:** Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company generally does not charge interest on past-due balances, and the Company does not require collateral for accounts receivable. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts approximated \$28,000 at December 31, 2018.

**Inventories:** Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out basis. Provisions are made to reduce excess and obsolete inventories to their estimated net realizable value. The process for evaluating the value of excess and obsolete inventories requires the Company to make judgments and estimates concerning product changes, future demand and market conditions.

**Property, plant and equipment:** Property, plant and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs are charged to operations as incurred. Expenditures that significantly extend the useful lives of assets are capitalized.

Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives are as follows:

Computer and office equipment	3-7 years
Machinery equipment	7 years
Building	39 years
Leasehold improvements	Lesser of life of asset or lease

**Debt issuance costs:** Debt issuance costs are carried at cost less accumulated amortization as a direct deduction from the carrying amount of the related debt. The costs are amortized over the terms of the related loans using the effective interest method. Amortization expense is classified as interest expense in the accompanying consolidated statements of operations and comprehensive loss.

**Discount on notes payable:** Debt discounts are reflected as a reduction of debt and are amortized into interest expense over the terms of the related loans using the effective interest method.

**Impairment of long-lived assets:** The Company evaluates impairment of long-lived assets in accordance with U.S. GAAP. The Company assesses the impairment of long-lived assets, including property and equipment, and purchased intangibles subject to amortization, when events or changes in circumstances indicate that the carrying amount of an asset held may not be recoverable. In such instances, the Company assesses long-lived assets for impairment by determining their estimated fair value based on the forecasted, undiscounted cash flows that the assets are expected to generate, plus the net proceeds expected to be realized from the sale of the assets. An impairment loss is recognized when the estimated fair value of an asset is less than its net book value. The amount of loss, in such instances, is equal to the difference between the asset's net book value and its estimated fair value.

Forecasts of future cash flows are judgments based on the Company's experience and knowledge of its business and the industries in which it operates. These forecasts could be significantly affected by future changes in market conditions, the economic environment and capital spending decisions of the Company's customers, and inflation. The Company believes that the future cash flows to be received from its long-lived assets exceed the carrying value of the assets and, accordingly, the Company did not recognize an impairment loss during the year ended December 31, 2018.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

**Intangible assets:** Intangible assets with finite lives are amortized on a straight-line basis over the estimated lives, as follows:

Trade names/trademarks	15 years
Proprietary technology	9-11 years

**Goodwill:** Goodwill originated from a March 16, 2016, change of control and represents the excess of the fair value of debt exchanged plus the fair value of the noncontrolling interest over the fair value of the identifiable net assets at such date. The Company evaluates goodwill and other identifiable intangible assets for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, Goodwill and Other Intangible Assets. In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, which allows private companies an accounting alternative for the subsequent measurement of goodwill. The pronouncement permits a private company to elect to amortize goodwill on a straight-line basis over a period of 10 years, or less than 10 years if the Company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill.

Under the aforementioned accounting alternative, goodwill is tested for impairment when a triggering event occurs indicating that the fair value of a company (or a reporting unit) may be below its carrying amount. The amount of goodwill impairment, if any, is equal to the excess of the company’s carrying amount over its fair value. The Company elected to adopt this guidance and to test goodwill for impairment at the entity level. Management determined that there was no impairment charge required during 2018. As a result of the Company’s adoption of the accounting alternative, the Company recognized amortization expense of approximately \$1,283,000 for the year ended December 31, 2018. Management anticipates that the Company will recognize future amortization expense, resulting from this election, of approximately \$1,283,000, during each year through March 2026.

**Customer deposits:** Customer deposits represent payments received in advance from customers on sales contracts.

**Revenue and cost recognition—systems:** The Company recognizes revenue from sales of systems on either the percentage-of-completion method or the completed-contract method. Each contract is evaluated on an individual basis to determine which method is appropriate.

**Percentage-of-completion method:** The percentage-of-completion method recognizes income as work on a contract progresses. Progress is measured by the percentage of total costs incurred to date to management’s estimated total costs to be incurred for each contract. This method is used because management considers expended costs to be the best available measure of progress on the contracts. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the estimates used will change within the near term.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

The asset “costs and estimated earnings in excess of billings on contracts in process” represents revenues recognized in excess of amounts billed. The liability “billings in excess of costs and estimated earnings on contracts in process” represents billings in excess of revenues recognized.

**Completed-contract method:** Under the completed-contract method, income is recognized only when a contract is completed or substantially completed. Accordingly, during the period of performance, billings and costs are accumulated as work-in-process inventory on the consolidated balance sheets, but no profit or income is recorded before completion or substantial completion of the work. Circumstances considered in determining substantial completion primarily include customer acceptance and compliance with performance specifications.

**Revenue and cost recognition—services, parts and upgrades:** Service revenues are recognized when the services are performed. Parts and upgrades revenues are recognized upon shipment and when title and risk of loss have passed to the customer.

**Shipping and handling costs:** Direct costs associated with the shipment of products are included as a component of cost of sales.

**Warranties:** The Company accounts for warranties based on estimates of future costs associated with fulfilling its warranty obligation. The estimates are derived from historical cost experience. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term. The consolidated financial statements include a product warranty reserve, which is included as a component of other current liabilities and accrued expenses. As of December 31, 2018, the accrued warranties are as follows:

Accrued warranties, beginning of year	\$ 501,145
Claims paid	(198,506)
Change in liability for warranties issued during the year and adjustments to pre-existing warranties	<u>139,538</u>
Accrued warranties, end of year	<u>\$ 442,177</u>

**Income taxes:** The Company and its U.S. subsidiaries are organized as limited liability companies and are treated as pass-through entities for income tax purposes. Each member is allocated and is responsible for their proportionate share of the Company’s taxable income or loss. Accordingly, no provision for U.S. federal income taxes has been recorded in the accompanying consolidated financial statements.

The Company reflects foreign income taxes relating to foreign income earned. Foreign subsidiaries are taxed as corporations in their respective jurisdictions. When applicable, deferred income taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

The authoritative guidance relating to the accounting for uncertainty in income taxes requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. In addition, guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition is also provided. There are no tax positions that the Company’s management has determined to be uncertain.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, which requires companies to recognize the amount of revenue that it expects to be entitled to for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is not permitted. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Company on January 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated statements of cash flows.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through May 3, 2019, the date the consolidated financial statements were available to be issued.

**Note 2. Inventories**

Inventories consisted of the following at December 31, 2018:

Raw materials and spare parts	\$ 9,174,027
Work in process	<u>1,272,493</u>
Total inventories	10,446,520
Less allowance for obsolete and slow-moving items	<u>(2,716,546)</u>
Total inventories, net	<u>\$ 7,729,974</u>

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 3. Contracts in Process**

Contracts in process consisted of the following at December 31, 2018:

Costs incurred on contracts in process	\$ 3,243,742
Estimated earnings	4,904,947
Total costs and estimated earnings	8,148,689
Less billings to date	(7,668,438)
Net amount	<u>\$ 480,251</u>

Such amounts are included in the accompanying consolidated balance sheets at December 31, 2018, under the following captions:

Cost and estimated earnings in excess of billings on contracts in process	\$ 818,448
Billings in excess of costs and estimated earnings on contracts in process	(338,197)
	<u>\$ 480,251</u>

**Note 4. Property, Plant and Equipment**

Property, plant and equipment at December 31, 2018, consisted of the following:

Land and building	\$2,024,352
Machinery and equipment	1,796,766
Leasehold improvements	123,991
Computer and office equipment	539,786
	4,484,895
Less accumulated depreciation	(698,710)
Property, plant and equipment, net	<u>\$3,786,185</u>

Depreciation expense approximated \$363,000 for the year ended December 31, 2018.

**Note 5. Intangible Assets**

Intangible assets as of December 31, 2018, consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Proprietary technology	\$ 7,615,000	\$(1,950,137)	\$ 5,664,863
Trade names/trademarks	2,011,000	(374,269)	1,636,731
Total intangible assets	9,626,000	(2,324,406)	7,301,594
Goodwill	12,829,012	(3,581,432)	9,247,580
Total intangible assets and goodwill	<u>\$22,455,012</u>	<u>\$(5,905,838)</u>	<u>\$16,549,174</u>

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 5. Intangible Assets (Continued)**

Future amortization expense related to these intangible assets is expected to be as follows:

Years ending December 31:	
2019	\$ 2,115,524
2020	2,115,524
2021	2,115,524
2022	2,115,524
2023	2,115,524
Thereafter	5,971,554
	<u>\$16,549,174</u>

**Note 6. Debt**

As of December 31, 2018, debt consisted of the following:

Amended and restated notes payable to senior lender/member:	
Term note payable (bearing interest, payable monthly at LIBOR plus 9.50% (11.84% at December 31, 2018), principal due on June 30, 2022)	\$20,000,000
Revolving credit note payable (see below)	15,953,866
Commitment and consent fees (see below)	3,043,750
Bridge note payable (due in monthly principal installments of \$45,694; noninterest-bearing; repaid on April 30, 2018)	—
Promissory note payable, related party (secured by certain real estate; bearing interest, payable monthly at 9.50%; see below)	1,450,000
Other	317,709
	<u>40,765,325</u>
Less current portion	(1,679,090)
Less discount on notes payable	(159,390)
Less debt issuance costs	(3,006,658)
Total long-term debt, less current portion	<u>\$35,920,187</u>

The aforementioned term, bridge and revolving credit notes payable were made pursuant to a Second Amended and Restated Senior Secured Note Purchase Agreement (the Agreement), which was executed on March 16, 2016 (and most recently amended on March 25, 2019). The Agreement provides for a security interest in substantially all of the Company's assets and contains certain restrictive covenants, and a financial covenant. At December 31, 2018, the Company was in violation of a nonfinancial covenant, for which a waiver was obtained.

The revolving credit note payable, as amended, provides for maximum available borrowings of \$17,750,000 as of December 31, 2018, with a maturity date of June 30, 2022, bearing interest, payable monthly at LIBOR plus 9.50 percent (11.84 percent at December 31, 2018). The agreement also provides for a portion of the LIBOR rate margin representing interest accruing at a rate per annum equal to 4.00 percent to be paid by capitalizing such interest and adding such capitalized interest to the then-outstanding principal amount as payment-in-kind interest.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 6. Debt (Continued)**

In connection with incremental borrowings under an amendment executed on June 26, 2018, the Company incurred commitment fees in the total amount of \$3,000,000 as a result of drawing amounts that exceeded predetermined Tier Amounts as specified in the amendment. Under the same amendment, the Company also incurred a consent fee in the amount of \$43,750 in connection with the closing of the amendment. The commitment and consent fees are due upon the earlier of the maturity date or a change in control, a debt refinancing or any insolvency proceeding. Such fees are recorded as obligations payable under the credit facility with a corresponding amount recorded as debt issuance costs, which are being amortized into interest expense over the term of the Agreement.

An additional amendment to the Agreement was executed on March 25, 2019, which increased the maximum available borrowings to \$23,250,000. In connection with such amendment, the Company incurred an additional \$10,000,000 in commitment fees payable to the lender.

Effective January 1, 2019, the Company entered into a sales-leaseback transaction with the holder of the related-party promissory note payable above, whereby the Company sold and leased back real property in Coopersburg, Pennsylvania, to the related party in full satisfaction of the outstanding principal balance of \$1,450,000. The initial lease term extends through December 2028 and requires minimum annual base rent payments in the first year of approximately \$138,000, escalating annually over the life of the lease.

In connection with the adoption of ASC 805, effective March 16, 2016, the notes payable made pursuant to the Agreement were recorded at fair value, which provided for a debt discount of approximately \$3,955,000. Such fair value was determined using an option pricing model with the following assumptions: expected life of two years, volatility of 60.2 percent and a risk-free interest rate of 0.9 percent. During the year ended December 31, 2018, the Company recorded approximately \$1,627,000 in debt discount and debt issuance costs amortization, which was recorded using the effective interest method.

Related-party interest expense approximated \$5,453,000 for the year ended December 31, 2018. Related-party accrued interest payable approximated \$234,000 at December 31, 2018, and is included on the accompanying consolidated balance sheet in other current liabilities and accrued expenses.

Aggregate maturities of long-term debt as of December 31, 2018, are as follows:

Years ending December 31:	
2019	\$ 1,679,090
2020	64,670
2021	23,949
2022	<u>38,997,616</u>
	<u>\$40,765,325</u>

**Note 7. Employee Benefit Plan**

The Company maintains a 401(k) plan covering substantially all employees. The plan provides for employer safe harbor, matching and profit sharing contributions based primarily on employee participation. Employer contributions approximated \$233,000 for the year ended December 31, 2018.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 8. Members' Equity**

As provided in the Limited Liability Company Agreement, the Class A Membership Interests are owned by an entity affiliated with the lender and the Class B Membership Interests are owned by an entity controlled by the former owners of OEMG. On any action required or permitted to be voted on by the Members, the Class A Members and Class B Members shall vote as a single class, with the Class A Members collectively entitled to 75 percent of the aggregate vote and the Class B Members collectively entitled to 25 percent of the aggregate vote. Profits and losses of the Company are allocated to members' capital accounts in the amount that would be distributed pursuant to a hypothetical distribution for book value (as defined), adjusted for applicable provisions of the Internal Revenue Code (75 percent to Class A and 25 percent to Class B, adjusted for a Qualifying Sale (as defined) that provides for Class B Members to receive a proportionately larger distribution upon a sale of the Company at a specified amount).

The Company may make distributions to unit holders as determined by its Manager for payment of federal and state income taxes.

**Note 9. Taxes**

For the year ended December 31, 2018, income (loss) before income taxes attributable to domestic and foreign sources approximated the following:

U.S. source loss	\$ (11,545,000)
Foreign source income	242,000

The provision for income taxes that relate to foreign source income and U.S. state income taxes consists of the following for the year ended December 31, 2018:

U.S.	\$ 12,726
Foreign	146,483
	<u>\$159,209</u>

The differences between statutory and effective tax rates relate primarily to the U.S. limited liability company not being subject to federal income taxes.

**Note 10. Operating Leases**

The Company leases space for its corporate headquarters, clean-room and warehouse facilities in Gilbert, Arizona as well as limited warehouse and office space in Arizona, Pennsylvania, Japan, Taiwan and Singapore under operating lease agreements, which expire through December 2028.

Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Years ending December 31:	
2019	\$ 559,000
2020	512,000
2021	143,000
2022	146,000
2023	149,000
Thereafter	804,000
	<u>\$2,313,000</u>

**Note 10. Operating Leases (Continued)**

Rent expense (including common area maintenance and rental taxes) under the leases described above totaled approximately \$879,000 for the year ended December 31, 2018.

**Note 11. Litigation**

In the ordinary course of conducting business, the Company becomes involved in various lawsuits and administrative proceedings. Some of these proceedings may result in fines, penalties or judgments being assessed against the Company which, from time to time, may have an impact on earnings. Management does not currently believe that any potential liability in excess of amounts accrued, individually or in the aggregate, would have a material adverse effect on its consolidated financial position or results of operations.

**OEM Group, LLC and  
Subsidiaries**

Consolidated Financial Report (Unaudited)  
December 31, 2017

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## Contents

Financial statements	
Consolidated balance sheets	1
Consolidated statements of operations and comprehensive loss	2
Consolidated statements of members' equity	3
Consolidated statements of cash flows	4
Notes to consolidated financial statements	5-16

**OEM Group, LLC and Subsidiaries****Consolidated Balance Sheets  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 1,177,589	\$ 2,043,415
Accounts receivable, net	5,268,280	5,556,792
Inventories, net	8,110,331	8,778,522
Cost and estimated earnings in excess of billings on contracts in process	1,020,127	1,589,206
Prepaid expenses and other current assets	1,873,256	1,851,161
<b>Total current assets</b>	<b>17,449,583</b>	<b>19,819,096</b>
Property, plant and equipment, net	2,736,739	2,767,044
Intangible assets, net	8,134,217	8,966,840
Goodwill, net	10,530,481	11,813,382
Other noncurrent assets	361,429	172,766
	<u><b>\$39,212,449</b></u>	<u><b>\$43,539,128</b></u>
<b>Liabilities and Members' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 300,070	\$ 1,321,378
Accounts payable	6,317,706	5,617,515
Customer deposits	556,297	2,240,849
Billings in excess of costs and estimated earnings on contracts in process	297,131	2,277,303
Other current liabilities and accrued expenses	2,243,655	1,307,119
<b>Total current liabilities</b>	<b>9,714,859</b>	<b>12,764,164</b>
Long-term debt, less current portion	28,221,226	24,718,367
<b>Total liabilities</b>	<b>37,936,085</b>	<b>37,482,531</b>
Members' equity	1,276,364	6,056,597
	<u><b>\$39,212,449</b></u>	<u><b>\$43,539,128</b></u>

See notes to consolidated financial statements.

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**OEM Group, LLC and Subsidiaries****Consolidated Statements of Operations and Comprehensive Loss  
Year Ended December 31, 2017, and Period From March 16, 2016,  
Through December 31, 2016**

	2017	2016
Revenues	<u>\$41,849,483</u>	\$36,462,822
Cost of revenues	<u>28,373,503</u>	24,546,110
<b>Gross profit</b>	<u><b>13,475,980</b></u>	<u>11,916,712</u>
Operating expenses:		
General and administrative	11,494,883	9,709,825
Amortization	<u>2,115,524</u>	1,674,790
	<u><b>13,610,407</b></u>	<u>11,384,615</u>
<b>(Loss) income from operations</b>	<u><b>(134,427)</b></u>	<u>532,097</u>
Other (expense) income:		
Interest expense	<u>(4,552,407)</u>	(3,671,606)
Other, net	<u>16,539</u>	(154,790)
	<u><b>(4,535,868)</b></u>	<u>(3,826,396)</u>
<b>Loss before income tax expense</b>	<u><b>(4,670,295)</b></u>	<u>(3,294,299)</u>
Income tax expense	<u>226,107</u>	263,817
<b>Net loss</b>	<u><b>(4,896,402)</b></u>	<u>(3,558,116)</u>
Other comprehensive income (loss):		
Foreign currency translation adjustment	<u>116,169</u>	(54,285)
<b>Comprehensive loss</b>	<u><b>\$ (4,780,233)</b></u>	<u>\$ (3,612,401)</u>

See notes to consolidated financial statements.

OEM Group, LLC and Subsidiaries

Consolidated Statements of Members' Equity  
Year Ended December 31, 2017, and Period From March 16, 2016,  
Through December 31, 2016

	Membership Interests		Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
	Class A	Class B			
Balance, March 16, 2016	\$6,648,000	\$3,312,000	\$ —	\$ —	\$ 9,960,000
Distribution—transaction costs	—	—	(291,002)	—	(291,002)
Net loss	—	—	(3,558,116)	—	(3,558,116)
Foreign currency translation adjustment	—	—	—	(54,285)	(54,285)
Balance, December 31, 2016	6,648,000	3,312,000	(3,849,118)	(54,285)	6,056,597
Net loss	—	—	(4,896,402)	—	(4,896,402)
Foreign currency translation adjustment	—	—	—	116,169	116,169
<b>Balance, December 31, 2017</b>	<b><u>\$6,648,000</u></b>	<b><u>\$3,312,000</u></b>	<b><u>\$(8,745,520)</u></b>	<b><u>\$ 61,884</u></b>	<b><u>\$ 1,276,364</u></b>

See notes to consolidated financial statements.

**OEM Group, LLC and Subsidiaries**

**Consolidated Statements of Cash Flows**

**Year Ended December 31, 2017, and Period From March 16, 2016,  
Through December 31, 2016**

	2017	2016
Cash flows from operating activities:		
Net loss	\$(4,896,402)	\$(3,558,116)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	106,980	235,358
Amortization of intangibles and goodwill	2,115,524	1,674,790
Amortization of debt discount	1,340,043	1,379,137
Amortization of debt issuance cost	131,388	89,609
Elimination of note payable pursuant to summary judgment ruling	(467,000)	—
Bad debt expense	8,878	56,833
Provision for inventory reserves	197,448	435,898
Decrease (increase) in assets:		
Accounts receivable	342,610	(2,381,841)
Inventories	470,743	(204,703)
Cost and estimated earnings in excess of billings on contracts in process	569,079	593,880
Prepaid expenses and other assets	(210,758)	(808,831)
Increase (decrease) in liabilities:		
Accounts payable and other current liabilities	1,636,727	(2,961,088)
Billings in excess of costs and estimated earnings on contracts in process	(1,980,172)	1,805,683
Customer deposits	(1,684,552)	(1,981,332)
<b>Net cash used in operating activities</b>	<b>(2,319,464)</b>	<b>(5,624,723)</b>
Cash flows from investing activities:		
Purchases of property and equipment	(76,675)	(356,979)
<b>Net cash used in investing activities</b>	<b>(76,675)</b>	<b>(356,979)</b>
Cash flows from financing activities:		
Borrowings on revolving credit note payable	2,900,000	6,509,848
Payments on revolving credit note payable	(850,000)	(500,000)
Borrowings on long-term debt	48,730	1,613,605
Payments on long-term debt	(621,610)	(1,141,317)
Distribution	—	(291,002)
<b>Net cash provided by financing activities</b>	<b>1,477,120</b>	<b>6,191,134</b>
Effect of exchange rates on cash	53,193	36,120
<b>Net (decrease) increase in cash</b>	<b>(865,826)</b>	<b>245,552</b>
Cash:		
Beginning of period	2,043,415	1,797,863
End of period	<u>\$ 1,177,589</u>	<u>\$ 2,043,415</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 2,844,000</u>	<u>\$ 2,143,000</u>
Cash paid for income taxes	<u>\$ 213,000</u>	<u>\$ 227,000</u>

See notes to consolidated financial statements.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Significant Accounting Policies**

**Nature of operations:** OEM Group, LLC (OEMG) and Subsidiaries (collectively, the Company) are suppliers of semiconductor capital equipment solutions to the global market of manufacturers of computer chips, and adjacent markets such as LED lighting and sensors. The Company designs, manufactures, sells, installs and services its products worldwide. In addition to supplying the capital equipment, the Company also supplies spare parts, field service, upgrades and software to support the equipment in its customers' global manufacturing sites.

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of OEMG and its wholly owned subsidiaries, OEM Group Japan, G.K. (OEMJ), OEM Technologies, LLC (OEMT), OEM-TEG, LLC (OEM-TEG), OEM Spares, LLC (OEMS), OEM Group, Inc. Taiwan Branch (OET), OEM Group East, LLC (OEE), OEM Group Austria GmbH (OEA), OEM Group Singapore Pte. Limited (OES) and OEM Group IC-DISC, Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Foreign operations:** Assets located outside of the United States approximated \$4,141,000 and \$5,588,000 at December 31, 2017 and 2016, respectively (of which approximately \$611,000 and \$489,000 were deposited in bank accounts outside of the United States). Revenues earned outside of the United States approximated \$12,088,000 and \$10,052,000, respectively, for year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016.

**Foreign currency translation:** The functional currency of OEMT, OEM-TEG, OEMS, OET, OEE, OEA and OES is the United States dollar. The functional currency of OEMJ is the Japanese yen. Assets and liabilities measured in Japanese yen have been translated into U.S. dollars using exchange rates in effect at balance sheet dates. Revenues and expenses measured in Japanese yen have been translated using average exchange rates prevailing during the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016. Capital accounts have been translated using exchange rates in effect when the capital was originally contributed. Translation adjustments have been accounted for as other comprehensive income (loss) in the consolidated statements of members' equity.

Transactions in foreign currencies are translated at the current exchange rates as of the date on which they are recognized. Such losses, net of any gains, of approximately \$176,000 and \$38,000, respectively, during 2017 and 2016, are included within operating expenses in the accompanying consolidated statements of operations and comprehensive loss.

**Accumulated other comprehensive loss and comprehensive loss:** The Company's accumulated other comprehensive loss is comprised of foreign currency translation adjustments.

**Cash:** The Company maintains its U.S. cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company does not believe it is exposed to a significant credit risk.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

**Accounts receivable:** Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company generally does not charge interest on past-due balances, and the Company does not require collateral for accounts receivable. Management provides for probable uncollectable amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts approximated \$34,000 and \$42,000, respectively, at December 31, 2017 and 2016.

**Inventories:** Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out basis. Provisions are made to reduce excess and obsolete inventories to their estimated net realizable value. The process for evaluating the value of excess and obsolete inventories requires the Company to make judgments and estimates concerning product changes, future demand and market conditions.

**Property, plant and equipment:** Property, plant and equipment in service as of the date of the Restructuring Agreement (see Note 2) are stated at their estimated fair values. Purchases of property and equipment subsequent to such date are stated at cost. Maintenance and repairs are charged to operations as incurred. Expenditures that significantly extend the useful lives of assets are capitalized.

Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives are as follows:

Computer and office equipment	3-7 years
Machinery equipment	7 years
Building	39 years
Leasehold improvements	Lesser of life of asset or lease

**Debt issuance costs:** Debt issuance costs are carried at cost less accumulated amortization as a direct deduction from the carrying amount of the related debt. The costs are amortized over the terms of the related loans using the effective interest method. Amortization expense is classified as interest expense in the accompanying consolidated statements of operations and comprehensive loss.

**Discount on notes payable:** Debt discounts are reflected as a reduction of debt and are amortized into interest expense over the terms of the related loans using the effective interest method.

**Impairment of long-lived assets:** The Company evaluates impairment of long-lived assets in accordance with U.S. GAAP. The Company assesses the impairment of long-lived assets, including property and equipment, and purchased intangibles subject to amortization, when events or changes in circumstances indicate that the carrying amount of an asset held may not be recoverable. In such instances, the Company assesses long-lived assets for impairment by determining their estimated fair value based on the forecasted, undiscounted cash flows that the assets are expected to generate, plus the net proceeds expected to be realized from the sale of the assets. An impairment loss is recognized when the estimated fair value of an asset is less than its net book value. The amount of loss, in such instances, is equal to the difference between the asset's net book value and its estimated fair value.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

Forecasts of future cash flows are judgments based on the Company's experience and knowledge of its business and the industries in which it operates. These forecasts could be significantly affected by future changes in market conditions, the economic environment and capital spending decisions of the Company's customers, and inflation. The Company believes that the future cash flows to be received from its long-lived assets exceed the carrying value of the assets and, accordingly, the Company did not recognize an impairment loss during the year ended December 31, 2017, or the period from March 16, 2016, through December 31, 2016.

**Intangible assets:** Intangible assets with finite lives are amortized on a straight-line basis over the estimated lives, as follows:

Trade names/trademarks	15 years
Proprietary technology	9-11 years

**Goodwill:** Goodwill originated from the March 16, 2016, change of control and represents the excess of the fair value of debt exchanged plus the fair value of the noncontrolling interest over the fair value of the identifiable net assets at such date (see Note 2). The Company evaluates goodwill and other identifiable intangible assets for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, Goodwill and Other Intangible Assets. In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, which allows private companies an accounting alternative for the subsequent measurement of goodwill. The pronouncement permits a private company to elect to amortize goodwill on a straight-line basis over a period of 10 years, or less than 10 years if the Company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill.

Under the aforementioned accounting alternative, goodwill is tested for impairment when a triggering event occurs indicating that the fair value of a company (or a reporting unit) may be below its carrying amount. The amount of goodwill impairment, if any, is equal to the excess of the company's carrying amount over its fair value. The Company elected to adopt this guidance and to test goodwill for impairment at the entity level. Management determined that there was no impairment charge required during 2017. As a result of the Company's adoption of the accounting alternative, the Company recognized amortization expense of approximately \$1,283,000 and \$1,016,000, respectively, for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016. Management anticipates that the Company will recognize future amortization expense, resulting from this election, of approximately \$1,283,000 during each year through March 2026.

**Customer deposits:** Customer deposits represent payments received in advance from customers on sales contracts.

**Revenue and cost recognition—systems:** The Company recognizes revenue from sales of systems on either the percentage-of-completion method or the completed-contract method. Each contract is evaluated on an individual basis to determine which method is appropriate.

**Percentage-of-completion method:** The percentage-of-completion method recognizes income as work on a contract progresses. Progress is measured by the percentage of total costs incurred to date to management's estimated total costs to be incurred for each contract. This method is used because management considers expended costs to be the best available measure of progress on the contracts. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the estimates used will change within the near term.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined.

The asset “costs and estimated earnings in excess of billings on contracts in process” represents revenues recognized in excess of amounts billed. The liability “billings in excess of costs and estimated earnings on contracts in process” represents billings in excess of revenues recognized.

**Completed-contract method:** Under the completed-contract method, income is recognized only when a contract is completed or substantially completed. Accordingly, during the period of performance, billings and costs are accumulated as work-in-process inventory on the consolidated balance sheets, but no profit or income is recorded before completion or substantial completion of the work. Circumstances considered in determining substantial completion primarily include customer acceptance and compliance with performance specifications.

**Revenue and cost recognition—services, parts and upgrades:** Service revenues are recognized when the services are performed. Parts and upgrades revenues are recognized upon shipment and when title and risk of loss have passed to the customer.

**Shipping and handling costs:** Direct costs associated with the shipment of products are included as a component of cost of sales.

**Warranties:** The Company accounts for warranties based on estimates of future costs associated with fulfilling its warranty obligation. The estimates are derived from historical cost experience. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term. The consolidated financial statements include a product warranty reserve, which is included as a component of other current liabilities and accrued expenses. As of December 31, 2017 and 2016, and for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, the warranties are as follows:

	2017	2016
Accrued warranties, beginning of period	\$ 599,306	\$ 747,147
Claims paid	(131,267)	(149,486)
Change in liability for warranties issued during the year and adjustments to pre-existing warranties	33,106	1,645
Accrued warranties, end of period	<u>\$ 501,145</u>	<u>\$ 599,306</u>

**Income taxes:** The Company and its U.S. subsidiaries are organized as limited liability companies and are treated as pass-through entities for income tax purposes. Each member is allocated and is responsible for their proportionate share of the Company’s taxable income or loss. Accordingly, no provision for U.S. federal income taxes has been recorded in the accompanying consolidated financial statements.

**Note 1. Nature of Operations and Significant Accounting Policies (Continued)**

The Company reflects foreign income taxes relating to foreign income earned. Foreign subsidiaries are taxed as corporations in their respective jurisdictions. When applicable, deferred income taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

The authoritative guidance relating to the accounting for uncertainty in income taxes requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. In addition, guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition is also provided. There are no tax positions that the Company's management has determined to be uncertain.

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, which requires companies to recognize the amount of revenue that it expects to be entitled to for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is not permitted. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Company on January 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated statements of cash flows.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through June 8, 2018, the date the consolidated financial statements were available to be issued.

**Note 2. Restructuring Transaction**

On March 16, 2016, OEMG, its owners and THL (note holder) executed a Restructuring Agreement pursuant to which the note holders contributed warrants (deemed to have no value) and outstanding notes, including accrued interest, in the amount of approximately \$15,549,000, in exchange for 10,000 Class A Membership Interests of OEMG with a fair value of \$6,648,000, which effectuated a change in control. Concurrent with such transaction, the parties executed a Second Amended and Restated Note Purchase Agreement (Agreement) that provided for various borrowing facilities (see Note 7). In addition, the former owners of OEMG converted their equity interests into 10,000 new Class B membership interests in OEMG with a fair value of \$3,312,000. Such fair value was based on fair value of the Class A Membership Interests, without applying a minority discount, due to preferential Class B member liquidation rights and management’s considerations regarding control and marketability among the classes of interests.

Due to the note holder’s election to apply push-down accounting, the transaction was accounted for in accordance with FASB ASC 805, Business Combinations. In connection with the transaction, the Company paid \$291,000 of transaction costs on behalf of the members, which were recorded as distributions during the period from March 16, 2016, through December 31, 2016. In addition, the Company incurred approximately \$330,000 in debt issuance costs, which have been reflected as a debt discount.

The estimated fair values of the assets and liabilities as of the date of the Restructuring Transaction are as follows:

Cash	\$ 1,797,000
Accounts receivable	3,230,000
Inventories	9,009,000
Costs and estimated earnings in excess of billing on contracts in process	2,183,000
Prepaid expenses and other current assets	1,219,000
Property, plant and equipment	2,656,000
Intangible assets	9,626,000
Goodwill	12,829,000
Accounts payable	(8,214,000)
Customer deposits	(4,218,000)
Billings in excess of costs and estimated earnings on contracts in process	(472,000)
Other current liabilities and accrued expenses	(1,596,000)
Related-party notes payable	(17,430,000)
Notes payable	(659,000)
<b>Total consideration</b>	<b><u>\$ 9,960,000</u></b>

The consolidated statement of operations and comprehensive loss for the period from March 16, 2016, through December 31, 2016, includes the results of operations of the business since the date of the Restructuring Transaction. The assets and liabilities at such date were recorded at their estimated fair values, as determined by the Company’s management with the assistance of external valuation experts, based on information currently available and on current assumptions as to future operations. The excess of the fair value of the debt exchanged for Class A Membership Interests plus the fair value of the noncontrolling interest over the fair value of the net assets at such date have been recognized as goodwill. Management believes that goodwill relates primarily to the value of customer-related intangibles and an assembled workforce, which were subsumed into goodwill in accordance with ASU 2014-18. Goodwill is not expected to be deductible for income tax purposes.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 2. Restructuring Transaction (Continued)**

The weighted-average amortization period for intangible assets acquired in the above acquisition are as follows:

	Amounts Allocated	Weighted- Average Amortization Period (Years)
Proprietary technology	\$7,615,000	10.9
Trade names/trademarks	2,011,000	15.0
	<u>\$9,626,000</u>	

The fair values of proprietary technology and trade names/trademarks were based on a discounted cash flow model using the relief-from-royalty method.

**Note 3. Inventories**

Inventories consisted of the following at December 31:

	2017	2016
Raw materials and spare parts	\$7,191,307	6,111,680
Work in process	<u>1,552,370</u>	<u>3,102,740</u>
Total inventories	8,743,677	9,214,420
Less allowance for obsolete and slow-moving items	<u>(633,346)</u>	<u>(435,898)</u>
Total inventories, net	<u>\$8,110,331</u>	<u>\$8,778,522</u>

**Note 4. Contracts in Process**

Contracts in process consisted of the following at December 31:

	2017	2016
Costs incurred on contracts in process	\$ 5,249,665	\$ 5,910,351
Estimated earnings	<u>3,288,966</u>	<u>5,059,658</u>
Total costs and estimated earnings	8,538,631	10,970,009
Less billings to date	<u>(7,815,635)</u>	<u>(11,658,106)</u>
Net amount	<u>\$ 722,996</u>	<u>\$ (688,097)</u>

**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 4. Contracts in Process (Continued)**

Such amounts are included in the accompanying consolidated balance sheets at December 31 under the following captions:

	2017	2016
Cost and estimated earnings in excess of billings on contracts in process	\$1,020,127	\$ 1,589,206
Billings in excess of costs and estimated earnings on contracts in process	(297,131)	(2,277,303)
	<u>\$ 722,996</u>	<u>\$ (688,097)</u>

**Note 5. Property, Plant and Equipment**

Property, plant and equipment at December 31 consisted of the following:

	2017	2016
Land and building	\$2,025,145	\$2,017,265
Machinery and equipment	592,019	574,680
Leasehold improvements	123,990	123,990
Computer and office equipment	331,565	277,330
	<u>3,072,719</u>	<u>2,993,265</u>
Less accumulated depreciation	(335,980)	(226,221)
Property, plant and equipment, net	<u>\$2,736,739</u>	<u>\$2,767,044</u>

Depreciation expense approximated \$107,000 and \$235,000 for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, respectively.

**Note 6. Intangible Assets**

Intangible assets as of December 31 consisted of the following:

	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Proprietary technology	\$ 7,615,000	\$(1,251,580)	\$ 6,363,420	\$ 7,615,000	\$ (553,024)	\$ 7,061,976
Trade names/trademarks	2,011,000	(240,203)	1,770,797	2,011,000	(106,136)	1,904,864
Total intangible assets	9,626,000	(1,491,783)	8,134,217	9,626,000	(659,160)	8,966,840
Goodwill	12,829,012	(2,298,531)	10,530,481	12,829,012	(1,015,630)	11,813,382
Total intangible assets and goodwill	<u>\$22,455,012</u>	<u>\$(3,790,314)</u>	<u>\$18,664,698</u>	<u>\$22,455,012</u>	<u>\$(1,674,790)</u>	<u>\$20,780,222</u>

**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 6. Intangible Assets (Continued)**

Future amortization expense related to these intangible assets is expected to be as follows:

Years ending December 31:	
2018	\$ 2,115,524
2019	2,115,524
2020	2,115,524
2021	2,115,524
2022	2,115,524
Thereafter	8,087,078
	<u>\$18,664,698</u>

**Note 7. Debt**

As of December 31, debt consisted of the following:

	2017	2016
Amended and restated notes payable to senior lender/member:		
Term note payable (bearing interest, payable monthly at LIBOR plus 9.5% (10.83% and 10.24% at December 31, 2017 and 2016, respectively; principal due on February 15, 2019)	\$20,000,000	\$20,000,000
Bridge note payable (due in monthly principal installments of \$45,694; noninterest-bearing; repaid on April 30, 2018)	91,389	639,722
Revolving credit note payable (see below)	8,059,848	6,009,848
Promissory note payable, related party (secured by certain real estate; bearing interest, payable monthly at 9.5%; due on March 31, 2019)	1,450,000	1,450,000
Other	<u>323,218</u>	<u>791,136</u>
	29,924,455	28,890,706
Less: Current portion	(300,070)	(1,321,378)
Less: Discount on notes payable	(1,258,366)	(2,574,780)
Less: Debt issuance costs	<u>(144,793)</u>	<u>(276,181)</u>
Total long-term debt, less current portion	<u>\$28,221,226</u>	<u>\$24,718,367</u>

The aforementioned term, bridge and revolving credit notes payable were made pursuant to an Agreement, which was executed on March 16, 2016 (and most recently amended on May 2, 2018), concurrent with the Restructuring Transaction (see Note 2). The Agreement provides for a security interest in substantially all of the Company's assets and contains certain restrictive covenants, and a financial covenant. The Company was in violation of a nonfinancial covenant, for which a waiver was obtained.

The revolving credit note provided for maximum available borrowings of \$7,000,000, matured on June 30, 2017, and bears interest, payable monthly at LIBOR plus 9.5 percent (10.83 percent and 10.24 percent at December 31, 2017 and 2016, respectively). During 2017, amendments to the agreement were executed on June 21, 2017, and August 14, 2017, which extended the maturity date of this facility to February 19, 2019, and increased the maximum available borrowings to \$9,000,000. Subsequent to year-end, additional amendments to the Agreement were executed on April 16, 2018, and May 2, 2018, which increased the maximum available borrowings to \$9,750,000.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 7. Debt (Continued)**

In connection with the adoption of ASC 805, effective March 16, 2016, the notes payable made pursuant to the Agreement were recorded at fair value, which provided for a debt discount of approximately \$3,955,000. Such fair value was determined using an option pricing model with the following assumptions: expected life of two years, volatility of 60.2 percent and a risk-free interest rate of 0.9 percent. During the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, the Company recorded approximately \$1,340,000 and \$1,380,000, respectively, in debt discount amortization, which was recorded using the effective interest method.

Related-party interest expense approximated \$4,305,000 and \$3,600,000 for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, respectively. Related party accrued interest payable approximated \$311,000 and \$112,000, respectively, at December 31, 2017 and 2016, and is included on the accompanying consolidated balance sheets in other current liabilities and accrued expenses.

Aggregate maturities of long-term debt as of December 31, 2017, are as follows:

Years ending December 31:	
2018	\$ 300,070
2019	29,558,386
2020	44,662
2021	21,337
	<u>\$29,924,455</u>

**Note 8. Employee Benefit Plan**

The Company maintains a 401(k) plan covering substantially all employees. The plan, which was restated on January 1, 2017, provides for employer safe harbor, matching and profit sharing contributions based primarily on employee participation. Employer contributions approximated \$209,000 and \$189,000 for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, respectively.

**Note 9. Members' Equity**

As provided in the Limited Liability Company Agreement, the Class A Membership Interests are owned by an entity affiliated with the lender and the Class B Membership Interests are owned by an entity controlled by the former owners of OEMG. On any action required or permitted to be voted on by the Members, the Class A Members and Class B Members shall vote as a single class, with the Class A Members collectively entitled to 75 percent of the aggregate vote and the Class B Members collectively entitled to 25 percent of the aggregate vote. Profits and losses of the Company are allocated to members' capital accounts in the amount that would be distributed pursuant to a hypothetical distribution for book value (as defined), adjusted for applicable provisions of the Internal Revenue Code (75 percent to Class A and 25 percent to Class B, adjusted for a Qualifying Sale (as defined) that provides for Class B Members to receive a proportionately larger distribution upon a sale of the Company at a specified amount).

The Company may make distributions to unit holders as determined by its Manager for payment of federal and state income taxes.

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**OEM Group, LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 10. Taxes**

For the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, income (loss) before income taxes attributable to domestic and foreign sources approximated the following:

	2017	2016
U.S. source loss	\$(5,351,000)	\$(4,881,000)
Foreign source income	681,000	1,587,000

The provision for income taxes that relate to foreign source income and U.S. state income taxes consists of the following for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016:

	2017	2016
<b>Current:</b>		
U.S.	\$ 15,623	\$ 2,322
Foreign	210,484	79,248
<b>Deferred:</b>		
U.S.	—	—
Foreign	—	182,247
	<u>\$226,107</u>	<u>\$263,817</u>

The differences between statutory and effective tax rates relate primarily to the limited liability company not being subject to federal income taxes.

**Note 11. Major Customers**

Customers are considered major when revenue for the customer exceeds 10 percent of total revenue for the period or outstanding receivable balances exceed 10 percent of current assets. Revenues from one major customer for the period from March 16, 2016, through December 31, 2016, approximated \$6,286,000. For the year ended December 31, 2017, there were no customers that exceeded 10 percent of total revenue or outstanding accounts receivable in excess of 10 percent of current assets.

**Note 12. Operating Leases**

The Company leases space for its corporate headquarters, clean-room and warehouse facilities in Gilbert, Arizona as well as limited warehouse and office space in Arizona, Pennsylvania, Japan, Taiwan and Singapore under operating lease agreements, which expire through November 2020.

Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Years ending December 31:	
2018	\$393,000
2019	309,000
2020	275,000
	<u>\$977,000</u>

**Note 12. Operating Leases (Continued)**

Rent expense (including common area maintenance and rental taxes) under the leases described above totaled approximately \$912,000 and \$732,000 for the year ended December 31, 2017, and the period from March 16, 2016, through December 31, 2016, respectively.

**Note 13. Litigation**

In the ordinary course of conducting business, the Company becomes involved in various lawsuits and administrative proceedings. Some of these proceedings may result in fines, penalties or judgments being assessed against the Company which, from time to time, may have an impact on earnings. Management does not currently believe that any potential liability resulting from proceedings, individually or in the aggregate, would have a material adverse effect on its consolidated financial position or results of operations.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Balance Sheet	2
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Changes in Member's Equity (Deficit)	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of  
Copperweld Bimetallics LLC  
Fayetteville, Tennessee

We have audited the accompanying consolidated financial statements of Copperweld Bimetallics LLC (the Company), a subsidiary of THL Credit Copperweld Holdings LLC, and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of comprehensive income, changes in member's equity (deficit), and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Copperweld Bimetallics LLC and its subsidiary as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sincerely,

/s/ Anglin Reichmann Armstrong, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
March 5, 2019

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2018**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 974,801
Trade accounts receivable, less allowances for doubtful accounts of \$23,421	8,953,602
Other receivables	243,565
Inventories	10,213,630
Deferred tax assets - current	11,955
Other current assets	980,714
<b>Total Current Assets</b>	<b>21,378,267</b>
<b>Noncurrent Assets</b>	
Property, plant, and equipment, net	10,832,943
Contract right intangible, net	14,838,000
Deferred tax assets - noncurrent	1,245,013
Other noncurrent assets	330,986
<b>Total Noncurrent Assets</b>	<b>27,246,942</b>
<b>Total Assets</b>	<b>\$ 48,625,209</b>
<b>Liabilities and Member's Equity</b>	
<b>Current Liabilities</b>	
Revolver note payable	\$ 2,279,125
Trade accounts payable	4,941,179
Accrued liabilities	1,617,746
Accrued wages and salaries	1,149,351
Customer deposits	344,434
Accrued taxes	30,557
Other accruals	593,622
<b>Total Current Liabilities</b>	<b>10,956,014</b>
<b>Noncurrent Liabilities</b>	
Long-term debt, net	7,770,663
<b>Total Noncurrent Liabilities</b>	<b>7,770,663</b>
<b>Total Liabilities</b>	<b>18,726,677</b>
<b>Member's Equity</b>	
Member's contribution	52,982,604
Accumulated other comprehensive loss	(952,069)
Accumulated deficit	(22,132,003)
<b>Total Member's Equity</b>	<b>29,898,532</b>
<b>Total Liabilities and Member's Equity</b>	<b>\$ 48,625,209</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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Gross sales	\$95,867,013
Deductions	<u>(3,626,779)</u>
<b>Net sales</b>	<b>92,240,234</b>
Cost of sales	<u>78,164,465</u>
<b>Gross margin</b>	<b>14,075,769</b>
Sales and marketing	4,537,386
General and administrative	<u>5,811,965</u>
<b>Income (loss) from operations</b>	<b>3,726,418</b>
<b>Other income (expenses)</b>	
Other nonoperating income (expense)	(244,979)
Interest expense	<u>(1,385,365)</u>
<b>Total other income (expenses)</b>	<b><u>(1,630,344)</u></b>
<b>Income (loss) before taxes</b>	<b>2,096,074</b>
Income tax (benefit) expense	<u>(1,256,968)</u>
<b>Net income (loss)</b>	<b>3,353,042</b>
Other comprehensive income (loss), net of tax	
Foreign currency translation adjustments	<u>(99,821)</u>
<b>Total Comprehensive Income (Loss)</b>	<b><u>\$ 3,253,221</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY (DEFICIT)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Member's Contribution</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Accumulated Deficit</b>	<b>Total</b>
<b>As of December 31, 2017</b>	<b>\$54,024,923</b>	<b>\$ (852,248)</b>	<b>\$(24,788,363)</b>	<b>\$28,384,312</b>
Net income	—	—	3,353,042	3,353,042
Member distribution	(1,200,000)	—	—	(1,200,000)
Dividends paid	—	—	(539,001)	(539,001)
Dividend PIK	157,681	—	(157,681)	—
Change of cumulative currency translation	—	(99,821)	—	(99,821)
<b>As of December 31, 2018</b>	<b><u>\$52,982,604</u></b>	<b><u>\$ (952,069)</u></b>	<b><u>\$(22,132,003)</u></b>	<b><u>\$29,898,532</u></b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<b>Cash Flows from Operating Activities</b>	
Net income	\$ 3,353,042
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,931,907
Amortization of contract right intangible asset	3,000,000
Amortization of debt issuance discount	198,292
Deferred tax benefit	(1,256,968)
Loss on disposal of property and equipment	69,394
Changes in asset and liability accounts:	
Accounts receivable, net	(1,707,316)
Inventories	(708,614)
Other receivables and prepayments	(157,662)
Accounts payable	1,243,775
Other payables and accrued liabilities	533,883
Taxes payable	865
<b>Net Cash Provided by Operating Activities</b>	<b>6,500,598</b>
<b>Cash Flows from Investing Activities</b>	
Purchases of property and equipment	(1,927,635)
Proceeds from sale of property and equipment	47,500
<b>Net Cash Used in Investing Activities</b>	<b>(1,880,135)</b>
<b>Cash Flows from Financing Activities</b>	
Dividends to member	(356,720)
Capital distribution	(800,000)
Borrowings (payments) on revolver note payable, net	(2,812,802)
Payment on loan finance cost	(14,175)
<b>Net Cash Used in Financing Activities</b>	<b>(3,983,697)</b>
<b>Effect of exchange rate on cash</b>	<b>(19,286)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>617,480</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>357,321</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 974,801</b>
<b>Supplemental Information</b>	
Cash paid for interest	\$ 1,436,556
Noncash financing activity - dividends to member	157,681

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 1 - Organization**

Copperweld Bimetallics LLC (Copperweld Bimetallics, Copperweld, or the Company) is a Delaware limited liability company located in Fayetteville, Tennessee. Copperweld is a wholly owned subsidiary of THL Credit Copperweld Holdings LLC (Parent or Holdings). Copperweld is engaged in the manufacturing and distribution of bimetallic wire and strand products for use in cable television, telecommunications, electrical utility, electronics, and other industrial and transit application.

Copperweld Bimetallics U.K. Limited (Copperweld U.K.) is a United Kingdom private company located in Telford, England. Copperweld U.K. is a wholly owned subsidiary of Copperweld Bimetallics. Copperweld Bimetallics and Copperweld U.K. are engaged in the manufacturing and distribution of bimetallic wire and strand products for use in cable television, telecommunications, electrical utility, electronics, and other industrial and transit applications. Copperweld Bimetallics and Copperweld U.K. (collectively referred to as the Company) have customers throughout the United States and the world.

Copperweld has a sales office that is registered in Ghent, Belgium (Copperweld Bimetallics LLC Europe).

**Note 2 - Significant Accounting Policies**

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Copperweld Bimetallics, its branch office in Belgium and its wholly owned subsidiary, Copperweld U.K. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has no investments in variable interest entities.

(b) Basis of Accounting

The Company's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) where income is recognized when earned and expenses are recorded when incurred.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, useful lives of contract right intangible, allowances for doubtful accounts and sales returns, and valuation of deferred tax assets, property, plant and equipment, contract right intangible, inventory, and income tax uncertainties, other contingencies, and the gain recognized in conjunction with the Company's restructuring in 2016.

(d) Segment Reporting

The Company has one operating segment which is bimetallic wire and strand products. Management has chosen to organize the Company based on the type of products sold. Substantially all of the Company's assets are located in the United States.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 2 - Significant Accounting Policies - Continued**

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(f) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the Company's customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Past-due balances over 90 days and over a specified amount are reviewed individually for collectability. Allowance for doubtful accounts was \$23,421 for the year ended December 31, 2018. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not write off any bad debts during the year ended December 31, 2018. The Company does not have any off-balance-sheet credit exposure related to its customers.

(g) Inventories

Inventories are measured at the lower of cost and market. The cost of inventories is based on the first-in, first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, costs include an appropriate share of production overheads based on normal operating capacity.

(h) Revenue Recognition

Revenue from sales of Copper-Clad Aluminum (CCA) and Copper-Cold Steel (CCS) is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery of the products has occurred, the fee is fixed or determinable and collectability is reasonably assured. The Company's products are considered delivered at the point when the title transfers and the customer assumes the risk of loss. Delivery is evidenced by signed bills of lading for sales.

The Company's sales agreements do not provide customers the right of return, price protection or any other concessions. However, the Company allows for an exchange of products or return if the products are defective. For the years presented, defective product returns were immaterial.

Although most of the Company's products are covered by its warranty programs, the terms and conditions of which vary depending on the customer and the product sold. Because the Company has not experienced any significant warranty claims in the past, the Company has not established any reserve for warranty claims or defective products.

For sales made to customers in certain countries, the Company's sales are net of value added tax, or VAT, collected on behalf of tax authorities in respect of product sales. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheet until it is paid to the tax authorities.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 2 - Significant Accounting Policies - Continued**

(i) Shipping and Handling Costs

Freight billed to customers is considered sales revenue and the related freight costs as a sales and marketing expense. For the year ending December 31, 2018, shipping and handling costs of \$1,716,602 were recorded in sales and marketing on the consolidated statement of comprehensive income.

(j) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant, and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Years</u>
Buildings	40
Building improvements	3-20
Machinery and equipment	3-25
Furniture and fixtures	3-7
Computer equipment	3-5
Vehicles	3

Depreciable methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate. Amortization expense and accumulated amortization are included in depreciation expense and accumulated depreciation, respectively.

(k) Intangible Assets

Intangible assets, consisting of contract rights, are amortized on a straight-line basis, which approximates the economic benefit, over its useful life of 10 years based on the contract terms.

(l) Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization and depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 2 - Significant Accounting Policies - Continued**

(l) Long-lived Assets - continued

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization and depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

The company reviews each quarter to assess whether events or changes in circumstances (triggering events) indicate that the carrying value of the contract right intangible may not be recoverable. If there is a triggering event, the Company then compares the undiscounted cash flow projections to the carrying value (recoverability test). If the undiscounted cash flows are less than the carrying value then the Company compares the carrying value to its fair value to assess and measure any potential impairment. The triggering events include but are not limited to: (i) a significant decrease of volume; (ii) a significant increase of cost to produce goods; (iii) a significant decrease in current period earnings before interest, taxes, depreciation and amortization (EBITDA) attributable to the contract right intangible that demonstrates continuing insufficient EBITDA associated with the use of contract right intangible; and (iv) a current expectation that is more likely than not (more than 50%), the contract right will be terminated or otherwise disposed of significantly before the end of its previously estimated useful life. The result of the evaluation of triggering events may require a further impairment analysis under *Accounting Standards Codification (ASC) 360-10-35*.

(m) Foreign Currency Translation

Copperweld U.K.'s accounting records are measured using local currency (British pounds) as the functional currency. All of the assets and liabilities of the subsidiary are converted to U.S. dollars at the exchange rate in effect at the balance sheet date, income and expense accounts are translated at average rates for the period, and member's equity accounts are translated at historical rates. The net effect of foreign currency translation adjustments is included in member's equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Foreign currency transaction gains or losses are credited or charged to income as incurred.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 2 - Significant Accounting Policies - Continued**

(n) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and a valuation allowance is provided to reduce the carrying amount of deferred income tax assets if it is considered more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of comprehensive income.

(o) Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(p) Fair Value Measurement and Financial Instruments

The respective carrying value of certain financial instruments of the Company approximates their fair value. These instruments include cash, trade accounts receivable, long-term debt, and accounts payable. Fair values of cash, trade accounts receivables and accounts payable are assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values, they are receivable or payable on demand, or the interest rates earned and/or paid approximate current market rates.

The Company has no assets and liabilities measured at fair value on a recurring basis.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 2 - Significant Accounting Policies - Continued**

(q) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

From time to time, the Company is subject to claims arising in the ordinary course of business. In the opinion of management, the ultimate resolution of any such claims as of December 31, 2018 will not have a material effect on the liquidity, cash flows or financial position of the Company or on its operations.

Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of expected future expenditures for environment remediation obligations are not discounted to their present value. The Company has no accrued losses for environmental remediation obligations, and is not aware of any claims, as of December 31, 2018, except as disclosed in footnote 11(b).

The Company has a License Agreement with Nexans Deutschland GmbH (Nexans). Pursuant to the agreement, the Company must pay royalties for CCA that is produced by all of its present and future affiliated companies' worldwide using equipment designed by Nexans (KM line). The agreement terminates on December 31, 2026. Total royalty fees under the agreement were \$239,452 for the year ended December 31, 2018.

(r) Concentrations of Credit Risk

The Company maintains cash in high quality financial institutions. Financial institutions in the U.S are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation. Financial institutions in the U.K. are insured up to £85,000 (approximately \$95,000 at December 31, 2018) per bank by the Financial Services Compensation Scheme. Financial institutions in Belgium are insured up to €100,000 (approximately \$111,000 at December 31, 2018) by the Protection Fund for Deposits and Financial Instruments. At times, the balances in these accounts may be in excess of insured limits. At December 31, 2018, the Company had \$141,019 in excess of insured limits.

(s) Subsequent Events

The Company has evaluated events from the balance sheet date through March 5, 2019, the date at which the consolidated financial statements were available to be issued. The Company has determined that there are no other items to disclose.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 3 - Asset Purchase**

On December 11, 2013, Copperweld Bimetallics entered into an Asset Purchase Agreement (APA) and other ancillary agreements with CommScope, Inc. of North Carolina (CS) whereby Copperweld Bimetallics purchased the bimetallic manufacturing assets of CS for \$38 million and entered into a 10-year supply agreement to provide CS with their bimetallic wire requirements.

The assets, both tangible and intangible, are recorded at their estimated fair values as of the acquisition date. The assets purchased in the CS acquisition are presented below at their estimated fair values as of the acquisition date of December 11, 2013:

Assets:	
Equipment	\$ 8,000,000(a)
Contract right intangible	<u>30,000,000(b)</u>
Net assets acquired at fair value	<u>\$38,000,000</u>

(a) Equipment

Under the APA, Copperweld Bimetallics purchased all of CS's bimetallic rod and wire manufacturing equipment worldwide including all aluminum and steel copper cladding lines, drawing lines, fine wire drawing lines, furnaces, and a respooling line. Also included was all the ancillary equipment, consumables, and spare parts, such as rod welders, drawing lubrication systems, drawing dies, mill rolls, etc. This equipment was developed and is specifically utilized for the manufacture of copper-clad aluminum (CCA) and copper-clad steel (CCS) rod and wire products.

(b) Contract Right Intangible

As part of the APA, the Company entered into a 10-year exclusive supply agreement with CS, pursuant to which the Company agreed to supply CS and its subsidiaries with 100% of their requirements for specified CCA and CCS products in the United States and 100% of their requirements for specified CCA products in the People's Republic of China, or PRC, and Scotland (which products are collectively referred to as covered products). On September 29, 2016, the Company and CS entered into the Amendment to Supply Agreement, under which CS shall be required to purchase at least 80%, rather than all, of the Covered Product from the Company. Notwithstanding the obligation to buy 80% of the Covered Product from the Company, CommScope represents to the Company that CommScope intends to purchase 100% of the Covered Product from the Company. The Company also has a right of first offer under the supply agreement to be CS's exclusive supplier if CS desires to purchase, in addition to the covered products, other CCA or CCS bimetallic wire or wire feedstock for use in the United States or other CCA bimetallic wire or wire feedstock in the PRC or Scotland. Aggregate amortization expense was \$3,000,000 for the year ended December 31, 2018. Accumulated amortization was \$15,162,000 at December 31, 2018. Estimated amortization expense for each of the next four years is \$3,000,000 and \$2,838,000 for the fifth and final year.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 4 - Market Concentrations**

The Company has two production facilities. One is located in Fayetteville, Tennessee, in the United States (U.S.), and the other is located in Telford, England, in the U.K. The Company sells to manufacturing companies worldwide that operate primarily in the telecommunications, electrical utility, and transportation industries.

The percentages of the Company's gross sales from its products for the year ended December 31, 2018 are as follows:

	<u>Amount</u>	<u>Percentage of Total</u>
CCA	\$40,714,610	42%
CCS	53,117,291	56%
Others	2,035,112	2%
Total	<u>\$95,867,013</u>	<u>100%</u>

The United States is the only country that exceeds 10% of gross sales. The percentages of the Company's gross sales from customers located in the United States and other countries for the year ended December 31, 2018 are as follows:

	<u>Amount</u>	<u>Percentage of Total</u>
United States	\$70,412,088	73%
European countries	13,254,474	14%
Other countries	12,200,451	13%
Total	<u>\$95,867,013</u>	<u>100%</u>

Customers' revenue individually exceeding 10% of the Company's total revenue for the year ended December 31, 2018 are as follows:

	<u>Amount</u>	<u>Percentage of Total</u>
Customer A	\$26,828,880	28%

Accounts receivable from individual customers that exceeded 10% of the Company's accounts receivable, net, as of December 31, 2018 are as follows:

	<u>Amount</u>	<u>Percentage of Total</u>
Customer A	\$1,424,359	16%

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 5 - Inventories**

Inventories consist of the following at December 31, 2018:

Raw materials	\$ 3,379,607
Work in process	1,766,142
Finished goods	<u>5,067,881</u>
Total inventories	<u>\$10,213,630</u>

The Company purchases raw materials from a limited number of suppliers. Eight major suppliers provided approximately 97% of the Company's raw materials for the year ended December 31, 2018.

**Note 6 - Property, Plant, and Equipment**

Property, plant, and equipment consist of the following as of December 31, 2018:

Building	\$ 2,524,805
Building and improvements	855,699
Furniture and fixtures	4,599
Vehicles	70,276
Computer hardware and software	499,391
Machinery and equipment	<u>26,643,217</u>
	30,597,987
Less accumulated depreciation	<u>(20,536,149)</u>
	10,061,838
Land	100,726
Construction in progress	<u>670,379</u>
Total property, plant, and equipment, net	<u>\$ 10,832,943</u>

Depreciation expense was \$1,931,907 for the year ended December 31, 2018.

Construction in progress as of December 31, 2018 primarily consists of upgrades to existing equipment.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 7 - Revolver Loan Payable & Long-term Debt**

Revolver Loan Payable at December 31, 2018 consists of:

U.S. revolving credit facilities:	
Fifth Third revolving credit facility	\$2,002,536
UK invoice discounting credit facility	<u>276,589</u>
Revolver Loan Payable	<u>\$2,279,125</u>

Long-term debt at December 31, 2018 consists of the following:

Senior loan	<u>\$8,000,000</u>
Total long-term debt	8,000,000
Less current portion	<u>—</u>
Long-term debt, excluding current portion	8,000,000
Less unamortized discount and debt issuance cost	<u>229,337</u>
Long-term debt, excluding current portion, net	<u>\$7,770,663</u>

Future contractual maturities of long-term debt as of December 31, 2018 are as follows:

	Amount
Year ending December 31,	
2019	\$ —
2020	—
2021	8,000,000
2022	—
2023	—
Thereafter	<u>—</u>
Principal amount	\$8,000,000
Less unamortized debt issuance costs	<u>(229,337)</u>
Long term debt, net	<u>\$7,770,663</u>

The \$8,000,000 that matures in 2021 is held by an affiliate of the Company Parent. The Senior loan bears a contractual interest rate of 12%.

The Company had a balance outstanding on the revolving credit facilities of \$2,002,536 as of December 31, 2018. The interest rate for the Fifth Third revolving credit facility is based on the 30-day London Interbank Offered Rate (the LIBOR Rate) plus the applicable margin of 2.5% per annum. The Company paid an initial commitment fee of \$65,000, and is also required to pay a monthly fee of 0.50% on available but unused amounts under the revolving credit facility.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 7 - Revolver Loan Payable & Long-term Debt - Continued**

At December 31, 2018, the Company was obligated under a term loan (Senior loan) with a principal amount of \$8,000,000. The term loan bears interest at 12% and matures on October 5, 2021.

The Company's debt agreements contain certain quarterly and annual financial covenants, customary events of default and covenants, including covenants that restrict the ability of the Company to incur certain additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, and certain restrictive financial covenants. If any event of default shall have occurred and be continuing, the lenders may have elected to declare the loan immediately due and payable.

Copperweld U.K.

Copperweld U.K. maintains an invoice discounting credit facility with a limit of £750,000. The facility provides cash advances of up to 85% of approved sales ledgers which are secured by trade accounts receivable of Copperweld U.K. The facility bears interest at a variable rate based on the Bank of England base rate. The facility automatically renews every year based on an annual review conducted by the financing institute. Copperweld U.K. is required to maintain a projected turnover each 12-month period and a minimum net worth of £750,000 at all times if the credit facility has an outstanding balance. The facility had a balance outstanding of \$276,730 as of December 31, 2018. Copperweld UK was in compliance with all covenants related to its credit facility as of December 31, 2018.

**Note 8 - Operating Leases**

The Company leases certain property and equipment under the terms of operating lease agreements expiring October 2019 through December 2023. Rent expense under these leases was approximately \$252,746 for the year ended December 31, 2018. Future minimum rentals for years subsequent to December 31, 2018 are as follows:

	Amount
Year ending December 31,	
2019	\$ 253,835
2020	220,063
2021	213,905
2022	192,841
2023	119,682
Thereafter	—
	<u>\$1,000,326</u>

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 9 - Income Taxes**

Income tax expense (benefit) for the year ended December 31, 2018 consists of the following:

	Other Comprehensive Income	Current	Deferred	Total
Year ended December 31, 2018:				
US federal	\$ —	\$ —	\$ (649,606)	\$ (649,606)
State and local	—	—	(607,362)	(607,362)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$(1,256,968)</u>	<u>\$(1,256,968)</u>

A reconciliation of federal income tax expense (benefit) at the statutory rate to the Company's actual income tax expense for the year ended December 31, 2018 is shown below:

Computed at statutory rate (21%)	\$ 440,176
Nondeductible expenses and other permanent differences	25,209
State income taxes	89,922
Gain from foreign subsidiary	(88,149)
Foreign rate differential and valuation allowance	(1,724,126)
Income tax expense (benefit)	<u>\$(1,256,968)</u>

Components of the net deferred tax assets and liabilities at December 31, 2018 are as follows:

<b>Deferred tax assets:</b>	
Accrued wages and compensated absences	\$ 11,955
Losses from foreign subsidiary	262,922
Net operating loss carryforward	552,643
Property and equipment, principally due to depreciation	692,370
	<u>1,519,890</u>
<b>Deferred tax liabilities:</b>	
Depreciation from foreign subsidiary	(139,224)
	<u>(139,224)</u>
Valuation allowance	(123,698)
Net deferred tax asset	<u>\$1,256,968</u>

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 9 - Income Taxes - Continued**

The Company's subsidiary, Copperweld U.K., located in the United Kingdom, files tax returns in the United Kingdom. The accumulated losses recorded related to this subsidiary are not recognized for tax purposes in the United States until the investment is disposed as the Company treats income of the subsidiary as permanently reinvested. The Company has not provided U.S. income taxes for \$1,383,796 of accumulated undistributed losses of its Copperweld U.K. subsidiary as of December 31, 2018. Additionally, the Company's cash balances at Copperweld U.K. were \$97,837 as of December 31, 2018. The Company does not intend to repatriate future earnings of Copperweld U.K. and would need to consider the tax implications if these funds were repatriated.

There was no valuation allowance for domestic deferred tax assets as of December 31, 2018. There was a valuation allowance for foreign deferred tax asset of \$123,698 as of December 31, 2018. Total valuation allowance was \$123,698 as of December 31, 2018. The net change in the valuation allowance was \$(1,776,016) for the year ended December 31, 2018. No valuation allowance for the domestic deferred tax assets was accrued at December 31, 2018 as the assets were considered fully realizable in the future.

The valuation allowance reduces the deferred tax assets to the amounts that are more likely than not to be realized, which include substantially all deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and NOL's can be applied. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment.

The tax returns of the U.S. Entities are subject to U.S. income tax examination by tax authorities. Both federal and state income tax return are subject to audit for the years from 2014 to 2018. The Company's consolidated tax returns, under its previous structure prior to restructuring in 2016, for fiscal years 2015 and 2016 are the remaining years subject to audit. The Company's tax return, under its current structure, for fiscal years 2016, 2017, and 2018 are the remaining years subject to audit.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. The company has analyzed potential liability for uncertain tax positions, and has not accrued for uncertain tax positions or unrecognized tax positions as of December 31, 2018. As of December 31, 2018, the Company did not have any unrecognized tax benefits and thus no interest or penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

**Note 10 - 401(k) and Profit Sharing Plan**

Copperweld Bimetallics U.S. employees are provided a 401(k) plan. U.S. employees are eligible for the defined contribution plan after three months of full-time employment. Employee deferrals and company matching are 100% vested immediately upon eligibility. Copperweld Bimetallics matches up to 4% for participating employees. The cost recognized by the Company for matching contributions was \$167,761 for the year ended December 31, 2018.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 10 - 401(k) and Profit Sharing Plan - Continued**

Copperweld U.K. operates a defined contribution pension scheme for employees. All U.K. employees are eligible to join the pension on satisfactory completion of their trial period, which is typically three months. U.K. employees can contribute as much as they like subject to current U.K. laws, but the Company will match only the first 2.5% of gross pay in the current year. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to expense. The cost recognized by the Company was approximately \$16,642 for the year ended December 31, 2018.

**Note 11 - Commitments and Contingencies**

(a) Product Warranties

The Company's product warranties against technical defects of its copper-clad products wires vary, depending on sales orders with each customer. The warranties require the Company to replace defective components and pay for the losses customers incur from defective products or a certain percentage of the selling price as liquidated damages for the Company's failure to meet the specified product specifications and packaging requirements in the sales orders. The Company has not established any reserves for potential warranty claims as historically they have experienced few warranty claims for their products for amounts that were not material.

(b) Environmental Remediation Obligations

The Company's operations are subject to extensive regulations governing the creation, use, transportation and disposal of wastes and hazardous substances, air and water emissions, remediation, workplace exposure and other environmental matters. The costs of complying with such laws and regulations, including participation in assessments and clean-ups of sites, as well as internal voluntary programs, can be significant and will continue to be so for the foreseeable future. Future environmental regulations could impose stricter compliance requirements on the Company and the end markets that they serve. Additional pollution control equipment, process changes, or other environmental control measures may be needed at some of the Company's facilities to meet future requirements. Additionally, evolving regulatory standards and expectations could result in increased litigation and/or increased costs of compliance with environmental laws, all of which could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Environmental matters for which the Company may be liable may arise in the future at the Company's present sites, at previously owned sites, sites previously operated by the Company, or sites owned by the Company's predecessors. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), established responsibility for clean-up without regard to fault for persons who have released or arranged for disposal of hazardous substances at sites that have become contaminated and for persons who own or operate contaminated facilities.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Note 11 - Commitments and Contingencies - Continued**

In many cases, courts have imposed joint and several liability on parties at CERCLA clean-up sites. The Company's Fayetteville location is located an industrial use area, which may have been contaminated by pollutants which may have migrated from neighboring facilities or have been released by prior occupants. Some of the Company's properties have been affected by releases of cutting oils and similar materials, and the Company is investigating and remediating such known contamination pursuant to applicable environmental laws. Although the costs of these clean-ups are not reasonably estimable at this time, the Company does not expect for the ultimate resolution to have a material effect on the Company's consolidated financial statements.

The Company is currently participating in funding an environmental investigation for a Superfund Site for Chemetco, a secondary copper smelting facility in Southern Illinois, which operated from 1970 to 2001 and to which the Company, along with hundreds of other companies, indirectly shipped scrap metal for recycling. A reasonable estimate of the possible loss or range of loss cannot be made until the site investigation and cleanup plan, as well as the Environmental Protection Agency's review of all shipping records, are complete.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**

**CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**DECEMBER 31, 2017 AND 2016**

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 357,321	\$ 540,065
Trade accounts receivable, less allowances for doubtful accounts of \$23,421 and \$36,859 as of December 31, 2017 and 2016, respectively	6,895,445	6,509,012
Other receivables	528,140	371,887
Inventories	8,673,760	9,409,008
Other current assets	592,530	772,027
<b>Total Current Assets</b>	<u>17,047,196</u>	<u>17,601,999</u>
<b>Noncurrent Assets</b>		
Property, plant, and equipment, net	10,999,422	11,735,946
Contract right intangible, net	17,838,000	20,838,000
Other noncurrent assets	431,707	378,419
<b>Total Noncurrent Assets</b>	<u>29,269,129</u>	<u>32,952,365</u>
<b>Total Assets</b>	<u>\$ 46,316,325</u>	<u>\$ 50,554,364</u>
<b>Liabilities and Member's Equity</b>		
<b>Current Liabilities</b>		
Revolver note payable	\$ 5,081,009	\$ 6,758,663
Trade accounts payable	3,766,865	3,004,037
Accrued liabilities	914,861	1,302,414
Accrued wages and salaries	198,359	259,358
Accrued taxes	22,827	358
Other accruals	260,824	248,824
<b>Total Current Liabilities</b>	<u>10,244,745</u>	<u>11,573,654</u>
<b>Noncurrent Liabilities</b>		
Long-term debt, net of current portion	7,687,268	7,583,024
<b>Total Noncurrent Liabilities</b>	<u>7,687,268</u>	<u>7,583,024</u>
<b>Total Liabilities</b>	<u>17,932,013</u>	<u>19,156,678</u>
<b>Member's Equity</b>		
Member's contribution	54,024,923	53,372,445
Accumulated other comprehensive loss	(852,248)	(966,693)
Accumulated deficit	<u>(24,788,363)</u>	<u>(21,008,066)</u>
<b>Total Member's Equity</b>	<u>28,384,312</u>	<u>31,397,686</u>
<b>Total Liabilities and Member's Equity</b>	<u>\$ 46,316,325</u>	<u>\$ 50,554,364</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
Gross sales	\$73,885,283	\$76,732,569
Deductions	(3,705,329)	(3,688,958)
<b>Net sales</b>	<b>70,179,954</b>	<b>73,043,611</b>
Cost of sales	62,495,417	64,510,396
<b>Gross margin</b>	<b>7,684,537</b>	<b>8,533,215</b>
Sales and marketing	3,432,239	2,329,167
General and administrative	6,003,392	6,794,506
<b>Loss from operations</b>	<b>(1,751,094)</b>	<b>(590,458)</b>
<b>Other income (expenses)</b>		
Other nonoperating (income) expense	20,158	(130,157)
Interest expense	(1,396,883)	(7,231,075)
<b>Total other income (expenses)</b>	<b>(1,376,725)</b>	<b>(7,361,232)</b>
<b>Loss before taxes</b>	<b>(3,127,819)</b>	<b>(7,951,690)</b>
Income tax (benefit) expense	—	206,041
<b>Net loss</b>	<b>(3,127,819)</b>	<b>(8,157,731)</b>
Other comprehensive loss (income), net of tax Foreign currency translation adjustments	114,445	(179,950)
<b>Total Comprehensive Loss</b>	<b>\$ (3,013,374)</b>	<b>\$ (8,337,681)</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY (DEFICIT)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Common Member's Contribution	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
<b>As of December 31, 2015</b>	\$12,593,678	\$ (786,743)	\$(12,705,631)	\$ (898,696)
Net loss	—	—	(8,157,731)	(8,157,731)
Member contribution from loan restruction	40,634,063	—	—	40,634,063
Dividend PIK	144,704	—	(144,704)	—
Change of cumulative currency translation	—	(179,950)	—	(179,950)
<b>As of December 31, 2016</b>	53,372,445	(966,693)	(21,008,066)	31,397,686
Net loss	—	—	(3,127,819)	(3,127,819)
Dividend PIK	652,478	—	(652,478)	—
Change of cumulative currency translation	—	114,445	—	114,445
<b>As of December 31, 2017</b>	<u>\$54,024,923</u>	<u>\$ (852,248)</u>	<u>\$(24,788,363)</u>	<u>\$28,384,312</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$(3,127,819)	\$(8,157,731)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,793,821	1,830,908
Amortization of contract right intangible asset	3,000,000	3,000,000
Amortization of debt issuance discount	169,958	642,209
Deferred tax (benefit) expense	—	206,041
Loss on disposal of property and equipment	108,492	1,872
Noncash interest expense	—	2,021,993
Noncash loan penalty	—	3,000,000
Changes in asset and liability accounts:		
Accounts receivable, net	(335,318)	(400,286)
Affiliate receivable	—	819,297
Inventories	828,665	(5,278,810)
Other receivables and prepayments	36,351	(191,500)
Accounts payable	674,710	53,190
Other payables and accrued liabilities	(436,553)	261,215
Taxes payable	22,469	(45,366)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>2,734,776</u>	<u>(2,236,968)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(1,125,986)	(985,298)
Proceeds from sale of property and equipment	—	10,500
<b>Net Cash Used in Investing Activities</b>	<u>(1,125,986)</u>	<u>(974,798)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on long-term debt	—	(406,250)
Borrowings (Payments) on revolver note payable, net	(1,686,095)	2,674,347
Payment on loan finance cost	(119,002)	(822,895)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(1,805,097)</u>	<u>1,445,202</u>
<b>Effect of exchange rate on cash</b>	<u>13,563</u>	<u>(11,394)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(182,744)	(1,777,958)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>540,065</u>	<u>2,318,023</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 357,321</u>	<u>\$ 540,065</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
CONSOLIDATED STATEMENTS OF CASH FLOW - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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	<u>2017</u>	<u>2016</u>
<b>Supplemental Information</b>		
Cash paid for interest	\$1,214,925	\$ 2,391,644
Noncash financing activity - member contribution from loan restructuring	—	40,634,063
Noncash financing activity - dividend to member	652,478	144,704

*The accompanying notes are an integral part of these consolidated financial statements.*

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 1 - Organization**

Copperweld Bimetallics LLC (Copperweld Bimetallics, Copperweld, or the Company) is a Delaware limited liability company located in Fayetteville, Tennessee. Copperweld is a wholly owned subsidiary of THL Credit Copperweld Holdings LLC (Parent or Holdings). Copperweld is engaged in the manufacturing and distribution of bimetallic wire and strand products for use in cable television, telecommunications, electrical utility, electronics, and other industrial and transit application.

Copperweld Bimetallics U.K. Limited (Copperweld U.K.) is a United Kingdom private company located in Telford, England. Copperweld U.K. is a wholly owned subsidiary of Copperweld Bimetallics. Copperweld Bimetallics and Copperweld U.K. are engaged in the manufacturing and distribution of bimetallic wire and strand products for use in cable television, telecommunications, electrical utility, electronics, and other industrial and transit applications. Copperweld Bimetallics and Copperweld U.K. (collectively referred to as the Company) have customers throughout the United States and the world.

Copperweld has a sales office that is registered in Ghent, Belgium (Copperweld Bimetallics LLC Europe). Copperweld Bimetallics LLC Europe was established on February 1, 2016. Prior to February 1, 2016, the respective operations were part of a sister Company (Copperweld Bimetallics Europe, SPRL) and which was not consolidated by the Company but was an affiliated entity.

Prior to September 29, 2016, the Company was a wholly owned subsidiary of Fushi Copperweld, Inc. On September 29, 2016 the holders of the Company's senior debt (the Term loan), in accordance with its rights under the terms of the respective pledge and security agreement, exercised rights under the Term loan facilities, sold and acquired at public auction all of the equity interest of the Company, and agreed to convert all but \$8.0 million of debt held by the holders of the term facility to equity (the foreclosure and auction). See further discussion in note 9.

**Note 2 - Significant Accounting Policies**

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Copperweld Bimetallics, its branch office in Belgium and its wholly owned subsidiary, Copperweld U.K. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has no investments in variable interest entities.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, useful lives of contract right intangible, allowances for doubtful accounts and sales returns, and valuation of deferred tax assets, property, plant and equipment, contract right intangible, inventory, and income tax uncertainties, other contingencies, and the gain recognized in conjunction with the restructuring discussion in note 9.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 2 - Significant Accounting Policies - Continued**

(c) Segment Reporting

The Company has one operating segment which is bimetallic wire and strand products. Management has chosen to organize the Company based on the type of products sold. Substantially all of the Company's assets are located in the United States.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(e) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the Company's customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Past-due balances over 90 days and over a specified amount are reviewed individually for collectability. Allowance for doubtful accounts was \$23,421 and \$36,859 for the each of the years ended December 31, 2017 and 2016. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company wrote-off \$36,859 and \$0 of bad debt for the years ended December 31, 2017 and 2016, respectively. The Company does not have any off-balance-sheet credit exposure related to its customers.

(f) Inventories

Inventories are measured at the lower of cost and market. The cost of inventories is based on the first-in, first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, costs include an appropriate share of production overheads based on normal operating capacity.

(g) Other Long-Term Assets

Other long-term assets consist of unamortized debt issuance costs on a revolving credit facility.

(h) Revenue Recognition

Revenue from sales of Copper-Clad Aluminum (CCA) and Copper-Cold Steel (CCS) is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery of the products has occurred, the fee is fixed or determinable and collectability is reasonably assured. The Company's products are considered delivered at the point when the title transfers and the customer assumes the risk of loss. Delivery is evidenced by signed bills of lading for sales.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 2 - Significant Accounting Policies - Continued**

(h) Revenue Recognition - continued

The Company's sales agreements do not provide customers the right of return, price protection or any other concessions. However, the Company allows for an exchange of products or return if the products are defective. For the years presented, defective product returns were immaterial.

Although most of the Company's products are covered by its warranty programs, the terms and conditions of which vary depending on the customer and the product sold. Because the Company has not experienced any significant warranty claims in the past, the Company has not established any reserve for warranty claims or defective products.

For sales made to customers in certain countries, the Company's sales are net of value added tax, or VAT, collected on behalf of tax authorities in respect of product sales. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheet until it is paid to the tax authorities.

(i) Shipping and Handling Costs

Freight billed to customers is considered sales revenue and the related freight costs as a sales and marketing expense. For the years ending December 31, 2017 and 2016, shipping and handling costs of \$1,801,419 and \$1,425,138, respectively, were recorded in sales and marketing on the consolidated statement of comprehensive loss.

(j) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant, and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Years</u>
Buildings	40
Building improvements	3-20
Machinery and equipment	3-25
Furniture and fixtures	3-7
Computer equipment	3-5
Vehicles	3

Depreciable methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate. Amortization expense and accumulated amortization are included in depreciation expense and accumulated depreciation, respectively.

(k) Intangible Assets

Intangible assets, consisting of contract rights, are amortized on a straight-line basis, which approximates the economic benefit, over its useful life of 10 years based on the contract terms.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 2 - Significant Accounting Policies - Continued**

(l) Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization and depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

The company reviews each quarter to assess whether events or changes in circumstances (triggering events) indicate that the carrying value of the contract right intangible may not be recoverable. If there is a triggering event, the Company then compares the undiscounted cash flow projections to the carrying value (recoverability test). If the undiscounted cash flows are less than the carrying value then the Company compares the carrying value to its fair value to assess and measure any potential impairment. The triggering events include but are not limited to: (i) a significant decrease of volume; (ii) a significant increase of cost to produce goods; (iii) a significant decrease in current period earnings before interest, taxes, depreciation and amortization (EBITDA) attributable to the contract right intangible that demonstrates continuing insufficient EBITDA associated with the use of contract right intangible; and (iv) a current expectation that is more likely than not (more than 50%), the contract right will be terminated or otherwise disposed of significantly before the end of its previously estimated useful life. The result of the evaluation of triggering events may require a further impairment analysis under ASC 360-10-35. During 2017 and 2016, the Company's net losses were assessed as a triggering event indicating a potential that the Company's long-lived assets may not be recoverable. As such, the Company performed a recoverability test and determined that the undiscounted cash flow projections of the assets were greater than their carrying value, therefore, the carrying value of the Company's long-lived assets was determined to be recoverable. Furthermore, the Company is unaware of any facts that would indicate a significant volume decrease or significant increase in costs of producing the Company's products.

(m) Foreign Currency Translation

Copperweld U.K.'s accounting records are measured using local currency (British pounds) as the functional currency. All of the assets and liabilities of the subsidiary are converted to U.S. dollars at the exchange rate in effect at the balance sheet date, income and expense accounts are translated at average rates for the period, and member's equity accounts are translated at historical rates. The net effect of foreign currency translation adjustments is included in member's equity as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Foreign currency transaction gains or losses are credited or charged to income as incurred.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 2 - Significant Accounting Policies - Continued**

(n) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and a valuation allowance is provided to reduce the carrying amount of deferred income tax assets if it is considered more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of comprehensive income.

(o) Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(p) Fair Value Measurement and Financial Instruments

The respective carrying value of certain financial instruments of the Company approximates their fair value. These instruments include cash, trade accounts receivable, long-term debt, and accounts payable. Fair values of cash, trade accounts receivables and accounts payable are assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values, they are receivable or payable on demand, or the interest rates earned and/or paid approximate current market rates.

The Company has no assets and liabilities measured at fair value on a recurring basis.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 2 - Significant Accounting Policies - Continued**

(q) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

From time to time, the Company is subject to claims arising in the ordinary course of business. In the opinion of management, the ultimate resolution of any such claims as of December 31, 2017 and 2016 will not have a material effect on the liquidity, cash flows or financial position of the Company or on its operations.

Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of expected future expenditures for environment remediation obligations are not discounted to their present value. The Company has no accrued losses for environmental remediation obligations, and is not aware of any claims, as of December 31, 2017 and 2016, except as disclosed in footnote 13(b).

The Company has a License Agreement with Nexans Deutschland GmbH (Nexans). Pursuant to the agreement, the company must pay royalties for CCA that is produced by all of its present and future affiliated companies' worldwide using equipment designed by Nexans (KM line). The agreement terminates on December 31, 2026. Total royalty fees under the agreement were \$227,866 and \$211,162 for 2017 and 2016, respectively.

(r) Reclassifications

Depreciation and amortization in the prior year consolidated statement of cash flow have been reclassified for comparative purposes to conform with the presentation of the current year financials. Total consolidated member's equity and net loss are unchanged due to these reclassifications.

(s) Subsequent Events

The Company has evaluated events from the balance sheet date through April 25, 2018, the date at which the consolidated financial statements were available to be issued. The Company has determined that there are no other items to disclose.

**Note 3 - Asset Purchase**

On December 11, 2013, Copperweld Bimetallics entered into an Asset Purchase Agreement (APA) and other ancillary agreements with CommScope, Inc. of North Carolina (CS) whereby Copperweld Bimetallics purchased the bimetallic manufacturing assets of CS for \$38 million, including \$15 million in a subordinated note (see note 8) and entered into a 10-year supply agreement to provide CS with their bimetallic wire requirements.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 3 - Asset Purchase – Continued**

The assets, both tangible and intangible, are recorded at their estimated fair values as of the acquisition date. The assets purchased in the CS acquisition are presented below at their estimated fair values as of the acquisition date of December 11, 2013:

Assets:	
Equipment	\$ 8,000,000(a)
Contract right intangible	<u>30,000,000(b)</u>
Net assets acquired at fair value	<u>\$38,000,000</u>

**(a) Equipment**

Under the APA, Copperweld Bimetallics purchased all of CS's bimetallic rod and wire manufacturing equipment worldwide including all aluminum and steel copper cladding lines, drawing lines, fine wire drawing lines, furnaces, and a respooling line. Also included was all the ancillary equipment, consumables, and spare parts, such as rod welders, drawing lubrication systems, drawing dies, mill rolls, etc. This equipment was developed and is specifically utilized for the manufacture of copper-clad aluminum (CCA) and copper-clad steel (CCS) rod and wire products.

**(b) Contract Right Intangible**

As part of the APA, the Company entered into a 10-year exclusive supply agreement with CS, pursuant to which the Company agreed to supply CS and its subsidiaries with 100% of their requirements for specified CCA and CCS products in the United States and 100% of their requirements for specified CCA products in the People's Republic of China, or PRC, and Scotland (which products are collectively referred to as covered products). On September 29, 2016, the Company and CS entered into the Amendment to Supply Agreement, under which CS shall be required to purchase at least 80%, rather than all, of the Covered Product from the Company. Notwithstanding the obligation to buy 80% of the Covered Product from the Company, CommScope represents to the Company that CommScope intends to purchase 100% of the Covered Product from the Company. The Company also has a right of first offer under the supply agreement to be CS's exclusive supplier if CS desires to purchase, in addition to the covered products, other CCA or CCS bimetallic wire or wire feedstock for use in the United States or other CCA bimetallic wire or wire feedstock in the PRC or Scotland. Aggregate amortization expense was \$3,000,000 for both 2017 and 2016. Accumulated amortization was \$12,162,000 and \$9,162,000 for 2017 and 2016, respectively. Estimated amortization expense for each of the next five years is \$3,000,000.

**Note 4 - Market Concentrations**

The Company has two production facilities. One is located in Fayetteville, Tennessee, in the United States (U.S.), and the other is located in Telford, England, in the U.K. The Company sells to manufacturing companies worldwide that operate primarily in the telecommunications, electrical utility, and transportation industries.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 4 - Market Concentrations - Continued**

The percentages of the Company's gross sales from its products are as follows:

	Year ended December 31,			
	2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total
CCA	\$33,225,129	45%	\$36,064,101	47%
CCS	39,394,008	53%	39,547,939	52%
Others	1,266,146	2%	1,120,529	1%
Total	<u>\$73,885,283</u>	<u>100%</u>	<u>\$76,732,569</u>	<u>100%</u>

The United States is the only country that exceeds 10% of gross sales. The percentages of the Company's gross sales from customers located in the United States and other countries are as follows:

	Year ended December 31,			
	2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total
United States	\$54,279,965	73%	\$59,899,681	78%
European countries	11,539,923	16%	9,740,381	13%
Other countries	8,065,395	11%	7,092,507	9%
Total	<u>\$73,885,283</u>	<u>100%</u>	<u>\$76,732,569</u>	<u>100%</u>

Customers' revenue individually exceeding 10% of the Company's total revenue are as follows:

	Year ended December 31,			
	2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total
Customer A	\$20,722,779	28%	\$25,867,989	34%

Accounts receivable from individual customers that exceeded 10% of the Company's accounts receivable, net, are as follows:

	Year ended December 31,			
	2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total
Customer A	\$1,068,634	15%	\$1,347,726	21%
Customer B			1,080,471	17%
Total	<u>\$1,068,634</u>	<u>15%</u>	<u>\$2,428,197</u>	<u>38%</u>

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 5 - Inventories**

Inventories consist of the following at December 31, 2017 and 2016:

	2017	2016
Raw materials	\$2,919,824	\$2,645,798
Work in process	2,337,446	2,957,826
Finished goods	3,416,490	3,805,384
Total inventories	<u>\$8,673,760</u>	<u>\$9,409,008</u>

The Company purchases raw materials from a limited number of suppliers. Ten major suppliers provided approximately 99% of the Company's raw materials for the years ended December 31, 2017 and 2016.

**Note 6 - Property, Plant, and Equipment**

Property, plant, and equipment consist of the following as of December 31, 2017 and 2016:

	2017	2016
Building	\$ 2,325,886	\$ 2,325,886
Building and improvements	855,699	569,313
Furniture and fixtures	4,599	17,499
Vehicles	70,276	70,276
Computer hardware and software	454,504	454,504
Machinery and equipment	25,593,249	24,443,368
	29,304,213	27,880,846
Less accumulated depreciation	<u>(18,697,562)</u>	<u>(16,885,318)</u>
	10,606,651	10,995,528
Land	100,726	100,726
Construction in progress	292,045	639,692
Total property, plant, and equipment, net	<u>\$ 10,999,422</u>	<u>\$ 11,735,946</u>

Depreciation expense was \$1,793,821 and \$1,830,908 for the years ended December 31, 2017 and 2016, respectively.

Construction in progress as of December 31, 2017 and 2016 primarily consists of upgrades to existing equipment.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 7 - Letters of Credit**

At December 31, 2017, the Company had no available letters of credit. At December 31, 2016, the Company had available letters of credit of \$100,064, subject to certain conditions set by the bank. The Company had no letters of credit outstanding at December 31, 2017 and 2016.

**Note 8 - Revolver Loan Payable & Long-term Debt**

Revolver Loan Payable:

	2017	2016
U.S. revolving credit facilities:		
Fifth Third revolving credit facility	\$5,081,009	\$6,569,999
UK invoice discounting credit facility	—	188,664
Revolver Loan Payable	<u>\$5,081,009</u>	<u>\$6,758,663</u>

Long-term debt consists of the following:

	2017	2016
Senior loan	<u>\$8,000,000</u>	<u>\$8,000,000</u>
Total long-term debt	8,000,000	8,000,000
Less current portion	—	—
Long-term debt, excluding current portion	8,000,000	8,000,000
Less unamortized discount and debt issuance cost	312,732	416,976
Long-term debt, excluding current portion, net	<u>\$7,687,268</u>	<u>\$7,583,024</u>

Future contractual maturities of long-term debt are as follows:

Year ending December 31,	Amount
2018	\$ —
2019	—
2020	—
2021	8,000,000
Thereafter	—
Principal amount	<u>\$8,000,000</u>
Less unamortized debt issuance costs	(312,732)
Long term debt, net	<u>\$7,687,268</u>

The \$8,000,000 that matures in 2021 is held by an affiliate of the Company Parent. The Senior loan bears a contractual interest rate of 12%.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 8 - Revolver Loan Payable & Long-term Debt - Continued**

On August 31, 2010, the Company entered into a secured credit agreement (the Regions Bank revolving credit facility, which was amended on June 27, 2011 and January 17, 2013). The Regions revolving credit facility provided a \$2.5 million revolving credit facility with a maturity date August 31, 2014 and a term facility up to \$6.5 million, which was payable in 120 equal monthly principal payments plus interest each month until August 31, 2020, subject to the following amendments described below:

- On June 27, 2011, the Company entered into an amendment (the First Amendment) to the credit agreement. Pursuant to which the maximum amount of the revolving credit facility was increased from \$2.5 million to \$4.5 million. As a result, the total facility was increased from \$9 million to \$11 million.
- On December 11, 2013, the Company entered into an amendment (the Second Amendment) and repaid the \$4.5 million term facility in full. Additionally, as part of this amended and restated credit and security agreement, the revolving credit facility was increased to \$15 million with a maturity date of December 11, 2016.
- On February 29, 2016, the Company entered into an amendment (the Third Amendment) which reduced the credit facility from \$15 million to \$10 million and shortened the maturity date from December 11, 2016 to April 30, 2016.
- On November 10, 2016, the Company paid off the Regions Bank revolving credit facility.

On November 10, 2016, the Company entered into a secured credit agreement (the Fifth Third revolving credit facility). The Fifth Third revolving credit facility provides a \$13 million revolving credit facility with a maturity date November 10, 2019. The Fifth Third revolving credit facility is secured by the assets of the Company.

The Company had balances outstanding on the revolving credit facilities of \$5,081,009 and \$6,569,999 as of December 31, 2017 and 2016, respectively. The interest rate for the Fifth Third revolving credit facility is based on the 30-day London Interbank Offered Rate (the LIBOR Rate) plus the applicable margin of 2.5% per annum. The Company paid an initial commitment fee of \$65,000, and is also required to pay a monthly fee of 0.50% on available but unused amounts under the revolving credit facility.

On December 11, 2013, the Company entered into a credit and security agreement with a lender that provided for a term facility in the amount of \$32.5 million (Term loan), which is payable in quarterly payments of \$406,250 through September 2018, with the remaining balance due at maturity on December 11, 2018. The annual interest rate on the outstanding principal balance was 12%, payable quarterly. The term facility was secured by substantially all the assets of the Company.

On December 11, 2013, the Company entered into a subordinated credit and security agreement (Subordinated debt) that provided for a term facility in the amount of \$15 million, which matures in June 2019. The annual interest rate (8.0%) as of December 31, 2013 on the outstanding principal balance was payable quarterly, half (4%) in cash and half (4%) in payment in kind (PIK). The applicable PIK interest rate per the agreement was to be 4.0% through 2017, 6% through 2018, and 8% through 2019.

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**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 8 - Revolver Loan Payable & Long-term Debt - Continued**

The Company's debt agreements contained certain quarterly and annual financial covenants, customary events of default and covenants, including covenants that restrict the ability of the Company to incur certain additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, and certain restrictive financial covenants. If any event of default shall have occurred and be continuing, the lenders may have elected to declare the loan immediately due and payable.

The Company was also not in compliance with covenants for the revolver and the Term loan during 2016.

As part of the lender's foreclosure proceedings described in note (9), all events of noncompliance were waived by the holders of the Term loan and the Subordinated debt. All but \$8 million of remaining long-term debt was forgiven on September 29, 2016.

Copperweld U.K.

Copperweld U.K. maintains an invoice discounting credit facility with a limit of approximately £375,000. The facility provides cash advances of 85% of approved sales ledger which are secured by trade accounts receivable of Copperweld U.K. The facility automatically renews every year based on an annual review conducted by the financing institute. Copperweld U.K. is required to maintain a projected turnover each 12-month period and a minimum net worth of £750,000 at all times if the credit facility has an outstanding balance. The facility had a balance outstanding of \$0 and \$188,664 as of December 31, 2017 and 2016, respectively. Copperweld UK was in compliance with all covenants related to its credit facility as of December 31, 2017 and 2016.

**Note 9 - Debt Restructuring (the Restructuring)**

On September 29, 2016 the holders of the Company's Term loan (see note 8), in accordance with their rights under the terms of the applicable pledge and security agreement, exercised rights under the Term loan facilities, sold and acquired at public auction all of the equity interest of the Company, and agreed to convert all but \$8.0 million of Term Loan to equity (the foreclosure and auction). As a result of this transaction, the former holders of Term loan now hold a controlling equity interest in the Company. The remaining \$8.0 million of debt bears interest at 12% and matures on October 5, 2021. As part of their agreement, these lenders also waived all past events of covenant noncompliance with the previous debt agreements. In connection with the restructuring of the Company's Term loan, the Subordinated debt was deemed cancelled in exchange for an equity interest in the Company.

As of September 29, 2016, as a result of the restructuring, the equity held by the previous holders of the Company's Term loan includes 90% interest in the Company's parent, THL Credit Copperweld Holdings LLC. The equity held by the previous holders of the Company's Subordinated debt includes 10% interest in the Company's parent, THL Copperweld Holdings LLC.

In conjunction with the Restructuring, the Company recognized a member contribution to equity of \$40.6 million on debt exchanged for equity.

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY  
(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 10 - Operating Leases**

The Company leases certain property and equipment under the terms of operating lease agreements expiring June 2017 through March 2020. Rent expense under these leases was approximately \$337,675 and \$316,941 for the years ended December 31, 2017 and 2016, respectively. Future minimum rentals for years subsequent to December 31, 2017 and in the aggregate are as follows:

Year ending December 31,	Amount
2018	\$209,524
2019	215,114
2020	195,759
2021	—
2022	—
Thereafter	—
	<u>\$620,397</u>

**Note 11 - Income Taxes**

Income tax expense (benefit) consists of the following:

	Other Comprehensive Income	Current	Deferred	Total
<b>Year ended December 31, 2017:</b>				
US federal	\$ —	\$ —	\$ —	\$ —
State and local	—	—	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Year ended December 31, 2016:</b>				
US federal	\$ —	\$ —	\$189,937	\$189,937
State and local	—	—	16,104	16,104
	<u>\$ —</u>	<u>\$ —</u>	<u>\$206,041</u>	<u>\$206,041</u>

**COPPERWELD BIMETALLICS LLC AND SUBSIDIARY**  
**(A SUBSIDIARY OF THL CREDIT COPPERWELD HOLDINGS LLC)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 11 - Income Taxes - Continued**

A reconciliation of federal income tax expense (benefit) at the statutory rate to the Company's actual income tax expense for the years ended December 31, 2017 and 2016 is shown below:

	2017	2016
Computed at statutory rate (21% and 34%)	\$(656,842)	\$(2,703,575)
Nondeductible expenses and other permanent differences	9,767	8,314
State income taxes	(134,183)	(341,128)
Permanent differences - debt restructure	—	6,316,278
Foreign rate differential and valuation allowance	781,258	(3,073,848)
Income tax expense (benefit)	<u>\$ —</u>	<u>\$ 206,041</u>

Components of the net deferred tax assets and liabilities are as follows:

	2017	2016
<b>Deferred tax assets:</b>		
Accrued wages and compensated absences	\$ 42,101	\$ 85,016
Losses from foreign subsidiary	308,765	321,506
Net operating loss carryforward	1,327,233	774,275
Depreciation - Section 179 carryforward	—	58,709
Property and equipment, principally due to depreciation	324,162	125,459
	<u>2,002,261</u>	<u>1,364,965</u>
<b>Deferred tax liabilities:</b>		
Depreciation from foreign subsidiary	(102,547)	(67,118)
	(102,547)	(67,118)
Valuation allowance	(1,899,714)	(1,297,847)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 11 - Income Taxes - Continued**

On September 29, 2016, the Company's holders of Term debt, in accordance with their rights under the terms of its applicable pledge and security agreement, exercised rights under the Term loan facilities, and acquired at public auction all the equity interest of the Company, and exchanged the majority of its debt for equity.

Starting from October 6, 2016, the Company filed tax returns as a standalone entity.

Prior to October 5, 2016, the Company's federal income taxes were filed as part of a consolidated return with Fushi Copperweld, Inc., the Company's former owner. The Company historically prepared its tax provision as if it filed a separate federal return.

The Company's subsidiary, Copperweld U.K., located in the United Kingdom, files tax returns in the United Kingdom. The losses recorded related to this subsidiary are not recognized for tax purposes in the United States until the investment is disposed as the Company treats income of the subsidiary as permanently reinvested. The Company has not provided U.S. income taxes of \$1,543,824 and \$1,607,532 as of December 31, 2017 and 2016, respectively, of accumulated undistributed losses of its Copperweld U.K. subsidiary. Additionally, the Company's cash balances at Copperweld U.K. were \$229,093 and \$60,539 as of December 31, 2017 and 2016, respectively. The Company does not intend to repatriate future earnings of Copperweld U.K. and would need to consider the tax implications if these funds were repatriated.

There was valuation allowance for domestic deferred tax assets of \$1,693,496 and \$1,043,459 as of December 31, 2017 and 2016, respectively. There was a valuation allowance for foreign deferred tax asset of \$206,218 and \$254,388 as of December 31, 2017 and 2016, respectively. Total valuation allowance was \$1,899,714 and \$1,297,847 as of December 31, 2017 and 2016, respectively. The net change in the valuation allowance was \$601,867 and (\$3,091,437) for the year ended December 31, 2017 and 2016, respectively.

The valuation allowance reduces the deferred tax assets to the amounts that are more likely than not to be realized, which include substantially all deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and NOL's can be applied. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment.

As noted in note (9), the majority of the Company's debt was satisfied through the foreclosure and auction in September 2016. Through these transactions, a significant portion of the Term Loan debt was canceled and the previous lenders became equity holders in the Company. As a result of this transaction, substantially all of the deferred tax assets from federal NOL prior to the ownership change date, October 5, 2016 were either applied or lost.

The Company would have needed to generate significant future taxable income in order to fully realize the domestic deferred tax assets for federal income tax. Since the company has incurred net loss during a three-year period that includes the current year and the prior two years, a valuation allowance of \$1,693,496 and \$1,043,459 against the domestic deferred tax assets were accrued as of December 31, 2017 and 2016, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 11 - Income Taxes - Continued**

The tax returns of the U.S. Entities are subject to U.S. income tax examination by tax authorities. Both federal and state income tax return are subject to audit for the years from 2013 to 2017. Fushi Copperweld Inc.'s consolidated federal income tax return of fiscal year 2013 was previously under audit from the Internal Revenue Service (IRS). On June 17, 2016, the IRS completed its audit of 2013 with no additional taxes owed by the Company. The Company's consolidated tax returns for fiscal years 2014, 2015, and 2016 are the remaining potential years for selection. The Company's tax return for fiscal years 2016 and 2017 are the remaining potential years for selection.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. The company has analyzed potential liability for uncertain tax positions, and has not accrued for uncertain tax positions or unrecognized tax positions as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Company did not have any unrecognized tax benefits and thus no interest or penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

**Note 12 - 401(k) and Profit Sharing Plan**

Copperweld Bimetallics U.S. employees are provided a 401(k) plan. U.S. employees are eligible for the defined contribution plan after three months of full-time employment. Employee deferrals and company matching are 100% vested immediately upon eligibility. Copperweld Bimetallics matches up to 4% for participating employees. The cost recognized by the Company for matching contributions was \$138,437 and \$125,980 for the years ended December 31, 2017 and 2016, respectively.

Copperweld U.K. operates a defined contribution pension scheme for employees. All U.K. employees are eligible to join the pension on satisfactory completion of their trial period, which is typically three months. U.K. employees can contribute as much as they like subject to current U.K. laws, but the Company will match only the first 2.5% of gross pay in the current year. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to expense. The cost recognized by the Company was approximately \$10,140 and \$8,222 for the years ended December 31, 2017 and 2016, respectively.

**Note 13 - Commitments and Contingencies**

**(a) Product Warranties**

The Company's product warranties against technical defects of its copper-clad products wires vary, depending on sales orders with each customer. The warranties require the Company to replace defective components and pay for the losses customers incur from defective products or a certain percentage of the selling price as liquidated damages for the Company's failure to meet the specified product specifications and packaging requirements in the sales orders. The Company has not established any reserves for potential warranty claims as historically they have experienced few warranty claims for their products for amounts that were not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**Note 13 - Commitments and Contingencies - Continued**

(b) Environmental Remediation Obligations

The Company's operations are subject to extensive regulations governing the creation, use, transportation and disposal of wastes and hazardous substances, air and water emissions, remediation, workplace exposure and other environmental matters. The costs of complying with such laws and regulations, including participation in assessments and clean-ups of sites, as well as internal voluntary programs, can be significant and will continue to be so for the foreseeable future. Future environmental regulations could impose stricter compliance requirements on the Company and the end markets that they serve. Additional pollution control equipment, process changes, or other environmental control measures may be needed at some of the Company's facilities to meet future requirements. Additionally, evolving regulatory standards and expectations could result in increased litigation and/or increased costs of compliance with environmental laws, all of which could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Environmental matters for which the Company may be liable may arise in the future at the Company's present sites, at previously owned sites, sites previously operated by the Company, or sites owned by the Company's predecessors. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), established responsibility for clean-up without regard to fault for persons who have released or arranged for disposal of hazardous substances at sites that have become contaminated and for persons who own or operate contaminated facilities.

In many cases, courts have imposed joint and several liability on parties at CERCLA clean-up sites. The Company's Fayetteville location is located in an industrial use area, which may have been contaminated by pollutants which may have migrated from neighboring facilities or have been released by prior occupants. Some of the Company's properties have been affected by releases of cutting oils and similar materials, and the Company is investigating and remediating such known contamination pursuant to applicable environmental laws. Although the costs of these clean-ups are not reasonably estimable at this time, the Company does not expect for the ultimate resolution to have a material effect on the Company's consolidated financial statements.

The Company is currently participating in funding an environmental investigation for a Superfund Site for Chemetco, a secondary copper smelting facility in Southern Illinois, which operated from 1970 to 2001 and to which the Company, along with hundreds of other companies, indirectly shipped scrap metal for recycling. A reasonable estimate of the possible loss or range of loss cannot be made until the site investigation and cleanup plan, as well as the Environmental Protection Agency's review of all shipping records, are complete.