

Omni Valve Company, LLC
Muskogee, Oklahoma

Financial Statements

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)



**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

FINANCIAL STATEMENTS

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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 sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in members' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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)

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Finley + Cook, PLLC

Shawnee, Oklahoma
April 24, 2018

**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

BALANCE SHEETS

<i>December 31,</i>	<i>2017</i>	<i>2016</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,535	114,756
Trade accounts receivable, net of allowance for doubtful accounts of \$137,762 and \$207,870 at December 31, 2017 and 2016, respectively	7,754,113	7,219,707
Inventory	20,799,032	22,620,611
Prepaid assets	184,498	178,557
Deposit for bonds payable	-	266,060
Total current assets	<u>28,813,178</u>	<u>30,399,691</u>
Noncurrent assets:		
Fixed assets:		
Land	80,400	80,400
Buildings	1,171,614	1,171,614
Building improvements	242,188	230,399
Machinery and equipment	2,095,020	2,017,459
Office furniture and equipment	288,975	283,654
Software	70,350	70,350
	<u>3,948,547</u>	<u>3,853,876</u>
Less accumulated depreciation	<u>1,882,161</u>	<u>1,527,696</u>
Total fixed assets, net	2,066,386	2,326,180
Intangible asset	210,000	210,000
Deposits and accounts receivable, other	<u>283,264</u>	<u>82,235</u>
Total noncurrent assets	<u>2,559,650</u>	<u>2,618,415</u>
Total assets	<u>\$ 31,372,828</u>	<u>33,018,106</u>

(Continued)

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

OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA

BALANCE SHEETS, CONTINUED

<i>December 31,</i>	<i>2017</i>	<i>2016</i>
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable	\$ 16,180,168	17,977,357
Accrued expenses	181,621	196,059
Current portion of long-term debt	-	259,380
Total current liabilities	<u>16,361,789</u>	<u>18,432,796</u>
Noncurrent liabilities:		
Long-term debt, less current maturities	<u>16,483,110</u>	<u>17,011,049</u>
Total noncurrent liabilities	<u>16,483,110</u>	<u>17,011,049</u>
Total liabilities	<u>32,844,899</u>	<u>35,443,845</u>
Members' deficit	<u>(1,472,071)</u>	<u>(2,425,739)</u>
Total liabilities and members' deficit	<u>\$ 31,372,828</u>	<u>33,018,106</u>

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

**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

STATEMENTS OF OPERATIONS

<i>Years Ended December 31,</i>	<i>2017</i>	<i>2016</i>
Operating revenues:		
Net sales	\$ 32,246,302	23,251,957
Cost of sales	<u>(21,377,447)</u>	<u>(17,627,368)</u>
Gross profit	10,868,855	5,624,589
Selling, general, and administrative expenses	<u>7,956,764</u>	<u>7,717,977</u>
Operating income (loss)	<u>2,912,091</u>	<u>(2,093,388)</u>
Nonoperating revenues (expenses):		
Interest expense	(1,187,954)	(1,178,239)
Loss on disposal of fixed assets	-	(893)
Other income	<u>29,478</u>	<u>4,699</u>
Net nonoperating revenues (expenses)	<u>(1,158,476)</u>	<u>(1,174,433)</u>
Net income (loss)	<u>\$ 1,753,615</u>	<u>(3,267,821)</u>

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

**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

<i>Years Ended December 31,</i>	<i>2017</i>	<i>2016</i>
Members' (deficit) equity, beginning of year	\$ (2,425,739)	647,433
Distributions to members for taxes	(799,947)	-
Contributions from members—tax refunds	-	194,649
Net income (loss)	<u>1,753,615</u>	<u>(3,267,821)</u>
Members' deficit, end of year	<u>\$ (1,472,071)</u>	<u>(2,425,739)</u>

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

<i>Years Ended December 31,</i>	<i>2017</i>	<i>2016</i>
Cash flows from operating activities:		
Net income (loss)	\$ 1,753,615	(3,267,821)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	408,282	448,199
Loss on disposal of fixed assets	-	893
Changes in operating assets and liabilities:		
Trade accounts receivable	(534,406)	(1,183,072)
Inventory	1,821,579	5,405,271
Prepaid assets	(5,941)	(36,746)
Deposits and accounts receivable, other	65,031	102,473
Accounts payable	(1,797,189)	1,301,733
Accrued expenses	(14,438)	(27,527)
Net cash provided by operating activities	1,696,533	2,743,403
Cash flows from investing activities:		
Purchases of fixed assets	(94,670)	(29,782)
Net cash used in investing activities	(94,670)	(29,782)
Cash flows from financing activities:		
Payments on line of credit	(448,000)	(2,705,074)
Payments on equipment line	(133,757)	(116,241)
Payments on notes payable	(259,380)	(175,940)
Contributions from members	-	194,649
Distributions to members	(799,947)	-
Net cash used in financing activities	(1,641,084)	(2,802,606)
Net decrease in cash and cash equivalents	(39,221)	(88,985)
Cash and cash equivalents at beginning of year	114,756	203,741
Cash and cash equivalents at end of year	\$ 75,535	114,756
Supplemental cash flow information:		
Cash paid for interest	\$ 1,223,181	1,177,515

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

**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

(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 a warehouse in Houston, Texas, which houses 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 and began its active operations on 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

Trade 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, 2017 and 2016, the Company had an allowance for doubtful accounts of \$137,762 and \$207,870, respectively.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2017 and 2016, was \$354,465 and \$385,966, 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 \$253,000 and \$225,000 for the years ended December 31, 2017 and 2016, respectively, are included in selling, general, and administrative expenses in the accompanying financial statements.

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.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Income Taxes, Continued

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, 2017 or 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 net realizable value, with cost determined using the first-in, first out method. Inventory consisted of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Finished goods	\$ 20,200,170	22,098,905
Work in process	<u>598,862</u>	<u>521,706</u>
	<u>\$ 20,799,032</u>	<u>22,620,611</u>

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, 2017 and 2016, the Company had an intangible asset of \$210,000 with an indefinite life.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 \$36,000 and \$110,000 for the years ended December 31, 2017 and 2016, respectively.

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.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In July 2015, FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11), which amends ASC Topic 330, "Inventory." ASU 2015-11 changes the requirement for inventory that is not measured using the last-in, first-out or the retail method to measure inventory at the lower of cost and net realizable value, rather than at the lower of cost or market. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less predictable cost of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. The amendments in ASU 2015-11 were adopted by the Company on December 31, 2016, which did not 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.

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.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

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.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through April 24, 2018, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2017 and 2016, approximately 55% and 49%, 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, 2017 and 2016, included approximately \$15,008,000 and \$16,582,000, respectively, due to one of its members, Ghatge Patil Industries, Ltd (GPI), for the purchase of inventory. During the year ended December 31, 2016, the Company paid interest on past due accounts payable to GPI of approximately \$157,000; no such interest was paid during 2017.

As of December 31, 2017 and 2016, the Company had receivables due from GPI of approximately \$1,030,000 and \$1,930,000, 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 \$129,000 and \$112,000 during the years ended December 31, 2017 and 2016, respectively, for expenses it incurred in providing the standby letter of credit.

The Company had a note payable to a former operating member in relation to the repurchase of the member's ownership units during 2012. The full balance of the note was paid off in 2016.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) RELATED-PARTY TRANSACTIONS, CONTINUED

In December 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, 2017 and 2016, the Company paid total commissions to International and received total contributions from the two members who formed International of \$720,000 and \$510,000, respectively. These transactions have been presented on a net basis in the accompanying financial statements for the years ended December 31, 2017 and 2016.

(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) \$18,000,000 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 \$10,000,000.

The line of credit expires in July 2019, 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% at both December 31, 2017 and 2016. The outstanding balance on the line of credit at December 31, 2017 and 2016, was \$11,044,264 and \$11,438,446, respectively, net of unamortized deferred loan costs of \$31,394 and \$85,212, 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.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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% at both December 31, 2017 and 2016. The outstanding balance on the equipment line at December 31, 2017 and 2016, was \$438,846 and \$572,603, respectively.

As of December 31, 2017, the Company was in compliance with the financial covenants required by PNC Bank.

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 original 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. Subsequent to December 31, 2017, the Company and EXIM Bank extended the maturity date through March 2020. As such, the full balance of the note payable was classified as a noncurrent liability in the accompanying balance sheets as of December 31, 2017 and 2016. Interest on the note is at a variable rate equal to the 6-month LIBOR rate plus 3% (approximately 4.5% and 4.3% at December 31, 2017 and 2016, respectively). The note is secured by a standby letter of credit that GPI has provided in favor of EXIM Bank. As of December 31, 2017 and 2016, the balance of the note was \$5,000,000.

See Independent Auditors' Report.

**OMNI VALVE COMPANY, LLC
MUSKOGEE, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) DEBT, CONTINUED

Long-Term Debt—Muskogee County Industrial Development Authority

The Company had debt that consisted 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 consisted 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 had no stated interest rate, but contained 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 would have been used to make principal and interest payments in the later term of the agreement. The final payment was due June 1, 2018, per the loan agreement. However, with the upfront payment of principal, the loan would have fully amortized by June 1, 2017. Interest income earned by the sinking fund was 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 2017.

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 the Authority at December 31, 2017, is as follows:

2018	\$	-
2019		11,483,110
2020		<u>5,000,000</u>
	\$	<u>16,483,110</u>

See Independent Auditors’ Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2017, 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 included 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 required 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.

Operating Leases

The Company has entered into various operating 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, 2017 and 2016, was approximately \$492,000 and \$472,000, respectively.

Required future payments under noncancelable leases at December 31, 2017, are as follows:

2018	\$	396,546
2019		402,216
2020		<u>67,194</u>
	\$	<u><u>865,956</u></u>

See Independent Auditors’ Report.