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

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**FORM 8-K/A  
Amendment No. 1**

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

**Date of Report (Date of earliest event reported): June 4, 2018 (May 7, 2018)**

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**NN, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**000-23486**  
(Commission  
File Number)

**62-1096725**  
(I.R.S. Employer  
Identification No.)

**6210 Ardrey Kell Road**  
**Charlotte, North Carolina**  
(Address of principal executive offices)

**28277**  
(Zip Code)

**(980) 264-4300**  
(Registrant's telephone number, including area code)

**207 Mockingbird Lane**  
**Johnson City, Tennessee, 37604**  
(Former name or former address, if changed since last report)

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Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company.

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.

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## EXPLANATORY NOTE

This Amendment No. 1 (this “Amendment”) is being filed by NN, Inc. (“NN”), to provide the financial statements and pro forma financial information that was not included in the Current Report on Form 8-K filed by NN on May 7, 2018 (the “Original Report”), relating to the acquisition of all of the outstanding capital stock of PMG Intermediate Holding Corporation, a Delaware corporation (“PMG”), pursuant to the Stock Purchase Agreement, dated April 2, 2018, by and among Precision Engineered Products LLC, a Delaware limited liability company, PMG, Paragon Equity LLC, a Delaware limited liability company and, solely for the purposes of Article V and Article XI therein, NN.

The sole purpose of this Amendment is to provide the financial statements and pro forma information required by Item 9.01, which were not included in the Original Report.

### **Item 9.01. Financial Statements and Exhibits.**

#### **(a) Financial Statements of Business Acquired**

The audited financial statements of PMG as of and for the year ended December 31, 2017, together with the notes thereto and the independent auditors’ report thereon, are filed as Exhibit 99.1 and are hereby incorporated in this Amendment by reference.

The condensed unaudited consolidated financial statements of PMG as of and for the three months ended March 31, 2018, and the notes related thereto, are filed as Exhibit 99.2 and are incorporated in this Amendment by reference.

#### **(b) Pro Forma Financial Information**

NN’s and PMG’s unaudited pro forma condensed combined balance sheet as of March 31, 2018, and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 and the three months ended March 31, 2018, and the notes related thereto, are filed as Exhibit 99.3 and are hereby incorporated in this Amendment by reference.

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(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
23.1	<a href="#"><u>Consent of RSM US LLP, independent auditors.</u></a>
99.1	<a href="#"><u>Audited financial statements of PMG Intermediate Holding Corporation as of and for the year ended December 31, 2017, together with the notes thereto and the independent auditors' report thereon.</u></a>
99.2	<a href="#"><u>Condensed unaudited consolidated financial statements of PMG Intermediate Holding Corporation as of and for the three months ended March 31, 2018, and the notes related thereto.</u></a>
99.3	<a href="#"><u>Unaudited pro forma condensed combined balance sheet of NN, Inc. and PMG Intermediate Holding Corporation as of March 31, 2018, and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 and the three months ended March 31, 2018, and the notes related thereto.</u></a>

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**NN, INC.**

Date: June 4, 2018

By: /s/ Matthew S. Heiter

Matthew S. Heiter  
Senior Vice President, General Counsel

**Consent of Independent Auditor**

We consent to the incorporation by reference in the Registration Statements (No. 333-216737) on Form S-3 and (Nos. 333-174519, 333-130395, 333-69588, 333-50934, and 333-216739) on Form S-8 of NN, Inc. of our report dated April 4, 2018 relating to the consolidated financial statements of PMG Intermediate Holding Corporation and Subsidiaries, appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Elkhart, Indiana  
June 4, 2018

**PMG Intermediate Holding Corporation  
And Subsidiaries**

Consolidated Financial Report  
12.31.2017

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## Independent Auditor's Report

To the Board of Directors  
PMG Intermediate Holding Corporation and Subsidiaries  
Pierceton, Indiana

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PMG Intermediate Holding Corporation and its Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows for the year then ended and the related notes to the consolidated 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 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 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 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.

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**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PMG Intermediate Holding Corporation and its Subsidiaries as of December 31, 2017, 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 of America.

**Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, the December 31, 2017 consolidated financial statements have been restated to reflect the Company's revocation of the adoption of the Private Company Council alternatives. Our opinion is not modified with respect to this matter.

/s/ RSM US LLP  
Elkhart, Indiana  
April 4, 2018

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Consolidated Balance Sheet  
December 31, 2017**

	As Restated
<b>Assets</b>	
Current assets:	
Cash	\$ 15,905,385
Trade receivables	19,510,151
Inventories	20,376,198
Other current assets	1,517,794
Deferred income taxes	750,742
<b>Total current assets</b>	<b>58,060,270</b>
Property, equipment and leasehold improvements, net	32,893,254
Goodwill	49,946,257
Other intangible assets	49,580,640
Other assets	3,773,319
	<u>\$194,253,740</u>
<b>Liabilities and Stockholder's Equity</b>	
Current liabilities:	
Current maturities of long-term debt	\$ 880,000
Accounts payable	9,361,937
Income taxes payable	179,063
Accrued expenses	12,165,129
<b>Total current liabilities</b>	<b>22,586,129</b>
Long-term debt, less current maturities	83,012,361
Deferred income taxes	9,274,417
Commitments and contingencies	
Stockholder's equity:	
Common stock, par value \$0.01, 100 shares issued and outstanding	1
Additional paid-in capital	82,601,650
Accumulated deficit	(3,438,740)
Accumulated other comprehensive income	217,922
	<u>79,380,833</u>
	<u>\$194,253,740</u>

See notes to consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Consolidated Statement of Income**  
**Year Ended December 31, 2017**

	As Restated
Net sales	\$140,979,278
Cost of sales	<u>107,818,700</u>
<b>Gross profit</b>	<b>33,160,578</b>
Operating expenses:	
Selling expenses	2,224,460
General and administrative expenses	19,702,307
Amortization of intangible assets	<u>4,864,336</u>
	<u>26,791,103</u>
<b>Operating income</b>	<b>6,369,475</b>
Nonoperating income (expense):	
Interest income	68,981
Interest expense	(7,971,558)
Other income	<u>1,548,258</u>
	<u>(6,354,319)</u>
<b>Income before income taxes</b>	<b>15,156</b>
Income tax (credits)	<u>(7,279,969)</u>
<b>Net income</b>	<b><u>\$ 7,295,125</u></b>

See notes to consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Consolidated Statement Of Comprehensive Income**  
**Year Ended December 31, 2017**

	<u>As Restated</u>
Net income	\$7,295,125
Foreign currency translation adjustment	<u>1,986,994</u>
<b>Comprehensive income</b>	<b><u><u>\$9,282,119</u></u></b>

See notes to consolidated financial statements.

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PMG Intermediate Holding Corporation and Subsidiaries

Consolidated Statement of Stockholder's Equity  
Year Ended December 31, 2017

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016, as restated	\$ 1	\$82,345,345	\$(10,733,865)	\$ (1,769,072)	\$69,842,409
Net income, as restated	—	—	7,295,125	—	7,295,125
Equity-based compensation cost	—	256,305	—	—	256,305
Foreign currency translation adjustment	—	—	—	1,986,994	1,986,994
<b>Balance, December 31, 2017, as restated</b>	<b>\$ 1</b>	<b>\$82,601,650</b>	<b>\$ (3,438,740)</b>	<b>\$ 217,922</b>	<b>\$79,380,833</b>

See notes to consolidated financial statements.

PMG Intermediate Holding Corporation and Subsidiaries

Consolidated Statement Of Cash Flows  
Year Ended December 31, 2017

	As Restated
Cash flows from operating activities:	
Net income	\$ 7,295,125
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	7,888,431
Amortization of intangible assets	4,864,336
Amortization of deferred financing costs	549,648
Deferred financing costs written off due to debt refinance	1,098,802
Other	(131,607)
Deferred income taxes	(9,089,112)
Change in assets and liabilities:	
Decrease (increase) in:	
Trade receivables	(2,113,352)
Inventories	(1,728,428)
Other assets	(401,864)
Increase in:	
Accounts payable	2,692,760
Income taxes payable	277,885
Accrued expenses	4,831,187
<b>Net cash provided by operating activities</b>	<b>16,033,811</b>
Cash flows from investing activities:	
Purchases of property and equipment	(8,879,646)
<b>Net cash used in investing activities</b>	<b>(8,879,646)</b>
Cash flows from financing activities:	
Payments of deferred financing costs	(2,486,382)
Proceeds from issuance of debt	88,000,000
Net payments on line of credit	(1,600,000)
Payments on notes payable	(81,441,747)
<b>Net cash provided by financing activities</b>	<b>2,471,871</b>
Effect of exchange rate changes on cash	451,929
<b>Increase in cash</b>	<b>10,077,965</b>
Cash, beginning	5,827,420
Cash, ending	<u>\$ 15,905,385</u>

See notes to consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business, Principles of Consolidation and Significant Accounting Policies**

**Nature of business:** PMG Intermediate Holding Corporation (“Intermediate”) and PMG Acquisition Corporation (“PMG”) were formed in 2013 to effect the acquisition of PMG’s wholly owned subsidiary, Paragon Medical, Inc., and its subsidiaries (collectively the “Company”). The Company is a worldwide supplier of surgical instrument delivery systems, surgical instrumentation, implantable components and design and development services to the medical device marketplace. The Company provides a wide range of services and innovative solutions to support the strategic needs of its customers through its multiple offices and production facilities in the United States, Switzerland, China, and Poland. Sales of surgical instrumentation and implantable components accounts for approximately 67 percent of total revenue, and surgical instrument delivery systems account for approximately 33 percent of the revenue. The Company’s foreign subsidiaries account for approximately 22 percent of total net revenue.

The Company is a wholly-owned subsidiary of Paragon Equity, LLC (“Parent”).

**Principles of consolidation:** The consolidated financial statements include the accounts of all subsidiaries of the Company. All intercompany transactions and balances are eliminated in consolidation.

**Significant accounting policies:**

**Use of estimates:** Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash:** The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

The Company also maintains cash in foreign bank accounts totaling approximately \$7,797,000.

**Trade receivables:** Receivables are recorded at their invoice amounts adjusted for any charge-offs and the allowance for doubtful accounts. The Company evaluates the credit worthiness of its customers on a periodic basis. The allowance for doubtful accounts was \$50,000 at December 31, 2017. The Company generally does not require collateral. Accounts are considered past due based on their individual invoice terms.

The allowance for doubtful accounts is maintained at a level, which, in management’s judgment, is adequate to absorb potential losses inherent in the accounts receivable. The amount of the allowance is based on management’s evaluation of the collectability of the accounts, including the credit concentrations, trends in historical loss experience, specific uncollectable accounts receivable, and economic conditions. The allowance is increased by a provision for bad debts, which is charged to expense. Write-offs are charged against the allowance when management believes the uncollectability of an account is confirmed. Subsequent recoveries, if any, are credited to the allowance.

**Inventories:** Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method.

Notes to Consolidated Financial Statements

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**Property, equipment and leasehold improvements:** Property, equipment and leasehold improvements are stated at cost. Depreciation on leasehold improvements and assets acquired under capital leases is over the lesser of the estimated useful life or the remaining lease term. Depreciation expense on assets acquired under capital leases is included with depreciation on owned assets. Depreciation on buildings and equipment is computed on the straight-line method over the following estimated useful lives:

	Years
Building	40
Machinery and equipment	2-7
Furniture and fixtures	5-7
Computer equipment	3-5

**Revenue recognition:** The Company recognizes revenue from sales of products when title passes to the customer and collectability is reasonably assured. The Company estimates and recognizes sales returns and discounts as a reduction in net sales in the same period that the sale is recognized. Revenue related to product development services is recognized on an as earned basis. For payments received in advance of the provision of development services, these amounts are recorded as deferred income.

**Goodwill:** The Company assesses goodwill for impairment annually on December 31 of each year as well as when an event triggering impairment may have occurred, by first assessing qualitative factors to determine whether it is more likely than not that the reporting unit's fair value is less than its carrying amount. If this assessment indicates that fair value of the reporting unit is more likely than not to be less than book value, the Company performs a two-step impairment test. The first step tests for impairment, while the second step, if necessary, measures the impairment. If the fair value of the reporting unit is less than the carrying value of the net assets and related goodwill, the Company performs the second step to determine the amount of impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit's goodwill over its implied fair value. Based on the results of the assessment of qualitative factors, the Company concluded that its goodwill was not impaired.

**Intangible assets:** Amortization of intangible assets is computed by the straight-line method, with no residual value, over their estimated useful lives.

The Company reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Company would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets. During the year ended December 31, 2017, as a result of its evaluation of long-lived assets, the Company determined no impairment loss was necessary.

**Deferred financing costs:** Amortization of deferred financing costs is computed over the term of the related debt.

**Interest rate cap agreement:** The Company accounts for its interest rate cap agreement as either an asset or a liability at its fair value in the consolidated balance sheet with the changes in the fair value reported in current-period earnings.

**Equity-based compensation:** The Company accounts for equity-based payment awards made to employees and directors by measuring and recognizing compensation expense based on estimated fair values. The Company estimates the fair value of equity-based payment awards on the date of grant using an option-pricing model to establish fair value of the equity or liability instruments it issues. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income.



Notes to Consolidated Financial Statements

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**Income taxes:** Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards 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 basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statement of income.

**Other income:** For the year ended December 2017, other income includes approximately \$1.2 million from a litigation settlement related to a dispute regarding the assets received from the acquisition of its Polish subsidiary in 2015.

**Currency exchange transactions and translation:** The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars using the exchange rate at the consolidated balance sheet date for the assets and liabilities, the historical exchange rates for stockholder's equity and an average exchange rate for the period for net sales, expenses and gains and losses. Translation adjustments are recorded in accumulated other comprehensive income on the consolidated balance sheet.

The functional currency of the Company's foreign subsidiaries is the same as their local currency, except for Poland whose functional currency is Euros. Foreign subsidiary transactions that are denominated in a foreign currency are translated into the functional currency of the subsidiary at the rate of exchange on the date of the transactions. Any assets/liabilities denominated in a foreign currency are adjusted at each balance sheet date to the rate of exchange at that date. Changes in the relative values of the foreign currency and the functional currency are included in operations each year as currency exchange gains or losses. Substantially all foreign subsidiary transactions are denominated in either the local currency, Euros or U.S. dollars. The Company's U.S. subsidiaries do not have material transactions denominated in a foreign currency. Exchange gains or losses were not material for any of the years presented and are recognized for income tax purposes only when funds are transferred.

**Pending accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations in the contract and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. The standard is effective for fiscal years beginning on or after December 15, 2018. Entities have the option of using either retrospective transition or a modified approach in applying the new standard. The Company is evaluating the impact the adoption of the new standard will have on the Company's consolidated financial statements.

Notes to Consolidated Financial Statements

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In November 2015, the FASB issued ASU 2015-07, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balances sheet. The new standard is effective for financial statements issued for annual periods beginning after December 5, 2017. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company has not yet selected a transition method and is evaluating the impact of the adoption of this standard 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 evaluating the impact the adoption of the new standard will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. ASU 2017-04 will be effective for the Company beginning on January 1, 2022. ASU 2017-04 must be applied prospectively with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material impact on the consolidated financial statements.

**Fair value of financial instruments:** The following methods and assumptions were used to estimate the fair value of financial instruments for which it is practicable to estimate that value:

**Cash and cash equivalents, trade receivables, accounts payable:** The carrying amounts approximate fair value due to the short maturity of those instruments.

**Long-term debt:** The carrying value of the Company's debt approximates fair value based on the recent debt refinancing and the terms of outstanding debt approximating terms currently available to the Company.

**Interest rate cap:** The fair value of the interest rate cap was estimated by discounting the expected future cash flows of both the fixed rate and variable rate interest payments using discount rates with consideration given to non-performance risk.

**Class P units in the Parent:** The fair value of the class P units has been estimated using the Black-Scholes option valuation model.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through April 4, 2018, the date the financial statements were available to be issued.

**Note 2. Restatement**

The consolidated financial statements as of and for the year ended December 31, 2017 have been restated to reflect the Company's revocation of the Private Company Council alternatives which had been adopted effective January 1, 2015. The impacts of the revocation were: reversal of all previously recorded goodwill amortization, recording customer base and order backlog intangibles separately from goodwill with respect to the 2015 acquisition of the Company's Polish subsidiary, recording amortization on those separate intangibles, and recording the related income tax effects of these adjustments.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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The following consolidated financial statement line items were affected by the restatements:

	As Originally Reported	Adjustment	As Restated
<b>Balance sheet:</b>			
Goodwill	\$ 39,131,563	\$10,814,694	\$ 49,946,257
Other intangible assets	43,210,640	6,370,000	49,580,640
Total assets	177,069,046	17,184,694	194,253,740
Deferred income taxes	7,771,097	1,503,320	9,274,417
Retained earnings (deficit)	(19,120,114)	15,681,374	(3,438,740)
Total liabilities and stockholders' equity	177,069,046	17,184,694	194,253,740
<b>Statement of income:</b>			
Amortization of intangible assets	9,544,560	(4,680,224)	4,864,336
Income tax (credits)	(6,169,769)	(1,110,200)	(7,279,969)
Net income	1,504,701	5,790,424	7,295,125

**Note 3. Inventories**

At December 31, 2017 inventories consisted of the following:

Raw materials	\$ 5,313,198
Work in process	9,416,146
Finished goods	5,646,854
	<u>\$20,376,198</u>

**Note 4. Property, Equipment and Leasehold Improvements**

The cost of leasehold improvements and equipment and the related accumulated depreciation at December 31, 2017 are as follows:

Land and building	\$ 551,315
Leasehold improvements	7,557,171
Machinery and equipment	53,621,848
Furniture and fixtures	1,200,917
Computer equipment	6,625,517
	69,556,768
Less accumulated depreciation	<u>36,663,514</u>
	<u>\$32,893,254</u>

Future commitments to complete the construction of assets listed as construction in progress are approximately \$1,488,000 at December 31, 2017. Construction in progress totaled approximately \$3,612,000 at December 31, 2017, and is included primarily in machinery and equipment and computer equipment in the above table.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 5. Intangible Assets**

Intangible assets at December 31, 2017 consist of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Estimated Useful Lives</u>
Customer base	\$59,600,000	\$16,441,044	\$43,158,956	10-15
Trade name	8,815,000	2,393,316	6,421,684	15
Total other intangible assets	<u>\$68,415,000</u>	<u>\$18,834,360</u>	<u>\$49,580,640</u>	

Aggregate amortization expense of intangible assets for the year ended December 31, 2017 was approximately \$4,864,000. Annual amortization of intangible assets for the years ending December 31, 2018 through 2022 and thereafter is as follows:

2018	\$ 4,864,334
2019	4,864,334
2020	4,864,334
2021	4,864,334
2022	4,864,334
Thereafter	<u>25,258,970</u>
	<u>\$49,580,640</u>

**Note 6. Other Assets**

Other assets at December 31, 2017 are as follows:

Cash surrender value of life insurance	\$2,623,721
Other	<u>1,149,598</u>
	<u>\$3,773,319</u>

**Note 7. Line of Credit and Long-Term Debt**

Effective May 22, 2017, the Company refinanced its existing debt and entered into a credit agreement with two financial institutions which included a term loan for \$88 million, a revolving loan for \$7.5 million and a swing loan for \$2.0 million. This credit agreement requires quarterly principal payments for \$220,000 per quarter and matures in May 2022. The Company has the option of electing the LIBOR interest rate or the Prime interest rate as the base for determining the interest rate on the term loan. The interest rate on borrowings is 5.25 percent plus the prime base rate, or 6.25 percent plus LIBOR rate, with a minimum LIBOR rate of 1.0 percent. In addition, a non-use fee payable monthly is charged at an annual rate of .5 percent. The credit agreement contains various restrictive covenants including limits on investments, acquisitions, capital distributions and capital leases. It also requires that the Company maintain a minimum Debt to EBITDA ratio for each reporting quarter. The effective aggregate interest rate was 7.6 percent at December 31, 2017.

As a result of this refinancing, approximately \$1,099,000 of deferred financing costs were written off representing the unamortized balance from the previous financing. Fees related to the new refinancing agreement totaling \$2,486,382 were capitalized in May 2017 and will be amortized over the five year term of the loan.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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Prior to the refinancing in May 2017, the Company was under credit agreements with five lending institutions including a senior credit loan, a senior Term B loan and a revolving line of credit with a maturity date of December 5, 2018. The term loan interest was determined based on an incentive pricing schedule whereby the interest rate decreased as the ratio of debt to EBITDA decreases. The Company had the option of electing the LIBOR interest rate or the Prime interest rate as the base for determining the interest rate on the term loan and interest is payable monthly. The revolving line of credit provided for borrowings up to \$20,000,000. The amended term loan provided for quarterly principal payments on the original term loan and the Term Loan B of \$475,000 in 2015 through the third quarter of 2016, \$693,750 in the fourth quarter of 2016 and in 2017, and \$912,500 in 2018, with the outstanding balance of \$48,278,750 due at maturity on December 5, 2018, less any excess cash flow payments made prior to maturity. The Term A Loan, including the U.S. dollar and Euro loan tranches, provides for quarterly principal payments of \$269,040 in 2015 through the third quarter of 2016, \$395,217 in the fourth quarter of 2016 and in 2017, and \$538,079 in 2018, with the outstanding balance of \$21,699,633 due at maturity on December 5, 2018.

Long-term debt at December 31, 2017 is as follows:

Revolving line of credit	\$ —
Term loans, net of deferred financing costs	<u>86,030,000</u>
	86,030,000
Less deferred financing costs (net of \$348,783 of accumulated amortization)	(2,137,639)
Less current maturities	<u>(880,000)</u>
	<u>\$83,012,361</u>

Maturities of long-term debt are as follows:

2018	\$ 880,000
2019	880,000
2020	880,000
2021	880,000
2022	<u>82,510,000</u>
	<u>\$86,030,000</u>

**Note 8. Interest Rate Cap and Fair Value Measurements**

**Interest rate cap:** The Company maintains an interest rate risk management strategy that uses an interest rate cap derivative instrument to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility.

In February 2015, the Company entered into an interest rate cap agreement with an original notional principal amount of \$21,829,450 which increased to \$39,486,202 in March 2017 and then amortizes down to \$35,613,918 by the maturity date in December 2018. The maximum rate for this agreement is 4.0 percent.

Notes to Consolidated Financial Statements

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Under the agreement, the Company's interest rate is capped for the entire term of the hedge at a maximum stated rate plus the LIBOR margin which varies based upon the debt to EBITDA ratio as of the end of each quarter. The Company is exposed to credit loss in the event of nonperformance by the counter party to the interest rate cap agreement. However, the Company does not anticipate nonperformance by the counter party. Although the cap is an interest rate hedge, the Company has chosen not to account for the cap as a "cash-flow" hedge instrument, as defined by accounting principles generally accepted in the United States of America, and therefore the gain or loss on the cap is recognized in the statement of income as interest expense in the period of change.

**Fair value measurements:** The Company uses a framework for measuring fair value of all financial instruments that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1** Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2** Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3** Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the year ended December 31, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The fair value and change in fair value of the interest rate cap was immaterial as of and for the year ended December 31, 2017. The interest rate cap is the only asset or liability measured at fair value on a recurring basis and has been classified as Level 3 at December 31, 2017.

Notes to Consolidated Financial Statements

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**Note 9. Operating Leases**

The Company leases facilities under operating leases, which expire at various dates through December 2028. Monthly lease payments range from \$1,696 to \$44,333 per month. The Company is required to pay all taxes, insurance, repairs and maintenance on the leased premises. In addition, the leases include various options to extend the lease terms. The Company also leases vehicles and equipment under operating leases, which expire at various dates through December 2018. Monthly lease payments range from \$38 to \$5,000 per month.

Future minimum lease payments for operating leases are as follows:

2018	\$ 2,507,334
2019	2,360,104
2020	2,308,957
2021	2,279,796
2022	2,257,617
Thereafter	10,170,846
	<u>\$21,884,654</u>

During 2017 the Company reported rent expense of approximately \$2,478,000.

**Note 10. Equity Incentive Plan**

The Company has an equity incentive plan for executives and directors that granted Class C and P common units of the Parent at no cost to the recipients.

Certain of these units vest annually over a five year period of time and the rest are subject to performance vesting upon a sale of the Company based upon a sales cash multiple realization. For the time based units, vesting is accelerated upon a sale of the Company. For the year ended December 31, 2017, expenses recognized associated with vesting of the grants issued to executives and directors was \$256,305. Unrecognized compensation cost at December 31, 2017 related to the non-vested class P units for executives and directors is approximately \$115,441.

**Note 11. Income Taxes**

*New Tax Legislation*

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation ("TCJA"). This legislation makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation did reduce the U.S. corporate tax rate from the current rate of 35 percent to 21 percent effective January 1, 2018. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities at the rate in effect during their scheduled reversal. This revaluation resulted in a benefit of approximately \$7,226,000 to income tax expense and a corresponding reduction in net deferred tax liabilities. The new legislation will require the Company to pay tax on the unremitted earnings of its foreign subsidiaries through December 31, 2017. Because of the complexities involved in determining the previously unremitted earnings and profits of all our foreign subsidiaries, the Company is still in the process of obtaining, preparing, and analyzing the required information and expects to finalize and record its estimate of the impact in its 2018 consolidated financial statements. The other provisions of the Tax Cuts and Jobs Act did not have a material impact on the consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Consolidated Financial Statements**

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The components of the provision for income taxes for the year ended December 31, 2017 consist of the following:

Current:	
Federal	\$ 484,294
Foreign	1,353,123
State	<u>(28,274)</u>
	<u>1,809,143</u>
Deferred:	
Federal	(9,526,038)
Foreign	488,555
State	<u>(51,629)</u>
	<u>(9,089,112)</u>
	<u>\$(7,279,969)</u>
Total:	
Federal	\$(9,041,744)
Foreign	1,841,678
State	<u>(79,903)</u>
	<u>\$(7,279,969)</u>

The provisions for federal and state income taxes are different from the amounts that would otherwise be computed by applying a graduated federal statutory rate of 34 percent to income before income taxes.

A reconciliation of the differences is as follows:

Federal statutory rate	34.0%
State taxes, net of federal benefit	-762.3%
Difference between foreign and U.S. tax rates	-8184.0%
Foreign income inclusions	12253.8%
Other permanent differences	1261.2%
Cumulative effect of change in state tax rate	767.3%
Federal tax credits	-5730.5%
Revaluation of deferred tax assets and liabilities due to TCJA	-
	<u>47673.1%</u>
	-
	<u>48033.6%</u>



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**PMG Intermediate Holding Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

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The components of the Company's net deferred tax liability consist of the following:

Deferred tax liabilities:	
Property and equipment	\$ (1,167,810)
Intangible assets	<u>(12,052,417)</u>
	<u>(13,220,227)</u>
Deferred tax assets:	
Net operating loss carryforward	31,982
Accrued expenses	237,502
Credits carryforward	4,010,275
Other	<u>416,793</u>
	<u>4,696,552</u>
	<u>\$ (8,523,675)</u>

The deferred tax amounts mentioned above have been classified on the accompanying balance sheet as of December 31, 2017 as follows:

Current assets	\$ 750,742
Non-current liabilities	<u>(9,274,417)</u>
Net deferred tax liabilities	<u>\$(8,523,675)</u>

The Company files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2014.

**Note 12. Employee Benefits**

**Health plan:** The Company has a partially self-insured health plan for its employees for up to \$175,000 per participant with aggregate coverage of approximately \$8,772,000 for the year ending December 2017. The excess loss portion of the employees' coverage has been reinsured with a commercial carrier.

**Retirement plan:** Substantially all the employees of the Company participate in a plan established under Section 401(k) of the Internal Revenue Code, effective January 1, 1997. Employees may contribute up to 90 percent of compensation to the plan. The Company matches employees' contributions 100 percent up to the first 3 percent of income and 50 percent for the next 2 percent. The expense for the year ended December 31, 2017 was \$959,965.

**Bonus plan:** The Company has various bonus plans for salaried employees which are based upon the Company's financial performance.

**Note 13. Management Fee**

The Company incurs an annual management fee of \$500,000 payable to Beecken, Petty O'Keefe and Company, the majority member of their Parent. This annual fee is included in general administrative expenses.

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 14. Concentration of Risk**

Three customers represent approximately 73 percent of the accounts receivable balance at December 31, 2017. These customers accounted for approximately 77 percent of net sales in 2017.

The Company is dependent upon one vendor, which supplied approximately 11 percent of raw material in 2017. If this vendor ceased production of this product, the Company would be forced to either find a substitute vendor or produce this material internally.

**Note 15. Cash Flows Information**

Supplemental information relative to the statement of cash flows for the years ended December 31, 2017 is as follows:

Supplemental disclosures of cash flow information:	
Cash payments for:	
Interest	<u>\$5,802,504</u>
Income taxes	<u>\$ 865,529</u>

**PMG Intermediate Holding Corporation  
And Subsidiaries**

Condensed Unaudited Consolidated Financial Report  
03.31.2018

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## Independent Auditor's Review Report

To the Board of Directors  
PMG Intermediate Holding Corporation and Subsidiaries  
Pierceton, Indiana

### Report on the Financial Statements

We have reviewed the condensed consolidated financial statements of PMG Intermediate Holding Corporation and Subsidiaries as of March 31, 2018, and for the three-month periods ended March 31, 2018 and 2017.

### Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with generally accepted accounting principles.

### Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

### Report on Condensed Balance Sheet as of December 31, 2017

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet as of December 31, 2017, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 4, 2018. In our opinion, the accompanying condensed balance sheet of PMG Intermediate Holding Corporation and Subsidiaries as of December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

/s/ RSM US LLP  
Elkhart, Indiana  
May 30, 2018

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PMG Intermediate Holding Corporation and Subsidiaries

Unaudited Condensed Consolidated Balance Sheet  
March 31, 2018 and December 31, 2017

	March 31, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash	\$ 10,076,804	\$ 15,905,385
Trade receivables	23,372,738	19,510,151
Inventories	20,996,118	20,376,198
Other current assets	1,667,759	1,517,794
Deferred income taxes	752,807	750,742
<b>Total current assets</b>	<b>56,866,226</b>	<b>58,060,270</b>
Property, equipment and leasehold improvements, net	35,583,214	32,893,254
Goodwill	49,946,257	49,946,257
Other intangible assets	48,364,557	49,580,640
Other assets	3,903,591	3,773,319
	<u>\$194,663,845</u>	<u>\$194,253,740</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 880,000	\$ 880,000
Accounts payable	9,536,530	9,361,937
Income taxes payable	252,523	179,063
Accrued expenses	7,552,797	12,165,129
<b>Total current liabilities</b>	<b>18,221,850</b>	<b>22,586,129</b>
Long-term debt, less current maturities	84,935,680	83,012,361
Deferred income taxes	9,429,659	9,274,417
Commitments and contingencies		
Stockholder's equity:		
Common stock, par value \$0.01, 100 shares issued and outstanding	1	1
Additional paid-in capital	82,683,203	82,601,650
Accumulated deficit	(1,206,118)	(3,438,740)
Accumulated other comprehensive income	599,570	217,922
	<u>82,076,656</u>	<u>79,380,833</u>
	<u>\$194,663,845</u>	<u>\$194,253,740</u>

See notes to unaudited condensed consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Unaudited Condensed Consolidated Statement of Income  
For the Three Months Ended March 31, 2018 and 2017**

	March 31, 2018	March 31, 2017
Net sales	<u>\$40,649,756</u>	<u>\$33,713,025</u>
Cost of sales	<u>30,497,721</u>	<u>26,459,666</u>
<b>Gross profit</b>	<b><u>10,152,035</u></b>	<b><u>7,253,359</u></b>
Operating expenses:		
Selling expenses	523,580	581,480
General and administrative expenses	3,561,898	3,787,119
Amortization of intangible assets	<u>1,216,084</u>	<u>1,216,084</u>
	<u>5,301,562</u>	<u>5,584,683</u>
<b>Operating income</b>	<b><u>4,850,473</u></b>	<b><u>1,668,676</u></b>
Nonoperating income (expense):		
Interest income	21,559	14,266
Interest expense	<u>(1,843,183)</u>	<u>(1,452,210)</u>
Other income	<u>(299,738)</u>	<u>232,218</u>
	<u>(2,121,362)</u>	<u>(1,205,726)</u>
<b>Income before income taxes</b>	<b><u>2,729,111</u></b>	<b><u>462,950</u></b>
Income tax (credits)	<u>496,489</u>	<u>(66,087)</u>
<b>Net income</b>	<b><u>\$ 2,232,622</u></b>	<b><u>\$ 529,037</u></b>

See notes to unaudited condensed consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries**

**Unaudited Condensed Consolidated Statement Of Comprehensive Income  
For the Three Months Ended March 31, 2018 and 2017**

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Net income	<u>\$2,232,622</u>	<u>\$ 529,037</u>
Foreign currency translation adjustment	<u>381,648</u>	<u>941,906</u>
<b>Comprehensive income</b>	<b><u>\$2,614,270</u></b>	<b><u>\$1,470,943</u></b>

See notes to unaudited condensed consolidated financial statements.



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**PMG Intermediate Holding Corporation and Subsidiaries**

**Unaudited Condensed Consolidated Statement of Stockholder's Equity  
For the Three Months Ended March 31, 2018**

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2017	\$ 1	\$82,601,650	\$(3,438,740)	\$ 217,922	\$79,380,833
Net income	—	—	2,232,622	—	2,232,622
Equity-based compensation cost	—	81,553	—	—	81,553
Foreign currency translation adjustment	—	—	—	381,648	381,648
<b>Balance, March 31, 2018</b>	<b>\$ 1</b>	<b>\$82,683,203</b>	<b>\$(1,206,118)</b>	<b>\$ 599,570</b>	<b>\$82,076,656</b>

See notes to unaudited condensed consolidated financial statements.

PMG Intermediate Holding Corporation and Subsidiaries

Unaudited Consolidated Statement Of Cash Flows  
For the Three Months Ended March 31, 2018 and 2017

	March 31, 2018	March 31, 2017
Cash flows from operating activities:		
Net income	\$ 2,232,622	\$ 529,037
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,983,947	2,021,625
Amortization of intangible assets	1,216,084	1,216,084
Amortization of deferred financing costs	143,320	174,084
Other	81,553	12,480
Deferred income taxes	154,620	602,372
Change in assets and liabilities:		
Increase in:		
Trade receivables	(4,021,985)	(2,411,697)
Inventories	(507,924)	(691,948)
Other assets	(121,355)	(285,951)
Increase in:		
Accounts payable	115,856	(58,008)
Income taxes payable	60,482	(1,104,451)
Accrued expenses	(4,667,342)	(650,427)
<b>Net cash used in operating activities</b>	<b>(3,330,122)</b>	<b>(646,800)</b>
Cash flows from investing activities:		
Purchases of property and equipment	(4,280,820)	(914,195)
<b>Net cash used in investing activities</b>	<b>(4,280,820)</b>	<b>(914,195)</b>
Cash flows from financing activities:		
Net borrowings on line of credit	2,000,000	4,700,000
Payments on notes payable	(220,000)	(1,259,094)
<b>Net cash provided by financing activities</b>	<b>1,780,000</b>	<b>3,440,906</b>
Effect of exchange rate changes on cash	2,361	292,943
<b>(Decrease) increase in cash</b>	<b>(5,828,581)</b>	<b>2,172,854</b>
Cash, beginning	15,905,385	5,827,420
Cash, ending	<u>\$10,076,804</u>	<u>\$ 8,000,274</u>

See notes to unaudited condensed consolidated financial statements.

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

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**Note 1. Nature of Business, Principles of Consolidation and Significant Accounting Policies**

**Nature of business:** PMG Intermediate Holding Corporation (“Intermediate”) and PMG Acquisition Corporation (“PMG”) were formed in 2013 to effect the acquisition of PMG’s wholly owned subsidiary, Paragon Medical, Inc., and its subsidiaries (collectively the “Company”). The Company is a worldwide supplier of surgical instrument delivery systems, surgical instrumentation, implantable components and design and development services to the medical device marketplace. The Company provides a wide range of services and innovative solutions to support the strategic needs of its customers through its multiple offices and production facilities in the United States, Switzerland, China, and Poland. Sales of surgical instrumentation and implantable components accounts for approximately 67 percent of total revenue, and surgical instrument delivery systems account for approximately 33 percent of the revenue. The Company’s foreign subsidiaries account for approximately 22 percent of total net revenue.

The Company is a wholly-owned subsidiary of Paragon Equity, LLC (“Parent”).

**Principles of consolidation:** The consolidated financial statements include the accounts of all subsidiaries of the Company. All intercompany transactions and balances are eliminated in consolidation.

In our opinion, the accompanying condensed unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of March 31, 2018 and the consolidated results of operations and comprehensive income for the three months ended March 31, 2018 and March 31, 2017 and the consolidated cash flows for the three months then ended. The consolidated statement of operations and comprehensive income for the three months ended March 31, 2018 and March 31, 2017 is not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet data as of December 31, 2017 was derived from audited financial statements, but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in our Annual Report for the year ended December 31, 2017.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through May 30, 2018, the date the financial statements were available to be issued.

**Note 2. Inventories**

For the period ended March 31, 2018 and the year ended December 31, 2017 inventories consisted of the following:

	March 31, 2018	December 31, 2017
Raw materials	\$ 6,237,977	\$ 5,313,198
Work in process	9,165,569	9,416,146
Finished goods	5,592,572	5,646,854
	<u>\$20,996,118</u>	<u>\$20,376,198</u>

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

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**Note 3. Intangible Assets**

Intangible assets for the period ended March 31, 2018 and the year ended December 31, 2017 consist of the following:

	Three Months Ended March 31, 2018			Estimated Useful Lives
	Cost	Accumulated Amortization	Net Book Value	
Customer base	\$59,600,000	\$17,510,211	\$42,089,789	10-15
Trade name	8,815,000	2,540,232	6,274,768	15
Total other intangible assets	<u>\$68,415,000</u>	<u>\$20,050,443</u>	<u>\$48,364,557</u>	

	Year Ended December 31, 2017			Estimated Useful Lives
	Cost	Accumulated Amortization	Net Book Value	
Customer base	\$59,600,000	\$16,441,044	\$43,158,956	10-15
Trade name	8,815,000	2,393,316	6,421,684	15
Total other intangible assets	<u>\$68,415,000</u>	<u>\$18,834,360</u>	<u>\$49,580,640</u>	

Aggregate amortization expense of intangible assets for the three months ended March 31, 2018 and 2017 was approximately \$1,216,000 per period. Future amortization of intangible assets for the years ending December 31, 2018 through 2022 and thereafter is as follows:

2018	\$ 3,648,251
2019	4,864,334
2020	4,864,334
2021	4,864,334
2022	4,864,334
Thereafter	25,258,970
	<u>\$48,364,557</u>

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**PMG Intermediate Holding Corporation and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

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**Note 4. Line of Credit and Long-Term Debt**

Long-term debt for the period ended March 31, 2018 and the year ended December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Revolving line of credit	\$ 2,000,000	\$ —
Term loans	85,810,000	86,030,000
	<u>87,810,000</u>	<u>86,030,000</u>
Less deferred financing costs (net of accumulated amortization)	(1,994,320)	(2,137,639)
Less current maturities	(880,000)	(880,000)
	<u>\$84,935,680</u>	<u>\$83,012,361</u>

Maturities of long-term debt are as follows:

2018	\$ 880,000
2019	880,000
2020	880,000
2021	880,000
2022	84,290,000
	<u>\$87,810,000</u>

**Note 5. Operating Leases**

The Company leases facilities under operating leases, which expire at various dates through December 2028. Monthly lease payments range from \$1,696 to \$44,333 per month. The Company is required to pay all taxes, insurance, repairs and maintenance on the leased premises. In addition, the leases include various options to extend the lease terms. The Company also leases vehicles and equipment under operating leases, which expire at various dates through December 2018. Monthly lease payments range from \$38 to \$5,000 per month.

Annual minimum lease payments for operating leases are as follows:

2018	\$ 2,507,334
2019	2,360,104
2020	2,308,957
2021	2,279,796
2022	2,257,617
Thereafter	10,170,846
	<u>\$21,884,654</u>

For the periods ended March 31, 2018 and 2017 the Company reported rent expense of approximately \$600,184 and \$578,863 respectively.

**Note 6. Equity Incentive Plan**

The Company has an equity incentive plan for executives and directors that granted Class C and P common units of the Parent at no cost to the recipients.

Certain of these units vest annually over a five year period of time and the rest are subject to performance vesting upon a sale of the Company based upon a sales cash multiple realization. For the time based units, vesting is accelerated upon a sale of the Company. For the three months ended March 31, 2018 and 2017, expenses recognized associated with vesting of the grants issued to executives and directors was \$81,553 and \$24,650, respectively. Unrecognized compensation cost at March 31, 2018 and 2017 related to the non-vested class P units for executives and directors is approximately \$108,000 and \$247,000, respectively.

**Note 7. Income Taxes**

For interim financial reporting, the Company estimates its annual effective tax rate based on projected taxable income for the full year and records a quarterly tax provision based on the estimated annual effective rate.

The Company's effective income tax rate was approximately 18 percent and -14 percent of pretax income for the three months ended March 31, 2018 and 2017, respectively. The effective tax rates for 2018 and 2017 differ from the U.S. federal statutory tax rate of 21 percent and 35 percent, respectively, due primarily to permanent differences and earnings outside the United States that are indefinitely reinvested and taxed at rates different than the U.S. federal statutory rate.

**Unaudited Pro Forma Condensed Combined Financial Information**

The Unaudited Pro Forma Condensed Combined Financial Statements (referred to as the “unaudited pro forma financial statements”) presented below are derived from the historical consolidated financial statements of NN, Inc. (“NN”, “we”, “our” or “us”) and PMG Intermediate Holding Corporation (“Paragon”) and its subsidiaries. Paragon was a wholly-owned subsidiary of Paragon Equity, LLC (“Paragon Parent”).

On April 2, 2018, we entered into a Stock Purchase Agreement (“SPA”) with Paragon Parent to acquire 100% of the issued and outstanding shares of Paragon, the parent company of Paragon Medical, Inc. (the “Acquisition”). Paragon Medical, Inc. is a medical device manufacturer which focuses on the orthopedic, case and tray, implant and instrument markets. On May 7, 2018, we completed the Acquisition. As a result of the Acquisition, Paragon became our wholly-owned subsidiary.

The Unaudited Pro Forma Condensed Combined Statements of Operations presented below (the “unaudited pro forma statements of operations”) for the three months ended March 31, 2018 and the year ended December 31, 2017, give effect to the Acquisition as if it was consummated on January 1, 2017. The Unaudited Pro Forma Condensed Combined Balance Sheet (the “unaudited pro forma balance sheet”) as of March 31, 2018, gives effect to the Acquisition as if it was consummated on March 31, 2018.

Our historical consolidated financial information has been adjusted in the unaudited pro forma financial statements to give effect to pro forma events that are: (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) with respect to the pro forma statements of operations, expected to have a continuing impact on our combined results of operations. Our historical consolidated financial information for the year ended December 31, 2017, has not been adjusted in the unaudited pro forma financial statements to give effect to pro forma impacts of our acquisition of the assets of Bridgemedica, LLC, which was completed on February 22, 2018, as the transaction is not significant in accordance with Rule 3-05 of Regulation S-X.

Assumptions and estimates underlying the unaudited pro forma adjustments are described in the accompanying notes, which should be read in connection with the unaudited pro forma financial statements.

To produce the pro forma financial statements, the assets acquired and liabilities assumed in the Acquisition were adjusted to their estimated fair values. As of the date of this filing, we have not fully completed the detailed valuation work necessary to arrive at the required estimates of the fair value of Paragon’s assets acquired, the liabilities assumed, and the related allocation of the purchase price. Accordingly, the accompanying unaudited pro forma accounting for the Acquisition is preliminary and is subject to further adjustments as additional analyses are performed. The final fair values of the assets acquired and liabilities assumed as of the date of the Acquisition may differ materially from the information presented herein.

The unaudited pro forma financial statements have been presented for illustrative purposes only, in accordance with Article 11 of Regulation S-X, and are not indicative of the results of operations that would have been realized had the Acquisition actually been completed on the dates indicated, nor are they indicative of the combined operations going forward. We expect to incur significant costs and achieve synergies in connection with integrating Paragon’s operations with our operations. The unaudited pro forma financial statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or any revenue, tax, or other synergies expected to result from the Acquisition.

The unaudited pro forma financial statements reflect our entry on May 7, 2018, into that certain Second Lien Credit Agreement, pursuant to which SunTrust Robinson Humphrey, Inc. and the other lenders named therein extended a \$200.0 million secured second lien term loan facility, maturing on April 19, 2023 (the “Second Lien Credit Facility”). Proceeds from the Second Lien Credit Facility were used to finance the purchase price of the Acquisition.

The unaudited pro forma financial statements should be read in conjunction with:

- the accompanying notes to unaudited pro forma financial information;
- our separate historical consolidated financial statements as of and for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on April 2, 2018;
- our separate historical unaudited condensed consolidated financial statements as of and for the quarter ended March 31, 2018, included in our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2018;

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- the separate restated historical consolidated financial statements of Paragon for the year ended December 31, 2017, included as Exhibit 99.1 to our Amendment to Current Report on Form 8-K/A filed herewith; and
  - the separate restated historical consolidated financial statements of Paragon as of and for the quarter ended March 31, 2018, included as Exhibit 99.2 to our Amendment to Current Report on Form 8-K/A filed herewith.



**NN, Inc. and PMG Intermediate Holding Corporation**  
**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the Year Ended December 31, 2017**

*Amounts in thousands of dollars, except per share data*

	Consolidated Historical NN, Inc.	Paragon Historical	Accounting Policy Reclassification Adjustments		Pro Forma Adjustments		Pro Forma Combined
Net sales	\$ 619,793	\$140,979	\$ —		\$ —		\$ 760,772
Cost of sales (exclusive of depreciation and amortization shown separately below)	459,080	107,819	(7,594)	2(a)	—		559,305
Selling, general and administrative expense	74,112	21,927	(298)	2(b)	368	4(a)	96,109
Acquisition related costs excluded from selling, general and administrative expense	344	—	—		—		344
Depreciation and amortization	52,406	4,864	7,892	2(c)	2,331	4(b)	67,493
Other operating expense (income)	351	—	—		—		351
Restructuring and integration expense	386	—	—		—		386
Income from operations	\$ 33,114	\$ 6,369	\$ —		\$ (2,699)		\$ 36,784
Interest expense	52,085	7,971	—		13,093	4(c)	73,149
Loss on extinguishment of debt and write-off of unamortized debt issuance costs	42,087	—	—		—		42,087
Derivative loss (gain) on change in interest rate swap value	(101)	—	—		—		(101)
Other expense (income), net	(2,084)	(1,617)	—		—		(3,701)
Loss from continuing operations before provision (benefit) for income taxes and share of net income from joint venture	(58,873)	15	—		(15,792)		(74,650)
Provision (benefit) for income taxes	(79,026)	(7,280)	—		(5,528)	4(d)	(91,834)
Share of net income from joint venture	5,211	—	—		—		5,211
Income (loss) from continuing operations	\$ 25,364	\$ 7,295	\$ —		\$ (10,264)		\$ 22,395
<b>Basic income (loss) from continuing operations per share:</b>							
Income (loss) from continuing operations per share	\$ 0.92						\$ 0.82
Weighted average shares outstanding	27,433						27,433
<b>Diluted income (loss) from continuing operations per share:</b>							
Income (loss) from continuing operations per share	\$ 0.91						\$ 0.81
Weighted average shares outstanding	27,755						27,755

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information.

**NN, Inc. and PMG Intermediate Holding Corporation**  
**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the Three Months Ended March 31, 2018**

*Amounts in thousands of dollars, except per share data*

	Consolidated Historical NN, Inc.	Paragon Historical	Accounting Policy Reclassification Adjustments		Pro Forma Adjustments		Pro Forma Combined
Net sales	\$ 169,148	\$ 40,650	\$ —		\$ —		\$ 209,798
Cost of sales (exclusive of depreciation and amortization shown separately below)	126,444	30,498	(1,904)	2(a)	—		155,038
Selling, general and administrative expense	22,177	4,086	(81)	2(b)	92	4(a)	26,274
Acquisition related costs excluded from selling, general and administrative expense	1,776	—	—		(1,548)	4(e)	228
Depreciation and amortization	14,281	1,216	1,985	2(c)	570	4(b)	18,052
Other operating expense (income)	22	—	—		—		22
Restructuring and integration expense	755	—	—		—		755
Income from operations	\$ 3,693	\$ 4,850	\$ —		\$ 886		\$ 9,429
Interest expense	11,996	1,843	—		3,423	4(c)	17,262
Loss on extinguishment of debt and write-off of unamortized debt issuance costs	—	—	—		—		—
Derivative loss (gain) on change in interest rate swap value	—	—	—		—		—
Other expense (income), net	(313)	278	—		—		(35)
Loss from continuing operations before provision (benefit) for income taxes and share of net income from joint venture	(7,990)	2,729	—		(2,537)		(7,798)
Provision (benefit) for income taxes	(1,176)	496	—		(533)	4(d)	(1,213)
Share of net income from joint venture	831	—	—		—		831
Income (loss) from continuing operations	\$ (5,983)	\$ 2,233	\$ —		\$ (2,004)		\$ (5,754)
<b>Basic income (loss) from continuing operations per share:</b>							
Income (loss) from continuing operations per share	\$ (0.22)						\$ (0.21)
Weighted average shares outstanding	27,597						27,597
<b>Diluted income (loss) from continuing operations per share:</b>							
Income (loss) from continuing operations per share	\$ (0.22)						\$ (0.21)
Weighted average shares outstanding	27,597						27,597

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information.

**NN, Inc. and PMG Intermediate Holding Corporation**  
**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**As of March 31, 2018**

*Amounts in thousands of dollars, except per share data*

	Consolidated Historical NN, Inc.	Paragon Historical	Accounting Policy Reclassification Adjustments	Pro Forma Adjustments		Pro Forma Combined
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 184,955	\$ 10,077	—	\$ (181,877)	4(f)	\$ 13,155
Accounts receivable, net	119,615	23,373	—	—		142,988
Inventories	91,559	20,996	—	3,623	4(g)	116,178
Income tax receivable	43,866	—	—	3,486	4(n)	47,352
Other current assets	21,106	2,421	(753)	2,598	4(k)	25,372
Total current assets	461,101	56,867	(753)	(172,170)		345,045
Property, plant and equipment, net	266,926	35,583	—	21,260	4(h)	323,769
Goodwill	463,694	49,946	—	138,180	4(j)	651,820
Intangible assets, net	237,605	48,365	—	75,881	4(i)	361,851
Investment in joint venture	42,110	—	—	—		42,110
Other non-current assets	13,646	3,904	—	(8,204)	4(k)	9,346
Total assets	<u>\$1,485,082</u>	<u>\$194,665</u>	<u>\$ (753)</u>	<u>\$ (54,947)</u>		<u>\$1,733,941</u>
<b>Liabilities and Stockholders' Equity</b>						
Current liabilities:						
Accounts payable	54,788	9,537	—	20,595	4(p)	84,920
Accrued salaries, wages and benefits	26,496	—	3,288	—	2(e)	29,784
Current maturities of long-term debt	18,796	880	—	(880)	4(m)	18,796
Income taxes payable	—	252	—	—		252
Other current liabilities	22,264	7,553	(3,288)	—	2(e)	26,529
Total current liabilities	122,344	18,222	—	19,715		160,281
Deferred tax liabilities	71,499	9,430	(753)	21,160	4(l)	101,336
Non-current income tax payable	5,593	—	—	—		5,593
Long-term debt, net of current portion	787,438	84,936	—	109,261	4(m)	981,635
Other non-current liabilities	13,349	—	—	—		13,349
Total liabilities	1,000,223	112,588	(753)	150,136		1,262,194
Total stockholders' equity	484,859	82,077	—	(95,189)	4(o)	471,747
Total liabilities and stockholders' equity	<u>\$1,485,082</u>	<u>\$194,665</u>	<u>\$ (753)</u>	<u>\$ 54,947</u>		<u>\$1,733,941</u>

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information.

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**Notes to Unaudited Pro Forma Condensed Combined Financial Information**  
*Amounts in thousands of dollars, except per share data*

**Note 1. Description of Transaction and Basis of Presentation**

NN, Inc. (“NN”, “we,” “our,” “us,” or the “Company”) is a global diversified industrial company that combines advanced engineering and production capabilities with in-depth materials science expertise to design and manufacture high-precision components and assemblies for the medical, aerospace and defense, electrical, automotive and general industrial markets. On April 2, 2018, we entered into a Stock Purchase Agreement (“SPA”) with Paragon Equity, LLC (“Paragon Parent”) to acquire 100% of the issued and outstanding shares of PMG Intermediate Holding Corporation (“Paragon”), a wholly-owned subsidiary of Paragon Parent (the “Acquisition”). On May 7, 2018, we completed the Acquisition. As a result of the Acquisition, Paragon became our wholly owned subsidiary. The aggregate consideration paid in connection with the Acquisition was \$375,000 in cash (the “Purchase Price”). Funds received from that certain Second Lien Credit Agreement, pursuant to which SunTrust Robinson Humphrey, Inc. and the other lenders named therein extended a \$200,000 secured second lien term loan facility, maturing on April 19, 2023, (the “Second Lien Credit Facility”) were used, together with cash on hand, to finance the Purchase Price of the Acquisition and to pay certain fees and expenses related to the Acquisition.

These unaudited pro forma financial statements were prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and pursuant to Article 11 of Regulation S-X, and present the pro forma balance sheet and statements of operations of the Company. Our historical consolidated financial information has been adjusted in the unaudited pro forma financial statements to give effect to pro forma events that are: (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) with respect to the pro forma statements of operations, expected to have a continuing impact on our combined results of operations. Additionally, certain financial statement line items included in Paragon’s historical presentation have been disaggregated or condensed to conform to our accounting policies and corresponding financial statement line items included in our historical presentation. These reclassifications are reported in the unaudited pro forma financial statements under the column titled “Accounting Policy Reclassification Adjustments” as discussed in Note 2. The reclassification and aggregations of these items had no significant impact on the historical total assets, total liabilities, or stockholders’ equity reported by us or Paragon. The reclassifications and aggregations also did not impact the historical earnings from continuing operations. We adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, (“ASC 606”) on January 1, 2018, utilizing the modified retrospective transition method. As disclosed in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (“SEC”) on May 10, 2018, the adoption of ASC 606 did not have a material effect on our financial statements. Paragon’s historical financial statements do not reflect the adoption of ASC 606. We do not expect the adoption of ASC 606 will have a material impact on our combined financial statements.

The unaudited pro forma financial statements are based upon historical information after giving effect to the Acquisition and adjustments described in these notes. The unaudited pro forma balance sheet is presented as if the Acquisition had occurred on March 31, 2018; the unaudited pro forma statements of operations for the three months ended March 31, 2018, and for the year ended December 31, 2017, give effect to the Acquisition as if it had occurred on January 1, 2017. The unaudited pro forma financial information does not reflect ongoing cost savings that we expect to achieve as a result of the Acquisition or the costs necessary to achieve these costs savings or synergies.

**Note 2. Accounting Policy Reclassification Adjustments**

The following reclassifications are reported in the pro forma financial statements under the column titled “Accounting Policy Reclassification Adjustments”:

***Adjustments to Unaudited Pro Forma Statements of Operations***

- a) *Cost of sales* - Within the unaudited pro forma statements of operations, we have made certain changes in presentation to conform Paragon’s financial presentation to our accounting policies and financial statement presentation. In Paragon’s historical financial statements, depreciation expense in an amount of \$7,594 for the year ended December 31, 2017, and \$1,904 for the three months ended March 31, 2018, was historically reflected in cost of sales. We reclassified and presented this amount within the caption “Depreciation and amortization.”
- b) *Selling, general and administrative expense* – Similar to a) above, depreciation expense of \$298 for the year ended December 31, 2017, and \$81 for the three months ended March 31, 2018, was historically reflected in general and administrative expense of Paragon’s historic statements of operations. To conform Paragon’s financial presentation to our accounting policies and financial statement presentation, we reclassified and presented this amount within the caption “Depreciation and amortization.”

- c) *Depreciation and amortization* – As stated in a) and b) above, a total amount of \$7,892 for the year ended December 31, 2017, and \$1,985 for the three months ended March 31, 2018, was reclassified from “Cost of sales” and “Selling, general and administrative expense” to “Depreciation and amortization” in the unaudited pro forma statements of operations.

**Adjustments to Unaudited Pro Forma Balance Sheet**

- d) *Other non-current assets* - Within the unaudited pro forma balance sheet, we have made certain changes in presentation to conform Paragon’s financial presentation to our accounting policies and financial statement presentation. To conform Paragon’s financial statement presentation to our financial statement presentation, deferred income taxes of \$753, originally included in the caption “Other current assets,” was reclassified to “Deferred tax liabilities” to reflect Paragon’s adoption of Accounting Standards Update No. 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes.
- e) *Accrued salaries, wages and benefits* - To conform Paragon’s financial statement presentation to our financial statement presentation, accrued salaries, wages and benefits of \$3,288 was reclassified from the caption “Other current liabilities” to “Accrued salaries, wages and benefits.”

**Note 3. Consideration Transferred and Preliminary Purchase Price Allocation**

The Acquisition has been reflected in the unaudited pro forma financial statements as being accounted for under the acquisition method in accordance with ASC 805, *Business Combinations* (“ASC 805”) with the Company treated as the accounting acquirer. In accordance with ASC 805, the assets acquired and the liabilities assumed have been measured at fair value based on various preliminary estimates. Due to the fact that the unaudited pro forma financial statements have been prepared based on preliminary estimates, the final amounts recorded for the Acquisition may differ materially from the information presented herein. These estimates are subject to change pending further review of the fair value of assets acquired and liabilities assumed.

For purposes of measuring the estimated fair value, where applicable, of the assets acquired and the liabilities assumed as reflected in the unaudited pro forma financial statements, the guidance in ASC 820, *Fair Value Measurements and Disclosures*, (“ASC 820”) has been applied, which establishes a framework for measuring fair value. In accordance with ASC 820, fair value is an exit price and is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Under ASC 805, acquisition-related transaction costs are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred.

The purchase price was \$375,000 in cash, excluding cash acquired and including the settlement of pre-acquisition Paragon indebtedness, and is subject to customary purchase price adjustments.

The following is a summary of the preliminary estimated fair values of the net assets acquired assuming the Acquisition closed on March 31, 2018:

**Preliminary Fair Value of Assets Acquired and Liabilities Assumed**

Consideration transferred	<u>\$375,000</u>
Inventory	\$ 24,619
Other current assets, excluding cash acquired	27,639
Property, plant, and equipment	56,843
Intangible assets	124,246
Other non-current assets	706
Goodwill	<u>188,126</u>
<b>Total assets acquired</b>	<u>\$422,179</u>
Current liabilities	\$ 17,342
Non-current deferred tax liabilities	29,837
<b>Total liabilities assumed</b>	<u>\$ 47,179</u>

We have made preliminary allocation estimates based on currently available information. We expect the final determination of the purchase price allocation will include, but will not be limited to, valuations with respect to inventory, fixed assets, customer relationships, trade names and other potential intangible assets. The valuations will consist of physical appraisals, discounted cash flow analyses and other appropriate valuation techniques to determine the fair value of the assets acquired and liabilities assumed.

The final, as-adjusted amounts allocated to assets acquired and liabilities assumed in the Acquisition will be based on the fair value of the net assets acquired at the Acquisition date and could differ materially from the preliminary amounts presented in the unaudited pro forma financial statements as of March 31, 2018. A decrease in the fair value of assets acquired, or an increase in the fair value of liabilities assumed, from those preliminary valuations presented in these unaudited pro forma financial statements would result in a dollar-for-dollar corresponding increase in the amount of goodwill that will result from the Acquisition. In addition, if the value of the acquired assets is higher than the preliminary values above, it may result in higher depreciation and amortization expense than is presented in these unaudited pro forma financial statements.

#### Note 4. Adjustments to Unaudited Pro Forma Financial Statements

The unaudited pro forma adjustments related to the Acquisition included in the unaudited pro forma financial statements are as follows:

##### Adjustments to Unaudited Pro Forma Statements of Operations

- a) *Selling, general and administrative expense* – As required by the terms of the SPA, we purchased a representation & warranties insurance policy with prepaid premiums of \$1,104 which will be amortized over three years. The insurance policy was obtained to cover potential breaches by Paragon or its subsidiaries of their representations and warranties at the closing of the Acquisition. Amortization of the prepaid insurance was included in the unaudited pro forma statement of operations caption “Selling, general and administrative expense” during the year ended December 31, 2017, for the amount of \$368 and during the three months ended March 31, 2018, for the amount of \$92.
- b) *Depreciation and amortization* – The unaudited pro forma adjustment represents the preliminary depreciation and amortization expense associated with the change in fair value of the property and equipment and intangible assets recorded in connection with the Acquisition. For the year ended December 31, 2017 and the three months ended March 31, 2018, the unaudited pro forma adjustment for depreciation and amortization expense represented \$2,331 and \$570, respectively. The preliminary depreciation and amortization expense for the assets acquired is as follows:

<b>Depreciation</b>	<b>Preliminary fair value</b>	<b>Estimated weighted average life (years)</b>	<b>Depreciation expense for the year ended December 31, 2017</b>	<b>Depreciation expense for the three months ended March 31, 2018</b>
Land	\$ 554	—	\$ —	\$ —
Building and improvements	6,098	16	381	95
Leasehold improvements	—	12	—	—
Machinery and equipment	45,862	10	4,586	1,147
Computers	3,702	4	926	231
Furniture and fixtures	627	7	90	22
Total	\$ 56,843		\$ 5,983	\$ 1,495
Less Paragon historical depreciation			(7,892)	(1,985)
Unaudited pro forma adjustment			\$ (1,909)	\$ (490)

Depreciation expense has been estimated based upon the nature of activities associated with the property and equipment assets acquired. With other assumptions held constant, a 10% change in the fair value adjustment for property, plant and equipment would increase/decrease annual unaudited pro forma depreciation and amortization expense by approximately \$598.

Amortization	Preliminary fair value	Estimated weighted average life (years)	Amortization expense for the year ended December 31, 2017	Amortization expense for the three months ended March 31, 2018
Customer relationships	\$ 109,246	12	\$ 9,104	\$ 2,276
Trade name	15,000	indefinite	—	—
Total	\$ 124,246		\$ 9,104	\$ 2,276
Less Paragon historical amortization			(4,864)	(1,216)
Unaudited pro forma adjustment			\$ 4,240	\$ 1,060

The estimated fair value of amortizable intangible assets is expected to be amortized over the preliminary estimated useful life of approximately twelve years for customer relationships. Trade name intangible assets are primarily estimated to have an indefinite useful life and will be subject to periodic impairment testing. These estimated useful lives are subject to the finalization of the purchase price allocation. The amortizable life for each category of asset was based on the duration of the estimated cash flows for each asset. The estimated amortizable life of customer relationships was determined after consideration of Paragon's historical customers' buying and attrition patterns. With other assumptions held constant, a 10% change in the fair value adjustment for amortizable intangible assets would increase/decrease annual unaudited pro forma amortization by approximately \$910.

- c) *Interest expense* - In order to fund the Acquisition, we entered into the Second Lien Credit Facility which accrues interest at a rate of 8.0% plus the one-month US Dollar London Interbank Offer Rate ("1M USD LIBOR"). We also incurred debt issuance costs and loan amendment fees of \$5,803. We calculated one year of interest expense on the new Second Lien Credit Facility and estimated the effective interest expense on the amortization of the debt issuance costs. We applied the straight-line method to amortize the debt issuance costs as the impact is not materially different from the effective interest amortization method. We applied the 1M USD LIBOR of 1.93%, the interest rate on May 7, 2018. With other assumptions held constant, a 1/8% increase in the 1M USD LIBOR would increase/decrease the annual unaudited pro forma interest expense by approximately \$250. The unaudited pro forma adjustment is calculated as follows:

		Interest expense for the year ended December 31, 2017	Interest expense for the three months ended March 31, 2018
Term loan	\$200,000		
Interest rate	9.9%		
Interest expense		\$ 19,855	\$ 4,964
Debt issuance costs (5 years)	\$ 4,838		
Amortization		\$ 968	\$ 242
Amendment fees (4 years)	965		
Amortization		241	60
Amortization of debt issuance costs and amendment fees		1,209	302
Total interest expense		\$ 21,064	\$ 5,266
Less Paragon historical interest expense		(7,971)	(1,843)
Unaudited pro forma adjustment		\$ 13,093	\$ 3,423

- d) *Provision (benefit) for income taxes* - The unaudited pro forma adjustment is calculated as follows:

	Year ended December 31, 2017	Three months ended March 31, 2018
Provision (benefit) due to depreciation, amortization, transaction costs, and insurance amortization adjustments	\$ (945)	\$ 186
Benefit due to interest expense adjustment	(4,583)	(719)
Unaudited pro forma adjustment	\$ (5,528)	\$ (533)

A U.S. federal statutory tax rate of 35% and 21% has been applied to the unaudited pro forma depreciation and amortization adjustments and the transaction related expenses recognized by us and Paragon for the year ended December 31, 2017, and for the three months ended March 31, 2018, respectively.

- e) *Acquisition related costs excluded from selling, general and administrative expense* – Transaction related expenses of \$1,548 recognized by us during the three months ended March 31, 2018, and their related tax effects have been eliminated from the pro forma statement of operations as these items are directly attributable to the Acquisition and will not have an ongoing impact.

**Adjustments to Unaudited Pro Forma Balance Sheet**

- f) *Cash* - Adjustment reflects the preliminary net adjustment to cash in connection with the Acquisition:

Cash consideration transferred	\$(369,000)
Remove cash on Paragon historical balance sheet	(10,077)
Proceeds of new borrowings, net of discount	<u>197,200</u>
Unaudited pro forma adjustment	<u>\$(181,877)</u>

In March 2018, we paid \$6,000 in earnest money to the previous owners of Paragon, which was reflected in Other non-current assets in our historical balance sheet. Therefore, the cash adjustment reflects \$369,000 of cash consideration transferred of the remaining total Purchase Price of \$375,000.

- g) *Inventories* - The unaudited pro forma adjustment of \$3,623 to inventory represents the step-up of Paragon's inventories balance to the preliminary estimated fair value. As raw materials inventory was assumed to be at market value, the adjustment is related to work-in-process and finished goods inventory. The preliminary fair value of finished goods inventory to be acquired was determined using the gross profit percentage of the overall product mix and the estimated cost to sell the finished goods. The preliminary fair value of work-in-process inventory was determined by considering costs to complete inventory and estimated profit on these costs. The unaudited pro forma statements of operations do not reflect the impact of the increase to cost of sales of \$3,623 for the estimated purchase accounting adjustment to inventories as this amount is not expected to have a continuing impact on our operations.
- h) *Property, plant and equipment, net* - The unaudited pro forma adjustment reflects the preliminary estimated fair value of property, plant and equipment recorded in relation to the Acquisition. Refer to Note 4(b) above for details related to the estimated fair value of property, plant and equipment. The preliminary estimated amounts assigned to property, plant and equipment are as follows:

Preliminary estimated fair value	\$ 56,843
Less Paragon historical book value of property and equipment, net	<u>(35,583)</u>
Unaudited pro forma adjustment	<u>\$ 21,260</u>

- i) *Intangible assets, net* - The unaudited pro forma adjustment reflects the preliminary estimated fair value of identifiable intangible assets acquired in relation to the Acquisition. Refer to Note 4(b) above for details related to the preliminary estimated fair value and related amortization expense of the intangible assets. The preliminary estimated amounts assigned to the identifiable intangible assets are as follows:

Preliminary estimated fair value	\$124,246
Less Paragon historical book value of intangible assets, net	<u>(48,365)</u>
Unaudited pro forma adjustment	<u>\$ 75,881</u>

- j) *Goodwill* - The unaudited pro forma adjustment reflects the preliminary estimated adjustment to goodwill as a result of the Acquisition. Goodwill represents the excess of the consideration transferred over the preliminary fair value of the assets acquired and liabilities assumed as described in Note 3 above. The goodwill will not be amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment exists. In the event management determines that the value of goodwill has become impaired, we will incur an accounting charge for the amount of the impairment during the period in which the determination is made. The goodwill is attributable to the expected synergies from raw material cost and procurement savings, manufacturing and supply chain process efficiency improvements and cost reductions across a larger business and increased revenues from access to



strategically important end markets. The goodwill is not expected to be deductible for tax purposes. The preliminary estimated unaudited pro forma adjustment to goodwill is calculated as follows:

Preliminary purchase price at March 31, 2018	\$ 375,000
Less: Fair value of net assets to be acquired	<u>(186,874)</u>
Total estimated goodwill	\$ 188,126
Less: Paragon goodwill	<u>(49,946)</u>
Unaudited pro forma adjustment	<u>\$ 138,180</u>

k) *Other non-current assets* - The unaudited pro forma adjustment to Other non-current assets is comprised of the following adjustments:

Prepaid representation & warranties insurance premium	\$ 994
Cash paid for earnest money	(6,000)
Less: Reclass of cash surrender value of life insurance to other current assets	(2,598)
Less: Notes receivable settled at closing	<u>(600)</u>
Unaudited pro forma adjustment	<u>\$(8,204)</u>

This adjustment includes \$994 of prepaid insurance premiums for representation and warranties insurance described in Note 4(a) above. As discussed in Note 4(f) above, Other non-current assets historically reflected \$6,000 that was paid in March 2018 for earnest money related to the Transaction, therefore the adjustment to Other non-current assets reflects the removal of this amount. Additionally, this adjustment includes \$2,598 representing the cash surrender value of a life insurance policy recorded by Paragon in Other non-current assets. As of the date hereof, management estimates that the assets will be liquidated within 12 months; therefore, NN reclassified the amount from other non-current assets to Other current assets. The adjustment also includes a \$600 reduction of employee notes receivable which was repaid before closing in accordance with the SPA. The offset to this \$600 reduction of employee notes receivable was reflected in the adjustment for Paragon's historical equity balances as discussed in Note 4(o) below.

l) *Deferred tax liabilities* – Deferred tax liabilities includes an unaudited pro forma adjustment that reflects the change in net deferred tax liabilities arising from preliminary estimated fair value adjustments to Paragon's assets to be acquired and liabilities to be assumed by us in the Acquisition. Deferred income taxes arising from the preliminary estimated fair value adjustments for acquired inventory; property, plant and equipment; and intangible assets have been calculated by applying the statutory U.S. tax rate of 21% to the related fair value adjustments. The 21% tax rate considers the applicable law in effect on March 31, 2018, inclusive of the effects of the Tax Cuts and Jobs Act of 2017 ("Tax Act") which was signed into law on December 22, 2017. The Tax Act requires companies to recognize the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws in the period in which the new legislation is enacted. Note that the pro forma impact on the statements of operations, discussed in Note 4(d) of this filing, applies a 35% tax rate for the year ended December 31, 2017, because the new tax rate was not effective in 2017.

	Adjustment to Asset Acquired	Deferred Tax Liability
Estimated fair value adjustment of identifiable intangible assets acquired	\$ 75,881	\$ 15,935
Estimated fair value adjustment to inventory	3,623	761
Estimated fair value adjustment of property, plant and equipment acquired	21,260	<u>4,465</u>
Deferred tax liabilities related to estimated fair value adjustments		<u>\$ 21,161</u>

m) *Long-term debt* - In connection with the Acquisition, we entered into the Second Lien Credit Facility for an amount of \$200,000. The Second Lien Credit Facility matures on April 19, 2023, with outstanding principal due upon maturity. As such, we included the entire \$200,000 in the long-term debt caption. To obtain the loan, we incurred \$2,800 original issue discount and \$3,003 debt issuance costs, which were recorded as a reduction of the debt. We used these proceeds, together with cash on hand, to complete the Acquisition. In addition, under the SPA, Paragon repaid its existing debt for an amount of \$85,816 as this debt was excluded from liabilities assumed in the Acquisition.

The unaudited pro forma adjustments to debt are classified between short-term borrowings (due within one year) and long-term borrowings as follows:

	New Debt entered into by NN for Acquisition	Debt paid off by Paragon from proceeds of the Acquisition	Total Pro Forma Adjustment
Current maturities of long-term debt	\$ —	\$ (880)	\$ (880)
Long-term debt, net of current portion	194,197	(84,936)	109,261
<b>Total debt</b>	<b><u>\$ 194,197</u></b>	<b><u>\$ (85,816)</u></b>	<b><u>\$ 108,381</u></b>

- n) *Income tax receivable* – The unaudited pro forma adjustment of \$3,486 to income tax receivable as of March 31, 2018, includes the tax effect of transaction related expenses incurred during the three months ended March 31, 2018, as discussed in Note 4(e) of this filing, at the statutory U.S. tax rate of 21%.
- o) *Stockholders' equity* - The unaudited pro forma balance sheet reflects the elimination of Paragon's historical equity balances and the adjustment for estimated acquisition-related fees and expenses, net of tax, of \$13,112 incurred upon completion of the Acquisition. These transaction costs have been excluded from the unaudited pro forma statements of operations as they will not have a continuing impact on our operations. The adjustment for the elimination of historical Paragon stockholders' equity includes the offsetting adjustment to reflect the \$600 of employee notes receivable, which was repaid before closing in accordance with the SPA as discussed in Note 4(k) above. The unaudited pro forma adjustment to stockholders' equity is calculated as follows:

Elimination of historical Paragon stockholders equity	\$(82,077)
Estimated transaction fees expected to be incurred, net of tax	<u>(13,112)</u>
<b>Unaudited pro forma adjustment</b>	<b><u>\$(95,189)</u></b>

- p) *Accounts payable* – The unaudited pro forma adjustment of \$20,595 to accounts payable as of March 31, 2018, represents estimated transaction related expenses. The \$20,595 of estimated transaction related expenses includes \$3,003 of financing fees and \$994 in insurance premiums for representation and warranty insurance which will be capitalized in Other non-current assets. Additionally, the total includes advisory and other transaction related costs of \$16,598 which will be expensed as incurred.