Omni Valve Company, LLC
Muskogee, Oklahoma

Financial Statements

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

FINANCIAL STATEMENTS

Table of Contents

INDEPENDENT AUDITORS' REPORT

To the Members
Omni Valve Company, LLC
Muskogee, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Omni Valve Company, LLC (the "Company"), which comprise the balance sheet as of December 31, 2016, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' 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. 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 auditors' 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 auditors consider internal control relevant to the Company'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 Company'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.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Prior Period Financial Statements

The financial statements of the Company as of December 31, 2015, were audited by other auditors whose report dated April 15, 2016, expressed an unmodified opinion on those statements.

Finley + Cook, PLLC

Shawnee, Oklahoma
May 3, 2017

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

BALANCE SHEETS

December 31,		*2016*	*2015*
Assets			
Current assets:			
Cash and cash equivalents	$	114,756	203,741
Trade accounts receivable, net of allowance for doubtful accounts of $207,870 and $250,000 at December 31, 2016 and 2015, respectively		7,219,707	6,036,635
Inventory		22,620,611	28,025,882
Prepaid assets		178,557	141,811
Deposit for bonds payable		266,060	-
Total current assets		30,399,691	34,408,069
Noncurrent assets:			
Fixed assets:			
Land		80,400	80,400
Buildings		1,171,614	1,171,614
Building improvements		230,399	211,274
Machinery and equipment		2,017,459	2,011,174
Office furniture and equipment		283,654	281,782
Software		70,350	70,350
		3,853,876	3,826,594
Less accumulated depreciation		1,527,696	1,143,337
Total fixed assets, net		2,326,180	2,683,257
Intangible asset		210,000	210,000
Deposits		82,235	184,708
Deposit for bonds payable		-	266,060
Total noncurrent assets		2,618,415	3,344,025
Total assets	$	33,018,106	37,752,094

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

BALANCE SHEETS, CONTINUED

December 31,	*2016*	*2015*
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable	$ 17,977,357	16,675,624
Accrued expenses	196,059	223,586
Current portion of long-term debt	259,380	192,848
Operating line of credit—PNC Bank	11,438,446	14,080,357
Equipment line—PNC Bank	572,603	698,189
Total current liabilities	30,443,845	31,870,604
Noncurrent liabilities:		
Long-term debt, less current maturities	5,000,000	5,234,057
Total noncurrent liabilities	5,000,000	5,234,057
Total liabilities	35,443,845	37,104,661
Members' (deficit) equity	(2,425,739)	647,433
Total liabilities and members' (deficit) equity	$ 33,018,106	37,752,094

See Independent Auditors' Report.
See accompanying notes to financial statements.

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

STATEMENTS OF OPERATIONS

Years Ended December 31,	*2016*	*2015*
Operating revenues:		
Net sales	$ 23,251,957	34,784,563
Cost of sales	(17,627,368)	(24,204,016)
Gross profit	5,624,589	10,580,547
Selling, general, and administrative expenses	7,717,977	10,030,718
Operating (loss) income	(2,093,388)	549,829
Nonoperating revenues (expenses):		
Interest expense	(1,178,239)	(1,230,288)
Loss on disposal of fixed assets	(893)	(29,158)
Other income	4,699	24,853
Net nonoperating revenues (expenses)	(1,174,433)	(1,234,593)
Net loss	$ (3,267,821)	(684,764)

See Independent Auditors' Report.
See accompanying notes to financial statements.

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31,		*2016*	*2015*
Members' equity, beginning of year	$	647,433	1,528,753
Distributions to members for taxes		-	(196,556)
Contributions from members - tax refunds		194,649	-
Net loss		(3,267,821)	(684,764)
Members' (deficit) equity, end of year	$	(2,425,739)	647,433

See Independent Auditors' Report.
See accompanying notes to financial statements.

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Years Ended December 31,	*2016*	*2015*
Cash flows from operating activities:		
Net loss	$ (3,267,821)	(684,764)
Adjustments to reconcile net loss to		
net cash provided by operating activities:		
Depreciation and amortization	448,199	482,688
Loss on disposal of fixed assets	893	29,158
Provision for bad debt	-	255,915
Changes in operating assets and liabilities:		
Accounts receivable	(1,183,072)	8,658,592
Inventory	5,405,271	(8,372,960)
Prepaid assets	(36,746)	(32,694)
Deposits	102,473	145,831
Accounts payable	1,301,733	1,594,711
Accrued expenses	(27,527)	(521,768)
Net cash provided by operating activities	2,743,403	1,554,709
Cash flows from investing activities:		
Proceeds received from disposal of fixed assets	-	18,000
Purchases of fixed assets	(29,782)	(670,071)
Net cash used in investing activities	(29,782)	(652,071)
Cash flows from financing activities:		
Payments on line of credit	(2,705,074)	(1,895,700)
Advances on equipment line	-	784,942
Payments on equipment line	(116,241)	(86,753)
Payments on notes payable	(175,940)	(243,978)
Payments on capital leases payable	-	(13,060)
Contributions from members	194,649	-
Distributions to members	-	(196,556)
Net cash used in financing activities	(2,802,606)	(1,651,105)
Net decrease in cash and cash equivalents	(88,985)	(748,467)
Cash and cash equivalents at beginning of year	203,741	952,208
Cash and cash equivalents at end of year	$ 114,756	203,741
Supplemental cash flow information:		
Cash paid for interest	$ 1,177,515	1,228,283

See Independent Auditors' Report.
See accompanying notes to financial statements.

(1) NATURE OF BUSINESS

The accompanying financial statements include the financial position and results of operations of Omni Valve Company, LLC (the "Company"). The Company is located in Muskogee, Oklahoma, with its primary operations consisting of the manufacturing and distribution of valves and actuators to the oil and natural gas industries. The Company also operates warehouses in Houston, Texas, and New Philadelphia, Ohio, which house finished goods inventory and has inventory on consignment at sales offices located in Houston, Texas; Alice, Texas; Victoria, Texas; and Edmonton, Alberta, Canada. The Company's customer base primarily consists of companies based in the United States. The Company was established in perpetuity as an Oklahoma limited liability company in December 2010, but did not begin its active operations until January 1, 2011.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States and is presented on the accrual basis of accounting.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at the time of shipment. Sales are recorded net of discounts, rebates, and returns.

Trade Accounts Receivable and Credit Policy

Accounts receivable primarily consist of amounts due from customers for sales of inventory. The Company's management considers various factors in determining its allowance for doubtful accounts, including the length of time the receivable is past due, the payment history of the customer, the customer's financial status, and the Company's overall collection history. Receivables are normally considered to be delinquent when they become more than 90 days outstanding. A receivable is charged-off when management has determined that all methods for collection of the receivable have been exhausted. As of December 31, 2016 and 2015, the Company had an allowance for doubtful accounts of $207,870 and $250,000, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation of fixed assets is provided using the straight-line method over their estimated useful service lives. Gains and losses related to dispositions and retirements are included in nonoperating income. Maintenance and repairs are charged to income as incurred; renewals and betterments are capitalized. Assets are reviewed for possible impairment when events indicate that the carrying amount of an asset may not be recoverable. Assumptions and estimates used in the evaluation of impairment may affect the carrying value of the fixed assets, which could result in impairment charges in future periods. Depreciation expense for the years ended December 31, 2016 and 2015, was $385,966 and $426,063, respectively.

The estimated useful lives for computing depreciation are as follows:

Buildings	39 years
Building improvements	5–15 years
Machinery and equipment	3–7 years
Office furniture and equipment	3–7 years
Software	3–5 years

Shipping and Handling Costs

Shipping and handling costs totaling approximately $225,000 and $497,000 for the years ended December 31, 2016 and 2015, respectively, are included in selling, general, and administrative expenses in the accompanying financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

Each member's share of the Company's profits and losses are included in their respective income tax returns. Accordingly, no provision for federal or state income taxes has been provided for in the accompanying financial statements.

The Company evaluates and accounts for uncertain tax positions in accordance with *Accounting Standards Codification* (ASC) Topic 740, "Income Taxes," for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. The guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions with respect to tax at the Company level deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit. Through its evaluation of the Company's uncertain tax positions, management has determined no uncertain tax positions existed as of December 31, 2016, which would require the Company to record a liability for the uncertain tax positions in the accompanying financial statements.

Inventory

Inventory is stated at the lower of cost or market, with cost determined using the first-in, first out method. Inventory consisted of the following as of December 31:

	2016	2015
Finished goods	$ 22,098,905	27,417,881
Work in process	521,706	608,001
	$ 22,620,611	28,025,882

See Independent Auditors' Report.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Identifiable Intangible Assets

In accordance with ASC paragraph 350-30-50-2, intangible assets with indefinite lives are not subject to amortization, and definite-lived intangible assets are amortized to expense over their estimated useful life. Identifiable intangible assets are reviewed for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable.

The Company also tests indefinite-lived intangible assets for impairment on an annual basis. If the fair value is determined to be less than the carrying amount of the asset, a loss is recognized for the difference. As of December 31, 2016 and 2015, the Company had an intangible asset of $210,000 with an indefinite life.

Deferred Costs on Line of Credit

Deferred costs on line of credit consist of legal costs associated with obtaining the line of credit agreement with PNC Bank, National Association (see Note 5) and are being amortized to expense over 5 years on a straight-line basis. These costs are presented as a direct reduction of the related line of credit liability in the accompanying financial statements.

Accounting Estimates

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

Cash and Cash Equivalents

The Company considers all demand deposit accounts and highly liquid debt instruments purchased with a maturity of 3 months or less to be cash and cash equivalents.

Advertising

The cost of advertising is expensed as incurred. Advertising and marketing expense was approximately $110,000 and $135,000 for the years ended December 31, 2016 and 2015, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 clarifies the principles for recognizing revenue by providing a more robust framework that will give greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in contracts with customers, a determination of the transaction price, and an allocation of the price to those performance obligations. The entity recognizes revenue when performance obligations are satisfied. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers—Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is effective for the Company's annual periods beginning after December 15, 2018. Currently, the Company has not evaluated the impact on the financial statements of adopting ASU 2014-09.

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about the Company's ability to continue as a going concern and related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. Adoption of ASU 2014-15 resulted in additional disclosures in the footnotes to the Company's financial statements for the year ended December 31, 2016.

In April 2015, FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The ASU changes the presentation of debt issuance costs in financial statements by presenting such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of such costs are presented as interest expense. The provisions of ASU 2015-03 are effective for fiscal years beginning after December 15, 2015. The Company has adopted the requirements of ASU 2015-03 and modified its presentation of debt issuance costs so that they are presented as a direct reduction from the related debt liability.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In June 2015, FASB issued ASU No. 2015-10, *Technical Corrections and Improvements* (ASU 2015-10). ASU 2015-10 covers a wide range of ASC topics and represents changes to clarify the codification, correct unintended application of guidance, or make minor improvements to the codification that are not expected to have a significant effect on current accounting practice. The amendments in ASU 2015-10 that are subject to transition guidance are effective for fiscal years beginning after December 15, 2015; all other amendments were effective upon issuance of the update. Adoption of ASU 2015-10 did not and is not expected to have a significant effect on the Company's financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires that lessees recognize on the balance sheet the assets and liabilities for the rights and obligations created by operating leases. ASU 2016-02 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2018, and for financial statements issued for fiscal years beginning after December 15, 2019, for all other entities. Currently, the Company has not evaluated the impact on the financial statements of adopting ASU 2016-02.

In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which clarifies the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 addresses eight cash flow issues, including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows. ASU 2016-15 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Company has not evaluated the impact on the financial statements of adopting ASU 2016-15.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash* (ASU 2016-18), which requires restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Company has not evaluated the impact on the financial statements of adopting ASU 2016-18.

In December 2016, FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (ASU 2016-20), which affects narrow aspects of the guidance issued in ASU 2014-09. ASU 2016-20 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Company has not evaluated the impact on the financial statements of adopting ASU 2016-20.

Employee Costs

The Company has an agreement with a professional employer organization (PEO) to utilize the PEO's employees. The PEO is the employer of record for tax purposes, responsible for withholding and remitting federal and state taxes under its own federal identification number. The Company directs the employees' day-to-day activities. The Company's payment to the PEO includes a service fee for managing the human resources and payroll functions.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year presentation. These reclassifications had no effect on previously reported results of operations or members' equity.

Subsequent Events

The Company has evaluated subsequent events through May 3, 2017, which is the date the financial statements were available to be issued.

(3) CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally does not require collateral prior to extending credit.

For the years ended December 31, 2016 and 2015, approximately 49% and 45%, respectively, of the Company's total sales were with its five largest customers.

The Company maintains cash balances at financial institutions located in the United States. From time to time, the accounts may exceed the limits insured by the Federal Deposit Insurance Corporation. Management does not consider this to be a significant risk.

As noted previously, the primary activity of the Company is selling valves and actuators in the oil and natural gas industries. As such, the Company is subject to the domestic and international economic and political factors which impact the oil and natural gas industries.

A significant portion of the Company's inventory is manufactured outside of the United States. As such, there is a risk that operations could be disrupted in the near term.

(4) RELATED-PARTY TRANSACTIONS

The Company's outstanding accounts payable at December 31, 2016 and 2015, included approximately $16,582,000 and $14,879,000, respectively, due to one of its members, Ghatge Patil Industries, Ltd (GPI), for the purchase of inventory. During the years ended December 31, 2016 and 2015, the Company paid interest on past due accounts payable to GPI of approximately $157,000 and $152,000, respectively.

As of December 31, 2016 and 2015, the Company had receivables due from GPI of approximately $1,930,000 and $514,000, respectively.

As discussed in Note 5, during 2014 GPI provided a standby letter of credit to secure the Company's note payable due to Export-Import Bank of India. The Company reimbursed GPI approximately $112,000 and $123,000 during the years ended December 31, 2016 and 2015, respectively, for expenses it incurred in providing the standby letter of credit.

As discussed in Note 5, the Company had a note payable to a former operating member in relation to the repurchase of the member's ownership units during 2012. As of December 31, 2015, the balance of the note payable issued as part of the repurchase was approximately $58,000. The full balance of the note was paid off in 2016.

(4) RELATED-PARTY TRANSACTIONS, CONTINUED

In December of 2014, two of the Company's members formed an Oklahoma-based corporation called Omni Valve International Inc. ("International"), which qualifies as an interest charge domestic international sales corporation (IC-DISC). The purpose of the IC-DISC is to allow qualifying export sales made by the Company to be taxed at a lower rate for the two members who formed International. Commissions based on the Company's qualifying export sales are paid by the Company to International, which flow through to International's owners as dividends. International's owners then contribute the dividends back to the Company. There is a zero net effect on the members' equity of the Company as part of these transactions. During the years ended December 31, 2016 and 2015, the Company paid total commissions to International and received total contributions from the two members who formed International of $510,000 and $990,000, respectively. These transactions have been presented on a net basis in the accompanying financial statements for the years ended December 31, 2016 and 2015.

(5) DEBT

Line of Credit and Equipment Line of Credit—PNC Bank, National Association

The Company has available a revolving line of credit with PNC Bank, National Association ("PNC Bank") dated July 29, 2013, as subsequently amended, for the lesser of (a) $20,000,000 or (b) the sum of:

- 85% of eligible trade accounts receivable plus the lesser of $3,500,000 or 85% of eligible insured foreign receivables, plus

- 75% of eligible inventory and eligible discounted inventory; up to 85% of the appraised net orderly liquidation value percentage of eligible inventory and eligible discounted inventory; or $12,000,000.

The line of credit expires in July 2018, unless extended, and is secured by essentially all of the Company's assets and the personal guarantee of the Company's operating members. Borrowings under the line of credit bear interest at a variable interest rate based on criteria defined in the line of credit agreement and subsequent amendments. The interest rate was 7.5% and 5.25% at December 31, 2016 and 2015, respectively. The outstanding balance on the line of credit at December 31, 2016 and 2015, was $11,438,446 and $14,080,357, net of unamortized deferred loan costs of $85,212 and $139,030, respectively. Borrowings under the line of credit are subject to certain financial covenants and restrictions on indebtedness, dividend payments, financial guarantees, business combinations, and other related items.

(5) DEBT, CONTINUED

Line of Credit and Equipment Line of Credit—PNC Bank, National Association, Continued

As part of the third amendment to the Company's line of credit agreement with PNC Bank, the Company obtained an additional $1,000,000 equipment line effective September 1, 2014, for which it could draw down advances on qualifying equipment purchases. During the year ended December 31, 2015, the Company received advances on the equipment line of $784,942. Borrowings under the equipment line will bear interest at a variable interest rate based on criteria defined in the line of credit agreement and subsequent amendments, with payment of principal and interest on the equipment line similar to the terms in the line of credit agreement. The interest rate was 7.5% and 5.25% at December 31, 2016 and 2015, respectively. The outstanding balance on the equipment line at December 31, 2016 and 2015, was $572,603 and $698,189, respectively.

As of December 31, 2016 and 2015, the Company was not in compliance with the financial covenants and PNC Bank has not waived the financial covenant requirements. The total outstanding balance of the line of credit and the equipment line at December 31, 2016 and 2015, is subject to accelerated maturity and, as such, the creditors may, at their option, give notice to the Company that amounts owed are immediately due and payable. As a result, the balances for the line of credit and equipment line have been classified as current liabilities in the accompanying balance sheets at December 31, 2016 and 2015. The Company has continued to make the required principal and interest payments on the line of credit and equipment line. The Company is also working with PNC Bank to modify the financial covenant requirements of the line of credit agreement to levels that are more in line with the expected results of its current operations, which would allow the Company to come back into compliance with the covenants during 2017.

Long-Term Debt—Ownership Repurchase

In July 2012, the Company entered into an unsecured note agreement with one of its operating members to repurchase the member's 2,000 ownership units for a total price of $432,000. The Company issued a note payable to the member in the amount of $432,000. The note is due in monthly principal and interest payments of $9,754, with interest at a fixed rate of 4%, with all unpaid principal and interest due at maturity in July 2016. The outstanding principal balance on the note as of December 31, 2015, was approximately $58,000. The unpaid principal and interest on the note is considered subordinate to the Company's line of credit with PNC Bank. The full balance of the note was paid off in 2016.

(5) DEBT, CONTINUED

Long-Term Debt—Export-Import Bank of India

During March 2014, the Company entered into a $5,000,000 note payable agreement with Export-Import Bank of India ("EXIM Bank"). The note payable required quarterly interest payments, with all unpaid principal and interest due at the note's maturity date in March 2016. The unpaid principal and interest on the note was considered subordinate to the Company's line of credit with PNC Bank. In March 2016, the Company agreed to terms with EXIM Bank for the extension of the note payable through March 2018. As such, the full balance of the note payable was classified as a noncurrent liability in the accompanying balance sheets as of December 31, 2016 and 2015. Interest on the note is at a variable rate equal to the 6-month LIBOR rate plus 3% (approximately 4.3% and 3.5% at December 31, 2016 and 2015, respectively). The note is secured by a standby letter of credit that GPI has provided in favor of EXIM Bank. As of December 31, 2016 and 2015, the balance of the note was $5,000,000.

Long-Term Debt—Muskogee County

The Company has debt that consists of a $1,900,000 loan agreement with the Muskogee County Industrial Development Authority (the "Authority") that it assumed as part of its purchase of APC Leasing, LLC in 2011. The Authority issued general obligation bonds in January of 2004, which are repaid by the payments on the loan agreement. Collateral for the loan consists of a mortgage on the land, building, and equipment that the Company obtained from APC Leasing, LLC that is used in the Company's day-to-day operations. The loan agreement has no stated interest rate, but contains a summary of principal and interest payments to be made in order for the interest and principal of the bonds to be repaid. The effective interest rate as of December 31, 2016, was approximately 7.1%. The loan agreement required the Company to maintain a deposit of 2 years' of interest in the amount of $266,060 in a sinking fund of the Authority, as well as $135,714 of principal. The deposit of principal was considered a principal payment. The interest deposit is reflected in the accompanying financial statements as a long-term deposit and will be used to make principal and interest payments in the later term of the agreement. The final payment is due June 1, 2018, per the loan agreement. However, with the upfront payment of principal, the loan will fully amortize by June 1, 2017. Interest income earned by the sinking fund will be used for certain Authority expenses associated with the bond issue and to reduce monthly payments of the Company. The outstanding principal balance of the loan as of December 31, 2016, was $259,380. The Company utilized the sinking fund deposit and paid off the full balance of the loan in January of 2017. As such, the $266,060 deposit has been classified as a current asset and the $259,380 loan has been classified as a current liability in the accompanying balance sheet as of December 31, 2016.

(5) DEBT, CONTINUED

Required Future Principal Payments on Long-Term Debt

A summary of the combined estimated future principal payments due on the long-term debt with EXIM Bank and Muskogee County at December 31, 2016, is as follows:

2017	$ 259,380
2018	5,000,000
	$ 5,259,380

(6) OPERATING AGREEMENT

The Company was formed under an Operating Agreement (the "Agreement"), which was amended and restated effective November 1, 2011. The Agreement specifies that ownership interests in the Company will be represented in units and authorizes an initial total of 12,250 units that can be issued by the Company. The Agreement classifies ownership in the Company as either operating members or investor members. Operating members are those members who are also full-time employees of the Company. As of December 31, 2016, the Company had two operating members and five investor members.

In addition to defining the types of members, the Agreement also includes the methods for which profits and losses of the Company are to be allocated to its members. The Agreement also provides certain restrictions on the members' ability to transfer their units to non-owners of the Company without first offering to sell their units back to the Company or to other existing members. Under the terms of the Agreement, the personal liability of the members to the Company and its creditors is limited to the full extent permitted by the Oklahoma Limited Liability Company Act.

(7) COMMITMENTS AND CONTINGENCIES

Compensation Agreement

In May 2012, the Company entered into an agreement with Turco Valve Supply (TVS), whereby all employees of TVS became employees of the Company. Terms of the agreement include a base annual salary of $65,000 plus a monthly car allowance and health benefits for the owner of TVS, who became a vice president of sales (the "VP") of the Omniseal product line for the Company when the agreement was executed. The agreement also requires annual payments to the VP of $150,000 in 2012 and 2013 and annual payments of $200,000 in 2014, 2015, and 2016. In February 2016, the Company made the final required $200,000 payment.

Litigation Settlement

In March 2012, the Company entered into a settlement agreement with Array Holdings, Inc. ("Array Holdings") in relation to a lawsuit that Array Holdings had against the Company. In general, the Company agreed to acquire certain inventory from Array Holdings as part of the settlement, as well as to assume the outstanding liability that Array Holdings had on a building located in Muskogee, Oklahoma. Due to certain regulatory issues, the Company was initially unable to get the liability relating to the building in its name. Beginning April of 2012, the Company made monthly lease payments of $7,719 to Array Holdings for the use of the building. During the year ended December 31, 2015, the Company was able to resolve the regulatory issues and completed the purchase of the building.

Operating Leases

The Company has entered into various lease agreements for warehouse and office space. The lease agreements have varying terms and payment requirements. Total lease expense for the years ended December 31, 2016 and 2015, was approximately $472,000 and $490,000, respectively.

Required future payments under noncancelable leases at December 31, 2016, are as follows:

2017	$	390,984
2018		396,546
2019		402,216
2020		67,194
	$	1,256,940

See Independent Auditors' Report.

(8) OPERATING LOSS AND DEFICIT IN MEMBERS' EQUITY

The financial statements were prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As documented in Note 5, the Company was not in compliance with the financial covenant requirements of its line of credit agreements at December 31, 2016. The Company had negative working capital of approximately $43,000 and a deficit in member's equity of approximately $2,426,000 at December 31, 2016. The Company had net losses of approximately $3,268,000 and $685,000 during the years ended December 31, 2016 and 2015, respectively. The negative financial results are primarily due to a significant downturn in oil and natural gas prices during 2016 and 2015 that resulted in decreased demand for the Company's products.

Management has worked with GPI and obtained approval to delay payment of the accounts payable that are due to GPI until cash flow permits the Company to pay the invoices under standard terms. Management has also taken steps to control costs and reduce expenses. Although actual results may vary from estimates, management does anticipate an increase in sales of approximately 30% in 2017, which it believes will significantly improve cash flow. Management believes that the Company will have sufficient cash flow and capital to operate over the next 12 months.