ICHOR HOLDINGS, LTD.

FORM 8-K/A
(Amended Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 11, 2017

ICHOR HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

Cayman Islands	001-37961	Not Applicable
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3185 Laurelview Ct.
Fremont, California 94538
(Address of principal executive offices, including Zip Code)

(510) 897-5200
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ 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. ☒

EXPLANATORY NOTE

On December 11, 2017, Ichor Holdings, Ltd. (the “Company”) filed a Current Report on Form 8-K (the “December 8-K”) with the Securities and Exchange Commission (the “SEC”) to report the purchase by Ichor Holdings, LLC (“Ichor”), a wholly owned subsidiary of the Company, of Talon Innovations Corporation (“Talon”) from Talon Innovations Holdings LLC (“Talon Holdings”).

The Company stated in the December 8-K that it intended to file the financial statements and pro forma financial information required by parts (a) and (b) of Item 9.01 of Form 8-K not later than 71 calendar days after the date the December 8-K was required to be filed with the SEC. The Company hereby amends the December 8-K in order to include the required financial statements and pro forma financial information.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of business acquired

The audited consolidated financial statements of Talon Holdings as of and for the years ended December 31, 2016 and December 31, 2015 and the unaudited consolidated financial statements of Talon Holdings as of and for the nine months ended September 30, 2017 and September 30, 2016, and in each case the notes thereto, are filed as Exhibit 99.1 hereto and are incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma condensed combined financial information of the Company as of and for the nine months ended September 30, 2017 and for the year ended December 30, 2016, and in each case the notes thereto, are filed as Exhibit 99.2 hereto and are incorporated herein by reference. The unaudited pro forma condensed combined financial information gives effect in the applicable periods to the acquisition of Talon and the acquisition of Cal-Weld, Inc., which was completed on July 27, 2017.

(d) Exhibits

The following exhibits are filed with this report:

Exhibit Number	Description
23.1	Consent of RSM US LLP.
99.1	The audited consolidated financial statements of Talon Holdings as of and for the years ended December 31, 2016 and December 31, 2015 and the unaudited consolidated financial statements of Talon Holdings as of and for the nine months ended September 30, 2017 and September 30, 2016, and in each case the notes thereto.
99.2	The unaudited pro forma condensed consolidated financial statements of Ichor Holdings, Inc. as of and for the nine months ended September 30, 2017 and for the year ended December 30, 2016, and in each case the notes thereto.

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 thereunto duly authorized.

ICHOR HOLDINGS, LTD.

Date: February 23, 2018

/s/ Jeffrey Andreson

Name: Jeffrey Andreson

Title: Chief Financial Officer

Exhibit 23.1

Consent of Independent Auditor

We consent to the incorporation by reference in the Registration Statement (No. 333-219846) on Form S-8 of Ichor Holdings, Ltd. of our report dated April 26, 2017 except for the matters discussed in Note 10 as to which the date is February 23, 2018 relating to the consolidated financial statements of Talon Innovations Holdings, LLC and Subsidiary, appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Minneapolis, Minnesota

February 23, 2018

Exhibit 99.1

Talon Innovations Holdings, LLC and Subsidiary

Consolidated Financial Report

December 31, 2016

Contents

Independent Auditor's Report

Board of Managers, Shareholders and Management

Talon Innovations Holdings, LLC and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Talon Innovations Holdings, LLC and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Talon Innovations Holdings, LLC and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Company was acquired by a public company on December 11, 2017. The Company had previously adopted private company accounting alternatives Accounting Standards Update (ASU) No. 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill* and ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* , issued by the Financial Accounting Standards Board. The Company has changed their accounting principle to reverse the effects of these adoptions as a result of the acquisition. Our opinion is not modified with respect to this matter.

/s/ RSM US LLP

Minneapolis, Minnesota

April 26, 2017, except for Note 10 as to which the date is February 23, 2018

Talon Innovations Holdings , LLC and Subsidiary

Consolidated Balance Sheets

	December 31, 2016 (as adjusted)	December 31, 2015 (as adjusted)	September 30, 2017 (unaudited)
Assets			
Current Assets (Note 3)			
Cash	$ 8,279,868	$ 4,348,881	$ 5,192,263
Trade accounts receivable, net of allowance for doubtful accounts of $75,000	7,017,770	3,831,290	11,207,416
Inventories, net	8,336,952	7,210,179	13,787,642
Income tax receivable	—	308,325	—
Prepaid expenses and other current assets	176,597	212,389	236,841
Total current assets	23,811,187	15,911,064	30,424,162
Equipment and Leasehold Improvements (Note 3)			
Leasehold improvements	607,773	498,134	919,608
Furniture, fixtures, computers and software	913,846	689,081	1,476,978
Shop equipment and tooling	14,351,144	10,889,603	20,079,882
	15,872,763	12,076,818	22,476,468
Less accumulated depreciation	(4,610,853)	(2,592,775)	(6,485,957)
Net equipment and leasehold improvements	11,261,910	9,484,043	15,990,511
Goodwill (Notes 2 and 8)	9,037,098	9,037,098	9,458,387
Finite-life intangible assets, net (Note 2)	7,594,344	9,039,161	6,540,461
Other assets	70,872	79,716	75,387
Total other assets	16,702,314	18,155,975	16,074,235
Total assets	$ 51,775,411	$ 43,551,082	$ 62,488,908
Liabilities and Members' Equity			
Current liabilities:			
Current maturities of long-term debt (Note 3)	$ 3,466,011	$ 2,135,000	$ 3,822,416
Accounts payable	3,094,065	1,835,571	5,377,369
Income taxes payable (Note 7)	152,518	—	426,490
Accrued expenses	2,095,037	2,292,311	2,958,209
Total current liabilities	8,807,631	6,262,882	12,584,484
Deferred income taxes (Note 7)	4,827,475	5,169,585	4,583,211
Long-term debt, less current maturities (Note 3)	18,452,586	18,762,211	15,895,621
Total liabilities	32,087,692	30,194,678	33,063,316
Commitments and contingencies (Notes 5, 6, 8 and 9)			
Members’ equity (Note 4)	19,687,719	13,356,404	29,425,592
Total liabilities and members’ equity	$ 51,775,411	$ 43,551,082	$ 62,488,908

See Notes to Consolidated Financial Statements.

Talon Innovations Holdings , LLC and Subsidiary

Consolidated Statements of Operations

	Year Ended December 31,		Nine Months Ended September 30,	
	2016	2015	2017	2016
	(as adjusted)	(as adjusted)	(unaudited)	(unaudited)
Net sales	$ 56,331,234	$ 38,499,151	$ 64,352,896	$ 41,810,588
Cost of sales	35,536,410	25,471,826	40,272,966	26,021,837
Gross profit	20,794,824	13,027,325	24,079,930	15,788,751
Operating expenses (Note 9)	9,021,762	6,523,315	7,593,954	6,632,446
Contingent consideration expense (Note 8)	—	649,677	—	—
Transaction costs (Note 8)	—	588,319	—	—
Amortization expense (Note 2)	1,444,817	670,172	1,053,884	1,083,613
Operating income	10,328,245	4,595,842	15,432,092	8,072,692
Other income (expense):				
Interest expense (Note 3)	(1,228,144)	(323,061)	(962,554)	(887,732)
Other income, net	184,792	137,584	134,027	124,857
	(1,043,352)	(185,477)	(828,527)	(762,875)
Income before income taxes	9,284,893	4,410,365	14,603,565	7,309,817
Income tax expense (Note 7)	3,035,252	1,786,353	4,910,303	2,250,057
Net income	$ 6,249,641	$ 2,624,012	$ 9,693,262	$ 5,059,760

See Notes to Consolidated Financial Statements.

Talon Innovations Holdings , LLC and Subsidiary

Consolidated Statements of Members' Equity

	Membership Interest	Retained Earnings	Members' Equity
Balance, December 31, 2014	$ 10,525,000	$ 136,479	$ 10,661,479
Equity-based compensation	—	70,913	70,913
Net income	—	2,624,012	2,624,012
Balance, December 31, 2015 (as adjusted)	10,525,000	2,831,404	13,356,404
Equity-based compensation	—	81,674	81,674
Net income	—	6,249,641	6,249,641
Balance, December 31, 2016 (as adjusted)	10,525,000	9,162,719	19,687,719
Equity-based compensation	—	44,611	44,611
Net income	—	9,693,262	9,693,262
Balance, September 30, 2017 (unaudited)	$ 10,525,000	$ 18,900,592	$ 29,425,592

See Notes to Consolidated Financial Statements.

Talon Innovations Holdings LLC and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended December 31,		Nine Months Ended September 30,	
	2016	2015	2017	2016
	(as adjusted)	(as adjusted)	(unaudited)	(unaudited)
Cash Flows From Operating Activities				
Net income	$ 6,249,641	$ 2,624,012	$ 9,693,262	$ 5,059,760
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	2,018,078	1,376,824	1,875,103	1,402,383
Amortization	1,444,817	670,172	1,053,883	1,083,612
Amortization of deferred financing costs	122,636	10,711	83,542	93,182
Deferred income taxes	(342,110)	30,145	(244,264)	(244,007)
Contingent consideration expense	—	649,677	—	—
Equity-based compensation expense	81,674	70,913	44,611	37,063
Changes in operating assets and liabilities, net of acquisition in 2015:				
Trade accounts receivable	(3,186,480)	473,715	(4,189,646)	(1,537,326)
Inventories	(1,126,773)	(570,120)	(5,343,204)	(1,030,740)
Prepaid expenses and other	44,636	(108,762)	(64,759)	(35,274)
Accounts payable	1,179,294	(540,084)	2,283,304	255,562
Income taxes	460,843	(183,939)	273,972	84,625
Accrued expenses	(197,274)	669,416	808,044	(456,809)
Net cash provided by operating activities	6,748,982	5,172,680	6,273,848	4,712,031
Cash Flows From Investing Activities				
Purchases of equipment and leasehold improvements	(3,716,745)	(1,924,047)	(5,132,480)	(2,027,157)
Acquisition of Vulcan Machine, Inc., net of cash acquired (Note 8)	—	(15,835,903)	(1,944,871)	—
Net cash used in investing activities	(3,716,745)	(17,759,950)	(7,077,351)	(2,027,157)
Cash Flows From Financing Activities				
Proceeds from long-term debt	2,500,000	22,641,254	—	1,250,000
Principal payments on long-term debt	(1,601,250)	(3,430,178)	(2,284,102)	(1,601,250)
Debt financing costs	—	(463,500)	—	—
Payment of contingent consideration	—	(3,450,000)	—	—
Net cash provided by (used in) financing activities	898,750	15,297,576	(2,284,102)	(351,250)
Net increase (decrease) in cash	3,930,987	2,710,306	(3,087,605)	2,333,624
Cash				
Beginning of year	4,348,881	1,638,575	8,279,868	4,348,881
End of year	$ 8,279,868	$ 4,348,881	$ 5,192,263	$ 6,682,505
Supplemental Disclosures of Cash Flow Information and Noncash Investing Activities				
Cash payments for interest	$ 1,177,854	$ 227,350	$ 591,665	$ 879,550
Cash payments for taxes	$ 2,916,519	$ 1,940,000	$ 4,876,029	$ 2,345,000
Noncash additions of fixed assets included in accounts payable	$ 79,200	$ —	$ —	$ —

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business, sales concentration and credit risk: Talon Innovations Holdings, LLC (Holdings) and its wholly owned subsidiary, Talon Innovations Corporation (Talon) (together, the Company), are headquartered in Sauk Rapids, Minnesota. In December 2015, Talon acquired all of the issued and outstanding stock of Talon Innovations (FL) Corporation (formerly Vulcan Machine, Inc.) (Vulcan) which is located in Tampa, Florida. In March 2014, Talon Innovations Korea, a wholly owned subsidiary of Talon Innovations Corporation, was formed and is located in South Korea. The Company primarily manufactures gas-handling equipment for the semiconductor industry and precision components for the aerospace industry to customers located in the United States and internationally.

Three customers accounted for 51 percent, 18 percent and 10 percent of net sales in the year ended December 31, 2016 and 62 percent, 15 percent and 15 percent of net sales in the year ended December 31, 2015. Three customers accounted for 48 percent, 23 percent and 13 percent of net sales in the nine months ended September 30, 2017 and 53 percent, 16 percent and 11 percent of net sales in the nine months ended September 30, 2016 (unaudited). Trade accounts receivable outstanding from these customers were approximately $5,044,000 and $2,104,000 at December 31, 2016 and 2015, respectively and approximately $9,104,000 at September 30, 2017 (unaudited).

Sales to foreign customers, denominated in U.S. dollars, were approximately 18 percent of the Company’s total sales in the year ended December 31, 2016 and 19 percent of the Company’s total sales in the year ended December 31, 2015. Sales to foreign customers for the nine months ended September 30, 2017 and 2016 were 19 percent and 17 percent, respectively (unaudited). Trade receivables relating to foreign sales were approximately $1,988,000 and $981,000 as of December 31, 2016 and 2015, respectively and approximately $3,053,000 as of September 30, 2017 (unaudited).

Principles of consolidation: The consolidated financial statements include the accounts of Talon Innovations Holdings, LLC and its wholly owned subsidiary, Talon Innovations Corporation. Talon Innovations Corporation also includes the accounts of its wholly owned subsidiaries, Talon Innovations (FL) Corporation and Talon Innovations Korea. All significant intercompany accounts and transactions have been eliminated in consolidation.

Unaudited interim financial information: The accompanying interim consolidated balance sheet as of September 30, 2017 and the consolidated statements of income and cash flows for the nine months ended September 30, 2017 and 2016 and the consolidated statement of members’ equity for the nine months ended September 30, 2017 and related footnote disclosures, or collectively, the unaudited financial statements, are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company’s financial position as of September 30, 2017, and the results of operations and cash flow for the nine months ended September 30, 2017 and 2016. The financial data and other information disclosed in these notes to the consolidated financial statements related to these nine month periods are unaudited. The results of the nine months ended September 30, 2017 and 2016 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2017 or for any other interim period or other future year.

Summary of significant accounting policies:

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

Revenue recognition: The Company generally recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, product has been shipped and title and risk of loss has passed to the customer, and collection of the receivable is reasonably assured. Provisions for discounts, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. Shipping and handling charges billed to customers are included in net sales, and shipping and handling costs incurred by the Company are included in cost of goods sold on the consolidated statement of income.

Cash: The Company maintains its cash in a bank deposit account that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Trade accounts receivable: The Company grants credit to customers in the normal course of business. Trade accounts receivable are unsecured and are presented net of an allowance for doubtful accounts. The Company offers a 2 percent discount to certain customers for balances paid within 20 days of the invoice date. Credit terms generally require payment within 30 to 90 days of the invoice date. The Company does not accrue interest on past-due accounts receivable. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts are past due, previous loss history, and the customer's current ability to pay its obligation. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received.

Inventories: Inventories are stated at the lower of average cost or market. Work in process and finished goods include materials, labor and allocated overhead. Management determines the inventory obsolescence reserve by identifying slow-moving or obsolete inventory.

Inventories consist of the following:

	December 31, 2016	December 31, 2015	September 30, 2017 (unaudited)
Raw materials	$ 3,401,985	$ 2,661,575	$ 3,081,821
Work in process	2,525,352	1,744,617	6,115,806
Finished goods	3,356,615	3,733,987	6,707,015
Less excess and obsolete reserves	(947,000)	(930,000)	(2,117,000)
Net inventories	$ 8,336,952	$ 7,210,179	$ 13,787,642

Equipment and leasehold improvements: Equipment and leasehold improvements are stated at cost, less accumulated depreciation. Major additions and betterments are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	Lesser of lease term or 3–5 years
Furniture, fixtures, computers and software	3–10 years
Shop equipment and tooling	3–15 years

Goodwill: Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired and liabilities assumed in a business combination. Goodwill is reviewed for impairment at least annually. The goodwill impairment is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. For the years ended December 31, 2016 and 2015 and the nine months ended September 30, 2017 (unaudited), management has determined that the Company has one reporting unit and performed its annual test for impairment of goodwill and concluded that there was no impairment.

Finite-life intangible assets: Intangible assets with finite lives resulting from prior business acquisitions consist primarily of technology, customer relationships, brand, and noncompete agreements and are being amortized on a straight-line basis. See Note 2 for amortization terms and accumulated amortization.

Impairment of long-lived assets: Long-lived assets, primarily equipment and finite-lived intangible assets, are reviewed for impairment as events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. In such circumstances, the Company would evaluate the recoverability of long-lived assets or asset group by comparing the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets or asset group. At the time such evaluations indicate the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets or asset group, the assets or asset group would be adjusted to their fair values. For the years ended December 31, 2016 and 2015 and the nine months ended September 30, 2017 (unaudited), management believes the carrying amounts of long-lived assets have not been impaired.

Stock-based compensation: The Company grants profits interest units to employees under a plan described more fully in Note 4. The estimated grant-date fair value of each stock-based award is recognized as an expense over the requisite vesting period.

Deferred financing costs: Deferred financing costs consist of fees incurred by the Company in obtaining debt financing. The Company capitalizes the related costs and amortizes the amounts over the terms of the related debt instrument, using a method that approximates the effective-interest method. The Company adopted ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* , and has presented debt issuance costs as a direct reduction from the carrying amount of the long-term debt liability.

Royalties: The Company has two royalty agreements for the rights to certain licensed patents and technology. Royalties are determined as a percentage of net sales of licensed product, and payments are remitted quarterly. The agreements will continue for a period that is consistent with the rights being licensed. The Company records an accrual when a sale is made. Royalty expense was approximately $326,000 for and $244,000 for the years ended December 31, 2016 and 2015, respectively. Royalty expense for the nine months ended September 30, 2017 and 2016 was approximately $554,000 and $250,000, respectively (unaudited).

Income taxes: Holdings qualifies as a pass-through entity for income tax purposes and, accordingly, no provision for income taxes is recorded for the direct operating activities of Holdings.

Talon is taxed as a C corporation and, therefore, their income is taxed. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax basis. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

The Company recognizes tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Management has evaluated the Company's tax positions and determined there are no material uncertain tax positions that require adjustments to the consolidated financial statements. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. The Company has determined there are no uncertain tax positions for the years ended December 31, 2016 and 2015 and the nine months ended September 30, 2017 (unaudited).

Foreign currency translation: The U.S. dollar is considered to be the functional currency for the Talon Innovations Korea subsidiary. Foreign currency transaction gains and losses are included in other income (expense) in the accompanying consolidated statements of income.

Recent accounting pronouncements: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from contracts with Customers (Topic 606)* , requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issues ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* . The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable cost of completion, disposal and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effects adoption of the guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* , which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

Subsequent events: In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 26, 2017 and February 23, 2018, the date the consolidated financial statements were available to be issued.

Note 2. Goodwill and Finite-Life Intangible Assets (as adjusted)

Goodwill was $9,037,098 at December 31, 2016 and 2015, respectively. Goodwill was $9,458,387 at September 30, 2017 (unaudited).

The changes in the carrying amount for goodwill for the years ended December 31, 2016 and 2015 and nine-months ended September 30, 2017 is as follows:

Balance, December 31, 2014	$ 2,380,432
Goodwill acquired	6,656,666
Balance, December 31, 2015	9,037,098
Goodwill acquired	—
Balance, December 31, 2016	9,037,098
Goodwill acquired	421,289
Balance, September 30, 2017 (unaudited)	$ 9,458,387

Finite-life intangible assets are shown net on the consolidated balance sheet and consist of the following:

	December 31, 2016			
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	6	$ 1,386,000	$ (770,000)	$ 616,000
Customer relationships	4 - 12	8,503,000	(1,827,973)	6,675,027
Brand	2	496,000	(268,667)	227,333
Non-compete	5	97,000	(21,016)	75,984
		$ 10,482,000	$ (2,887,656)	$ 7,594,344

	December 31, 2015			
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	6	$ 1,386,000	$ (539,000)	$ 847,000
Customer relationships	4 - 12	8,503,000	(881,556)	7,621,444
Brand	2	496,000	(20,667)	475,333
Non-compete	5	97,000	(1,616)	95,384
		$ 10,482,000	$ (1,442,839)	$ 9,039,161

	September 30, 2017 (unaudited)			
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	6	$ 1,386,000	$ (943,250)	$ 442,750
Customer relationships	4 - 12	8,503,000	(2,508,055)	5,994,945
Brand	2	496,000	(454,667)	41,333
Non-compete	5	97,000	(35,567)	61,433
		$ 10,482,000	$ (3,941,539)	$ 6,540,461

Aggregate amortization expense for finite-life intangible assets was $1,445,000 for the year ended December 31, 2016 and $670,000 for the year ended December 31, 2015. Amortization expense for the nine months ended September 30, 2017 and 2016 was $1,054,000 and $1,084,000, respectively (unaudited).

Approximate amortization for the next five years and thereafter is as follows:

Years Ending December 31:		
2017	$	1,305,000
2018		840,000
2019		763,000
2020		607,000
2021		590,000
Thereafter		3,489,000
Total	$	7,594,000

Note 3. Financing Agreements

Revolving credit facility: The Company has a $5,000,000 revolving credit facility through December 2, 2020, if not renewed. Interest on the revolving credit facility is, at the Company's option, based on (i) a base rate, defined as the greatest of (a) prime rate or (b) federal funds rate plus a spread of 1.5% or (ii) LIBOR for a period of one, three, or six months plus a spread of 4.5%. Additionally, the Company is required to pay an annual facility fee in the amount of $25,000. As of December 31, 2016 and 2015 and September 30, 2017 (unaudited), no amounts were outstanding on the revolving credit facility. The revolving credit facility requires that the Company maintain certain financial covenants and is secured by substantially all of the assets of the Company.

Term loans: On December 2, 2015, Talon entered into a Credit Agreement between Talon Innovations Corporation and East West Bank (the Credit Agreement). The Credit Agreement includes a Term Loan A in the amount of $21,350,000. The Term Loan A is due in quarterly principle payments of $533,750 on the last business day of each quarter beginning March 31, 2016 through December 31, 2017 and quarterly payments of $800,625 from March 31, 2018 through September 30, 2020 with the unpaid principal balance due on December 2, 2020. Interest on the term loan is, at the Company's option, based on (i) a base rate, defined as the greatest of (a) prime rate or (b) federal funds rate plus a spread of 1.5% or (ii) LIBOR for a period of one, three, or six months plus a spread of 4.5% (5.25% at December 31, 2016). The Term Loan A requires the Company to make excess cash flow payments, as defined by the Credit Agreement, beginning with the year ended December 31, 2016. At December 31, 2016, the excess cash flow payment required is $500,000. The term loan requires that the Company maintain certain financial covenants and is secured by substantially all of the assets of the Company.

The Credit Agreement also includes a Term Loan B commitment of up to $3,000,000. The unpaid principal of the Term Loan B is due in quarterly principle payments on the last business day of each quarter beginning December 31, 2016 expressed as a percentage of the principal amount outstanding at the anniversary of the effective date most recently preceding such payment date as follows: 2.5% quarterly through December 31, 2017 and 3.75% quarterly thereafter through September 20, 2020 with the unpaid principal balance due on December 2, 2020. Interest on the term loan is, at the Company's option, based on (i) a base rate, defined as the greatest of (a) prime rate or (b) federal funds rate plus a spread of 1.5% or (ii) LIBOR for a period of one, three, or six months plus a spread of 4.5% (5.25% at December 31, 2016). Additionally, the Company is required to pay a quarterly commitment fee of 0.50% of the unused portion of the commitment. As of December 31, 2016, $2,500,000 was outstanding on the Term Loan B. As of September 30, 2017, $2,317,148 was outstanding on the Term Loan B (unaudited).

Long-term debt consists of the following:

	December 31, 2016	December 31, 2015	September 30, 2017 (unaudited)
Senior secured term loan A payable to East West Bank	$ 19,748,750	$ 21,350,000	$ 17,647,500
Senior secured term loan B payable to East West Bank	2,500,000	—	2,317,148
Total long-term debt	22,248,750	21,350,000	19,964,648
Less current maturities of long-term debt	3,466,011	2,135,000	3,822,416
Long-term debt excluding current maturities	18,782,739	19,215,000	16,142,232
Less debt discount net of accumulated amortization of $133,347 and $10,711 at December 31, 2016 and 2015, respectivley	330,153	452,789	246,611
Long-term debt, net of current maturities and debt discount	$ 18,452,586	$ 18,762,211	$ 15,895,621

The Company adopted ASU No. 2015-03, *Interest-Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* , during the period ended December 31, 2015. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. As a result, the Company is recognizing the outstanding debt issuance costs as a direct deduction to the long-term debt. The debt issuance costs related to the long-term debt are amortized using a method that approximates the effective-interest method.

Aggregate future maturities of long-term debt at December 31, 2016 are as follows:

Years Ending December 31:		
2017	$	3,466,000
2018		3,515,000
2019		3,471,000
2020		11,797,000
Total	$	22,249,000

Note 4. Members' Equity

Holdings is governed by an operating agreement (the Agreement) dated as of September 4, 2013, between Holdings and its members. Holdings has two classes of membership units that are authorized and outstanding as of December 31, 2016 and 2015, which are designated as Class A Units (voting) and Class B Units (nonvoting). Holdings has 15,000 Class A Units and 1,161.11 Class B Units authorized for issuance. There were 10,525 Class A Units and 1,039.18 Class B Units issued and outstanding as of December 31, 2016 and 10,525 Class A Units and 1,004.35 Class B Units issued and outstanding as of December 31, 2015. There were 10,525 Class A Units and 1,039.18 Class B Units issued and outstanding as of September 30, 2017 (unaudited).

Class B Units are profits interest units that can be issued to certain managers, officers, employees, consultants or other service providers of the Company as defined in the Agreement. The Class B Units are nonvoting units and are subject to a five-year vesting period, 50 percent of which is based on Company performance and 50 percent based on time. If a Class B Unit holder terminates employment or no longer provides consulting or service to the Company, the units may be purchased back by the Company. The Class B Units are entitled to distributions under certain provisions. During 2016, the Company issued an additional 34.83 Class B Units. As of December 31, 2016, a total of 636.86 Class B Units were vested. As of September 30, 2017, a total of 740.78 Class B Units were vested (unaudited).

The grant date fair value for Class B Units granted was determined by estimating enterprise value of the Company at a terminal date, based on the Company's projected financial metrics. The enterprise value was allocated to the various tranches of equity using a waterfall model, with the value allocated to the Class B Unit holders being recognized over the next five years as the units vest. Compensation expense is recognized in the period in which the awards vest. During 2016, 204.35 Class B Units vested. Compensation expense was approximately $82,000 and 71,000 for the years ended December 31, 2016 and 2015, respectively. Compensation expense for the nine months ended September 30, 2017 and 2016 was approximately $45,000 and $37,000, respectively (unaudited). Approximately $205,000 of expense will be recognized over the next five years related to the vesting of profits interest units. An increase in members' equity is recognized in proportion to the expense recognized related to the fair value of the profits interest units granted.

The Class A and Class B Units are subject to a liquidation waterfall whereby the Class A Unit holders are first entitled to the return of their capital contributions. After the Class A Unit holders are distributed their initial capital contribution, the Class A Unit holders and vested Class B Unit holders share ratably in distributions thereafter.

Provisions of the Agreement have certain share restrictions, which could require repurchase of each member's membership units by the Company under certain circumstances and provides for other restrictions on the transfer of such membership units as defined in the Agreement. During the years ended December 31, 2016 and 2015, no membership units were repurchased under the Agreement.

Note 5. Retirement Plan

Talon has a 401(k) salary deferral retirement plan (the Plan) for those employees who meet the eligibility requirements set forth in the Plan and allows employees to defer a portion of their eligible compensation, up to the maximum dollar limit set by law. The Plan provides for a safe harbor Company match of participant deferrals. Company matching contributions were approximately $291,000 and $171,000 for the years ended December 31, 2016 and 2015. Company matching contributions for the nine months ended September 30, 2017 and 2016 were approximately $286,000 and $208,000, respectively (unaudited).

Vulcan has a Profit Sharing Plan & Trust (the Profit Sharing Plan) for those employees who meet the eligibility requirements set forth in the Profit Sharing Plan and allows employees to defer a portion of their eligible compensation, up to the maximum dollar limit set by law. The Profit Sharing Plan provides for a discretionary company match of participant deferrals. Discretionary matching contributions made during the year ended December 31, 2016 were $0 and for the period from December 2, 2015 to December 31, 2015 were approximately $4,000. There were no discretionary matching contributions made during the nine months ended September 30, 2017 and 2016 (unaudited).

Note 6. Commitments

Operating leases: The Company leases office, manufacturing and warehouse space and equipment under operating leases with varying rental payments through December 2021.

Lease expense was approximately $576,000 and $426,000 for the years ended December 31, 2016 and 2015, respectively. Lease expense for the nine months ended September 30, 2017 and 2016 was approximately $521,000 and $436,000, respectively (unaudited).

Approximate future minimum rental payments at December 31, 2016, are as follows:

Years Ending December 31:	
2017	$ 514,000
2018	440,000
2019	121,000
2020	121,000
2021	5,000
Total	$ 1,201,000

Note 7. Income Taxes (as adjusted)

The provision for the income tax expense of the Company consists of the following components for the years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Current		
Federal	$ 2,799,779	$ 1,390,853
Foreign	591	549
State	576,992	364,806
	3,377,362	1,756,208
Deferred		
Federal	(358,252)	(24,657)
State	16,142	54,802
	(342,110)	30,145
	$ 3,035,252	$ 1,786,353

A reconciliation of income tax expense provided at the statutory U.S. federal rate of 34 percent to actual income tax expense for the year ended December 31, 2016 and year ended December 31, 2015, included in the consolidated statements of operations is as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Income tax expense computed at federal statutory rate	$ 3,156,863	$ 1,499,524
State income taxes, net of federal tax benefit	404,450	181,928
Meals and entertainment (50%)	27,717	10,974
Nondeductible transaction costs	—	138,897
Nondeductible contingent liability expense	—	247,689
Domestic manufactures deduction	(336,608)	(189,300)
Research and development credit	(143,856)	(91,837)
Other	(73,314)	(11,522)
	$ 3,035,252	$ 1,786,353

Significant components of the Company's net deferred tax assets (liabilities) at December 31 , 2016 and 2015 were approximately as follows:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Allowance for obsolete inventory	$ 428,948	$ 427,050
Uniform capitalization (Sec. 263(A))	69,565	56,136
Accrued expenses	121,838	105,679
Property and equipment—state	125,453	120,430
Other	40,618	32,266
	786,422	741,561
Deferred tax liabilities:		
Property and equipment	(2,731,085)	(2,374,246)
Inventory	—	(106,768)
Intangibles	(2,882,812)	(3,430,132)
	(5,613,897)	(5,911,146)
Net deferred tax liability	$ (4,827,475)	$ (5,169,585)

The Company recorded income expense of approximately $4,910,000 and $2,250,000 for the nine months ended September 30, 2017 and 2016, respectively. The income tax provisions for the nine months ended September 30, 2017 and 2016 consisted primarily of taxes on domestic income. The income tax provisions for the nine months ended September 30, 2017 and 2016 were calculated based on the results of operations for the nine month periods ended September 30, 2017 and 2016 and may not reflect the annual effective tax rate (unaudited).

Note 8. Acquisition (as adjusted)

On December 2, 2015, Talon acquired all of the issued and outstanding stock of Vulcan Machine Inc. for a purchase price of $16,029,856, paid in cash. The acquisition was funded by borrowings through the issuance of long-term debt. The acquisition was accounted for as a business combination. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values as determined by the Company's management, using information currently available and current assumptions as to projections of future events and operating performance.

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date:

Trade accounts receivable	$ 1,415,614
Inventories	1,542,698
Machinery and equipment	2,731,680
Goodwill	6,656,666
Intangible assets	7,669,000
Other assets	10,000
	20,025,658
Less liabilities assumed:	
Accounts payable	(149,277)
Accrued expenses	(257,970)
Deferred tax liability	(3,782,508)
Purchase price, net of cash acquired of $193,953	$ 15,835,903

The Company paid a premium over the fair value of tangible and identified intangible assets, resulting in goodwill recorded of $6,656,666. The premium paid is attributed to the Company's presence in aerospace industry and their growth potential. Goodwill recognized will not be deductible for income tax purposes. The results of the acquisition are included in the accompanying consolidated statements of income from the acquisition date forward.

The acquisition costs expensed in conjunction with the acquisition and included in acquisition transaction expenses were approximately $588,000 for the year ended December 31, 2015. Approximately $320,000 of the acquisition transaction expenses were paid to a member.

Contingent consideration payable: In conjunction with the acquisition of Talon Innovations Corporation on September 4, 2013, the Company was required to pay the sellers up to an additional $4,000,000. The Company recorded an estimated contingent earn-out liability on the acquisition date in the amount of approximately $961,000. During the year ended December 31, 2015 and 2014, the Company recorded contingent consideration expense in the amount of $650,000 and $1,839,000, respectively, to reflect the change in the estimated contingent earn-out liability. Based on the criteria contained in the earn-out provision, the Company paid $3,450,000 in December 2015 to the former owners of Talon which fulfilled the contingent earn-out liability obligations.

On May 31, 2017, Talon acquired certain assets of Mortek, Inc d/b/a Lind-Rite Precision Company for a purchase price of $2,000,000 less assumed liabilities of $55,000. The acquisition was funded by cash from operations. The acquisition was accounted for as a business combination. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values as determined by the Company's management, using information currently available and current assumptions as to projections of future events and operating performance.

The following table summarizes the preliminary allocation of the assets acquired and liabilities assumed at the acquisition date (unaudited):

Inventories	$ 107,486
Machinery and equipment	1,471,225
Goodwill	421,289
	2,000,000
Less liabilities assumed:	
Accrued expenses	(55,129)
Purchase price	$ 1,944,871

Note 9. Related Party

The Company has a management consulting agreement with a party related through common ownership. Pursuant to the management consulting agreement, the related party will, from time to time, provide advisory and consulting services relating to the affairs of the Company. In exchange for the services provided, the Company is obligated to pay an annual management consulting fee equal to the greater of $200,000 or an amount equal to 5 percent of the consolidated EBITDA of the Company. The management consulting agreement was terminated October 1, 2016.

Related-party consulting expense was approximately $148,000 and $440,000 for the years ended December 31, 2016 and 2015, respectively, of which approximately $0 and $291,000 is included in accrued expenses as of December 31, 2016 and 2015, respectively. Related-party consulting expense for the nine months ended September 30, 2017 and 2016 was $0 and $148,000, respectively (unaudited).

Note 10. Accounting Changes

The Company was acquired by a public company on December 11, 2017. The Company had previously adopted private company accounting alternatives Accounting Standards Update (ASU) No. 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill* and ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* , issued by the Financial Accounting Standards Board. The Company has changed their accounting principle to reverse the effects of these adoptions as a result of the acquisition. The following financial statement line items for the years ended December 31, 2016 and 2015 were affected by the change:

Consolidated Balance Sheets Impact

	December 31, 2016			December 31, 2015		
	As Previously Reported	As Adjusted	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Goodwill	$ 12,082,287	$ 9,037,098	$ (3,045,189)	$ 13,461,782	$ 9,037,098	$ (4,424,684)
Finite-life intangible assets, net	$ 853,833	$ 7,594,344	$ 6,740,511	$ 1,441,583	$ 9,039,161	$ 7,597,578
Total assets	$ 48,080,090	$ 51,775,411	$ 3,695,321	$ 40,378,188	$ 43,551,082	$ 3,172,894
Deferred income taxes	$ 2,268,778	$ 4,827,475	$ 2,558,697	$ 2,285,545	$ 5,169,585	$ 2,884,040
Total liabilities	$ 29,528,995	$ 32,087,692	$ 2,558,697	$ 27,310,638	$ 30,194,678	$ 2,884,040
Retained earnings	$ 8,026,095	$ 9,162,719	$ 1,136,624	$ 2,542,550	$ 2,831,404	$ 288,854
Total members equity	$ 18,551,095	$ 19,687,719	$ 1,136,624	$ 13,067,550	$ 13,356,404	$ 288,854
Total liabilities and members' equity	$ 48,080,090	$ 51,775,411	$ 3,695,321	$ 40,378,188	$ 43,551,082	$ 3,172,894

Consolidated Statements of Income Impact

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	As Previously Reported	As Adjusted	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Net sales	$ 56,331,234	$ 56,331,234	$ —	$ 38,499,151	$ 38,499,151	$ —
Cost of sales	35,536,410	35,536,410	—	25,471,826	25,471,826	—
Gross profit	20,794,824	20,794,824	—	13,027,325	13,027,325	—
Operating expenses and other	9,021,762	9,021,762	—	7,761,311	7,761,311	—
Amortization expense	1,967,244	1,444,817	(522,427)	931,914	670,172	(261,742)
Operating income	9,805,818	10,328,245	522,427	4,334,100	4,595,842	261,742
Other income (expense)	(1,043,352)	(1,043,352)	—	(185,477)	(185,477)	—
Income before income taxes	8,762,466	9,284,893	522,427	4,148,623	4,410,365	261,742
Income tax expense	3,360,595	3,035,252	(325,343)	1,813,465	1,786,353	(27,112)
Net income	$ 5,401,871	$ 6,249,641	$ 847,770	$ 2,335,158	$ 2,624,012	$ 288,854

Consolidated Statements of Cash Flows Impact

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	As Previously Reported	As Adjusted	Effect of Change	As Previously Reported	As Adjusted	Effect of Change
Net income	$ 5,401,871	$ 6,249,641	$ 847,770	$ 2,335,158	$ 2,624,012	$ 288,854
Adjustments to reconcile net income to net cash provided by operating activities:						
Amortization	$ 1,967,244	$ 1,444,817	$ (522,427)	$ 931,914	$ 670,172	$ (261,742)
Deferred income taxes	$ (16,767)	$ (342,110)	$ (325,343)	$ 57,257	$ 30,145	$ (27,112)
Net cash provided by operating activities	$ 6,748,982	$ 6,748,982	$ —	$ 5,172,680	$ 5,172,680	$ —
Net increase in cash	$ 3,930,987	$ 3,930,987	$ —	$ 2,710,306	$ 2,710,306	$ —
Cash, beginning of year	$ 4,348,881	$ 4,348,881	$ —	$ 1,638,575	$ 1,638,575	$ —
Cash, end of year	$ 8,279,868	$ 8,279,868	$ —	$ 4,348,881	$ 4,348,881	$ —

Consolidated Statements of Members' Equity Impact

	As Previously Reported	As Adjusted	Effect of Change
Balance, December 31, 2014	$ 10,661,479	$ 10,661,479	$ —
Net income	$ 2,335,158	$ 2,624,012	$ 288,854
Balance, December 31, 2015	$ 13,067,550	$ 13,356,404	$ 288,854
Net income	$ 5,401,871	$ 6,249,641	$ 847,770
Balance, December 31, 2016	$ 18,551,095	$ 19,687,719	$ 1,136,624

Note 11. Subsequent Events

On December 11, 2017, Holdings sold all of the issued and outstanding stock of Talon Innovations Corporation to Ichor Holdings, LLC for $130 million in cash, subject to customary adjustments.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On November 3, 2017, Ichor Holdings, LLC (“Ichor Holdings”), a wholly owned subsidiary of Ichor Holdings, Ltd. (“Ichor”, “us”, “we”, or “our”), entered into a Stock Purchase Agreement (the “Agreement”) to acquire Talon Innovations Corporation (“Talon”), a Minnesota-based leader in the design and manufacturing of high precision machined parts used in leading edge semiconductor tools, (the “Talon Acquisition”) from Talon Innovations Holdings, LLC (“Talon Holdings”). The Talon Acquisition closed on December 11, 2017 (the “Talon Acquisition Date”).

Additionally, on July 27, 2017 (the “Cal-Weld Acquisition Date”), Ichor Holdings completed the acquisition of Cal‑Weld, Inc. (“Cal‑Weld”), a California-based leader in the design and fabrication of precision, high purity industrial components, subsystems, and systems. (the “Cal-Weld Acquisition,” and collectively, the “Acquisitions”).

The following unaudited pro forma condensed combined (“pro forma”) balance sheet as of September 29, 2017 gives effect to the Talon Acquisition as if it had occurred as of September 29, 2017. Cal-Weld’s balance sheet as of September 29, 2017 is included in Ichor’s historical consolidated balance sheet as of September 29, 2017. The pro forma statements of operations for the nine months ended September 29, 2017 and year ended December 30, 2016 give effect to the Acquisitions as if they occurred as of the beginning of the earliest period presented, on December 26, 2015.

The Acquisitions were accounted for as a business combination using the acquisition method of accounting, which established a new basis of accounting for all assets acquired and liabilities assumed at fair value. The pro forma adjustments are based upon currently available information and certain assumptions that are factually supportable and that we believe are reasonable under the circumstances.

The pro forma financial information is presented for informational purposes only and does not purport to present what our actual consolidated results of operations would have been had the transaction occurred on the dates indicated, nor are they necessarily indicative of future results of operations. The pro forma financial information should be read in conjunction with:

- Ichor’s historical unaudited consolidated financial statements and accompanying notes (included in Ichor’s Quarterly Report on Form 10-Q for the quarter ended September 29, 2017);
- Ichor’s historical audited consolidated financial statements and accompanying notes (included in Ichor’s Annual Report on Form 10-K for the year ended December 30, 2016);
- Talon Holdings’ historical unaudited consolidated financial statements and accompanying notes for the nine months ended September 30, 2017 and September 30, 2016 (included in Exhibit 99.1 to Ichor’s Form 8-K/A filed herewith);
- Talon Holdings’ historical audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and December 31, 2015 (included in Exhibit 99.1 to Ichor’s Form 8-K/A filed herewith); and
- Cal-Weld’s historical audited financial statements and accompanying notes for the years ended June 30, 2017 and June 30, 2016 (attached as Exhibit 99.1 to Ichor’s Form 8-K/A filed on October 6, 2017)

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma financial information.

ICHOR HOLDINGS, LTD.
Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 29, 2017
(in thousands, except share data)

	Historical Ichor	Historical Talon	Pro Forma Adjustments		Pro Forma Combined
Assets					
Current assets:					
Cash and restricted cash	$ 42,848	$ 5,192	$ (18,711)	(2b)	$ 29,329
Accounts receivable, net	59,351	11,207	(3,504)	(3a)	67,054
Inventories	110,632	13,788	6,161	(2a)	130,581
Prepaid expenses and other current assets	3,617	237	—		3,854
Current assets from discontinued operations	21	—	—		21
Total current assets	216,469	30,424	(16,054)		230,839
Property and equipment, net	16,748	15,991	1,463		34,202
Other noncurrent assets	1,677	76	—		1,753
Deferred tax assets	1,388	—	—		1,388
Intangible assets, net	38,468	6,540	31,460	(2a)	76,468
Goodwill	95,028	9,458	48,772	(2a)	153,258
Total assets	$ 369,778	$ 62,489	$ 65,641		$ 497,908
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$ 91,553	$ 5,377	$ (3,504)	(3a)	$ 93,426
Accrued liabilities and other current liabilities	13,076	3,385	—		16,461
Current portion of long-term debt	1,180	3,822	1,488	(2a, 2b)	6,490
Current liabilities from discontinued operations	626	—	—		626
Total current liabilities	106,435	12,584	(2,016)		117,003
Long-term debt, net of current portion	66,562	15,896	98,794	(2a, 2b)	181,252
Deferred tax liabilities	440	4,583	—	(2a)	5,023
Other non-current liabilities	2,516	—	—		2,516
Non-current liabilities from discontinued operations	31	—	—		31
Total liabilities	175,984	33,063	96,778		305,825
Shareholders' equity					
Preferred shares ($0.0001 par value; 20,000,000 shares authorized; no shares issued and outstanding)	—	—	—		—
Ordinary shares ($0.0001 par value; 200,000,000 shares authorized; 23,857,381 shares issued and outstanding)	3	—	—		3
Common stock (100,000 shares authorized; 10,525 shares issued and outstanding)	—	10,525	(10,525)	(3f)	—
Additional paid in capital	211,193	—	—		211,193
Retained earnings (accumulated deficit)	(17,402)	18,901	(20,612)	(3f)	(19,113)
Total shareholders' equity	193,794	29,426	(31,137)		192,083
Total liabilities and shareholders' equity	$ 369,778	$ 62,489	$ 65,641		$ 497,908

ICHOR HOLDINGS, LTD.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 29, 2017
(in thousands, except share data)

	Historical Ichor	Historical Cal-Weld	Historical Talon	Pro Forma Adjustments		Pro Forma Combined
Net sales	$ 472,956	$ 69,189	$ 64,353	$ (15,075)	(3a)	$ 591,423
Cost of sales	401,239	53,384	40,273	(15,075)	(3a)	479,821
Gross profit	71,717	15,805	24,080	—		111,602
Operating expenses	37,776	6,219	8,648	134	(3b)	52,777
Operating income	33,941	9,586	15,432	(134)		58,825
Interest expense (income), net	2,104	(34)	963	2,966	(3c)	5,999
Other income, net	(325)	—	(135)	—		(460)
Income from continuing operations before income taxes	32,162	9,620	14,604	(3,100)		53,286
Income tax expense (benefit) from continuing operations	(5,558)	3,113	4,911	4,196	(3d)	6,662
Net income from continuing operations	37,720	6,507	9,693	(7,296)		46,624
Discontinued operations:						
Loss from discontinued operations before taxes	(721)	—	—	—		(721)
Income tax expense from discontinued operations	9	—	—	—		9
Net loss from discontinued operations	(730)	—	—	—		(730)
Net income	$ 36,990	$ 6,507	$ 9,693	$ (7,296)		$ 45,894
Net income per share from continuing operations:						
Basic	$ 1.51					$ 1.87
Diluted	$ 1.45					$ 1.79
Net income per share:						
Basic	$ 1.48					$ 1.84
Diluted	$ 1.42					$ 1.76
Shares used to compute net income from continuing operations per share:						
Basic	24,923,298					24,923,298
Diluted	26,008,346					26,008,346
Shares used to compute net income per share:						
Basic	24,923,298					24,923,298
Diluted	26,008,346					26,008,346

ICHOR HOLDINGS, LTD.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 30, 2016
(in thousands, except share data)

	Historical Ichor	Historical Cal-Weld	Historical Talon	Pro Forma Adjustments		Pro Forma Combined
Net sales	$ 405,747	$ 81,171	$ 56,331	$ (9,883)	(3a)	$ 533,366
Cost of sales	340,352	61,256	35,536	(9,883)	(3a)	427,261
Gross profit	65,395	19,915	20,795	—		106,105
Operating expenses	41,524	10,496	10,467	3,332	(3b)	65,819
Operating income	23,871	9,419	10,328	(3,332)		40,286
Interest expense (income), net	4,370	(15)	1,228	4,403	(3c)	9,986
Other income, net	(629)	—	(185)	—		(814)
Income from continuing operations before income taxes	20,130	9,434	9,285	(7,735)		31,114
Income tax expense (benefit) from continuing operations	(649)	3,777	3,035	(2,707)	(3d)	3,456
Net income from continuing operations	20,779	5,657	6,250	(5,028)		27,658
Discontinued operations:						
Loss from discontinued operations before taxes	(4,077)	—	—	—		(4,077)
Income tax expense from discontinued operations	40	—	—	—		40
Net loss from discontinued operations	(4,117)	—	—	—		(4,117)
Net income	16,662	5,657	6,250	(5,028)		23,541
Less: Undistributed earnings attributable to preferred shareholders	(15,284)	—	—	(6,310)	(3e)	(21,594)
Net income attributable to ordinary shareholders	$ 1,378	$ 5,657	$ 6,250	$ (11,338)		$ 1,947
Net income per share from continuing operations attributable to ordinary shareholders:						
Basic	$ 1.14					$ 1.52
Diluted	$ 0.87					$ 1.16
Net income per share attributable to ordinary shareholders:						
Basic	$ 0.92					$ 1.30
Diluted	$ 0.70					$ 0.99
Shares used to compute net income from continuing operations per share attributable to ordinary shareholders:						
Basic	1,503,296					1,503,296
Diluted	1,967,926					1,967,926
Shares used to compute net income per share attributable to ordinary shareholders:						
Basic	1,503,296					1,503,296
Diluted	1,967,926					1,967,926

Note 1 – Basis of Pro Forma Presentation

The pro forma balance sheet as of September 29, 2017 combines our historical condensed consolidated balance sheet with the historical balance sheet of Talon and has been prepared as if the Talon Acquisition occurred on September 29, 2017. The pro forma statements of operations for the nine months ended September 29, 2017 and for the year ended December 30, 2016 combine our historical condensed consolidated statements of operations with the historical statements of operations of Talon and Cal-Weld and have been prepared as if the Acquisitions occurred as of the beginning of the earliest period presented, on December 26, 2015. The historical financial information is adjusted in the pro forma financial information to give effect to pro forma events that are (1) directly attributable to the Acquisitions, (2) factually supportable, and (3) expected to have continuing impact on the combined results.

We have accounted for the Acquisitions using the acquisition method of accounting pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 805 – *Business Combinations* ("ASC 805"). In accordance with ASC 805, we use our best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed. Goodwill is measured as the excess of purchase price over the fair value of net tangible and identifiable intangible assets acquired.

Historical Ichor

Represents our condensed unaudited consolidated balance sheet as of September 29, 2017, our condensed unaudited consolidated statement of operations for the nine months ended September 29, 2017, and our condensed audited consolidated statement of operations for the year ended December 30, 2016.

Historical Cal-Weld

Represents the unaudited statements of operations for the seven months ended July 26, 2017 and for the year ended December 30, 2016. Cal-Weld's results of operations since the Cal-Weld Acquisition Date are included in Ichor's condensed unaudited consolidated statement of operations for the nine months ended September 29, 2017. The amounts for the statements of operations were derived from the same financial information used to prepare Cal-Weld's audited financial statements for the years ended June 30, 2017 and June 30, 2016.

Historical Talon

Represents the condensed unaudited consolidated balance sheet of Talon Holdings as of September 30, 2017, the condensed unaudited consolidated statement of operations for the nine months ended September 30, 2017, and the condensed audited consolidated statement of operations for the year ended December 31, 2016. Talon Holdings is the direct parent of Talon, and each entity has identical consolidated financial statements with the exception of share-based compensation expense attributable to the owners of Talon Holdings (see *Note 3(b) – Operating expenses*).

The pro forma financial information is provided for illustrative purposes only, is based on a preliminary purchase price allocation, and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of the combined company would have been had the Acquisitions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

As a result of the Acquisitions, the pro forma balance sheet and pro forma statements of operations include the following pro forma adjustments:

- Changes in assets and liabilities to record the preliminary estimates of fair value of the Acquisitions;
- Changes in amortization expense resulting from preliminary estimates of fair value of Cal-Weld and Talon's customer relationships, Talon's intellectual property, and Cal-Weld's order backlog;
- Changes in compensation-related expense due to non-retention of Cal-Weld's ownership effective as of the Acquisition Date and the elimination of historical Talon share-based compensation;
- The elimination of non-recurring acquisition-related costs included in the historical statements of operations of Ichor, Talon, and Cal-Weld;
- The changes in our debt and related interest expense resulting from financing the Acquisitions;
- The effect of the above adjustments on income tax expense; and
- The effect of the pro forma earnings of Cal-Weld and Talon on undistributed earnings attributable to preferred shareholders for the year ended December 30, 2016.

Note 2 – Preliminary Purchase Price Allocation and Purchase Price Summary

(a) Preliminary purchase price allocation

The table below represents the estimated preliminary purchase price allocation of net assets acquired based on their preliminary estimated fair values. Such amounts were estimated using the most recent financial statements of Talon as of September 30, 2017. Ichor does not believe the use of Talon's balances as of September 30, 2017 instead of the Talon Acquisition Date will result in a materially different allocation. However, certain amounts, such as the balances of cash and cash equivalents, other working capital accounts, and deferred taxes, may vary based upon changes in Talon’s balances between September 30, 2017 and the Talon Acquisition Date, with offsetting changes to goodwill. As the final valuations are finalized, increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments, which may result in material differences from the information presented herein. Ichor's consolidated financial statements for the year ended December 29, 2017 will include updated amounts reflecting the preliminary estimated fair values as of the Talon Acquisition Date.

	Historical Talon	Fair Value Adjustments		Preliminary Purchase Price Allocation
Cash and cash equivalents	$ 5,192	$ —		$ 5,192
Accounts receivable, net	11,207	—		11,207
Inventories	13,788	6,161	(1)	19,949
Prepaid expenses and other current assets	237	—		237
Current assets	30,424	6,161		36,585
Property and equipment, net	15,991	1,463	(1)	17,454
Other noncurrent assets	76	—		76
Intangible assets, net	6,540	31,460	(2)	38,000
Goodwill	9,458	48,772	(3)	58,230
Total assets	62,489	87,856		150,345
Accounts payable	(5,377)	—		(5,377)
Accrued liabilities and other current liabilities	(3,385)	—		(3,385)
Long-term debt	(19,718)	19,718	(4)	—
Deferred tax liabilities	(4,583)	—	(5)	(4,583)
Total liabilities	(33,063)	19,718		(13,345)
Net assets	$ 29,426	$ 107,574		$ 137,000

(1) Ichor recognized a fair value step-up in Talon’s inventory and property and equipment in connection with the Talon Acquisition.
(2) See *Note 3(b) – Operating expenses* regarding Ichor’s recognition of certain intangible assets.
(3) Represents the excess of purchase price over net identifiable assets acquired.
(4) Talon’s indebtedness was paid off in connection with the Talon Acquisition.
(5) No adjustment has been made to reflect the potential deferred tax liability anticipated as a result of the Talon Acquisition. Any resulting adjustment will be reflected in Ichor’s consolidated financial statements for the year ended December 29, 2017.

(b) Purchase price summary

The table below represents the sources and uses of purchase price and estimated transaction costs:

Sources of funds:	
Long term debt	$ 120,000
Cash on hand	18,711
Total sources	$ 138,711
Uses of funds:	
Purchase price	$ 137,000
Estimated closing costs	1,711
Total uses	$ 138,711

Note 3 – Pro Forma Adjustments

(a) Net sales and cost of sales

Talon's historical sales to Ichor have been eliminated in the pro forma statements of operations for the nine months ended September 29, 2017 and the year ended December 30, 2016. Additionally, accounts receivable and payable between Ichor and Talon have been eliminated in the pro forma balance sheet as of September 29, 2017. There were no sales between Cal-Weld and Ichor for the nine months ended September 29, 2017 or the year ended December 30, 2016.

(b) Operating expenses

Based on preliminary fair value estimates of Talon and Cal-Weld's intangible assets, Ichor allocated $32.4 million and $11.8 million, respectively, to the customer relationships of Talon and Cal-Weld, each of which have estimated useful lives of 6 years; $5.6 million to Talon's technology intellectual property, which has an estimated useful life of 10 years; and $0.7 million to Cal-Weld's order backlog. Order backlog was recognized within six months of the Cal-Weld Acquisition Date and therefore is fully recognized during the year ended December 30, 2016 on a pro forma basis. Included in the pro forma amortization expense adjustments are an elimination of Talon's historical amortization expense included in its historical statements of operations

Included in Talon's historical statements of operations for the nine months ended September 29, 2017 and the year ended December 30, 2016 is $0.0 million and $0.1 million, respectively, in share-based compensation expense attributable to the owners of Talon Holdings. Talon was acquired from Talon Holdings and this share-based compensation expense has been eliminated from the pro forma statements of operations. As a result of the Cal-Weld Acquisition, previous ownership ceased employment with Cal-Weld, and the associated compensation-related costs included in Cal-Weld's historical statements of operations for the seven months ended July 26, 2017 and the year ended December 30, 2016 of $2.6 million and $3.7 million, respectively, have been eliminated in the pro forma statements of operations, as they are directly attributable to the Cal-Weld Acquisition and are non-recurring.

Included in the historical statements of operations of Ichor, Talon, and Cal-Weld are non-recurring acquisition-related costs. These costs have been eliminated in the pro forma statement of operations for the nine months ended September 29, 2017 as they are directly attributable and are non-recurring.

The following table summarizes pro forma adjustments to operating for the nine months ended September 29, 2017:

	Cal-Weld Pro Forma Adjustments	Talon Pro Forma Adjustments	Total Pro Forma Adjustments
Amortization expense	$ 1,147	$ 3,416	$ 4,563
Compensation-related expense	(2,578)	(45)	(2,623)
Acquisition-related costs	(1,712)	(94)	(1,806)
Operating expenses	$ (3,143)	$ 3,277	$ 134

The following table summarizes pro forma adjustments to operating expenses for the year ended December 30, 2016:

	Cal-Weld Pro Forma Adjustments	Talon Pro Forma Adjustments	Total Pro Forma Adjustments
Amortization expense	$ 2,627	$ 4,515	$ 7,142
Compensation-related expense	(3,728)	(82)	(3,810)
Acquisition-related costs	—	—	—
Operating expenses	$ (1,101)	$ 4,433	$ 3,332

(c) Interest expense (income), net

In connection with the Talon Acquisition, Ichor financed a portion of the purchase price with a $120 million term loan facility. In connection with the Cal-Weld Acquisition, Ichor financed a portion of the purchase price with a $20 million term loan facility and a $10 million draw on its revolving credit facility. The associated adjustment to the pro forma statement of operations for the nine months ended September 29, 2017 reflects interest expense for all outstanding indebtedness, assuming incremental debt from the Acquisitions was outstanding during the entire period, at the borrowing rate immediately following each of the Acquisitions, as applicable. The associated adjustment to the pro forma statement of operations for the year ended December 30, 2016 reflects incremental interest expense on the incremental debt from the Acquisitions, assuming it was outstanding during the entire period, at the borrowing rate immediately following each of the Acquisitions, as applicable. The historical interest expense of Ichor for the year ended December 30, 2016 was not adjusted for the lower borrowing rates following each of the Acquisitions. The adjustments to interest expense (income), net in the pro forma statements of operations include the elimination of historical Talon interest expense.

The following table summarizes pro forma adjustments to interest expense (income), net for the nine months ended September 29, 2017:

	Cal-Weld Pro Forma Adjustments	Talon Pro Forma Adjustments	Total Pro Forma Adjustments
Interest expense	$ 133	$ 2,833	$ 2,966

The following table summarizes pro forma adjustments to interest expense (income), net for the year ended December 30, 2016:

	Cal-Weld Pro Forma Adjustments	Talon Pro Forma Adjustments	Total Pro Forma Adjustments
Interest expense	$ 977	$ 3,426	$ 4,403

(d) Income tax expense (benefit) from continuing operations

As a result of the Cal-Weld Acquisition, included in Ichor's historical statement of operations for the nine months ended September 29, 2017 is a tax benefit of $5.3 million. This tax benefit has been eliminated as it is directly attributable to the Cal-Weld Acquisition and is non-recurring. No tax benefit for the Talon Acquisition is included in Ichor's historical statement of operations for the nine months ended September 29, 2017, as the acquisition did not take place until December 11, 2017. Additionally, Ichor tax-effected the pro forma adjustments, before income taxes, to the pro forma statements of operations by the estimated weighted average statutory income tax rate applicable to such pro forma adjustments. Below is a summary of the pro forma adjustments to income tax expense (benefit) from continuing operations:

	Nine Months Ended September 29, 2017	Year Ended December 30, 2016
Total pro forma adjustments before income taxes	$ (3,100)	$ (7,735)
Estimated effective pro forma tax rate	35%	35%
Tax impacts of pro forma adjustments before income taxes	(1,085)	(2,707)
Eliminate non-recurring tax benefit	5,281	—
Total pro forma adjustments to income tax expense (benefit)	$ 4,196	$ (2,707)

(e) Undistributed earnings attributable to preferred shareholders

See Note 4 below.

(f) Shareholders' equity

The adjustment to shareholders' equity reflects the elimination of Talon's historical shareholder equity accounts and give effect to the $1,711 in transaction-related costs in connection with the Talon Acquisition summarized in *Note 2(b) – Purchase price summary* .

Note 4 – Earnings per Share

The following table calculates earnings per share attributable to Ichor's ordinary shareholders for the year ended December 30, 2016 using the two class method, required for participating securities, as Ichor had two classes of stock during the year ended December 30, 2016. Subsequent to Ichor's initial public offering in December 2016, only one class of stock has remained outstanding, and therefore the two class method is no longer used.

	Historical Ichor	Historical Cal-Weld	Historical Talon	Pro Forma Adjustments	Pro Forma Combined
Net income from continuing operations	$ 20,779	$ 5,657	$ 6,250	$ (5,028)	$ 27,658
Undistributed earnings attributed to preferred shareholders	(19,060)	—	—	(6,310) (1)	(25,370)
Net income from continuing operations, attributable to ordinary shareholders	$ 1,719	$ 5,657	$ 6,250	$ (11,338)	$ 2,288
Net income	$ 16,662	$ 5,657	$ 6,250	$ (5,028)	$ 23,541
Less: Undistributed earnings attributable to preferred shareholders	(15,284)	—	—	(6,310) (1)	(21,594)
Net income attributable to ordinary shareholders	$ 1,378	$ 5,657	$ 6,250	$ (11,338)	$ 1,947
Net income per share from continuing operations attributable to ordinary shareholders:					
Basic	$ 1.14				$ 1.52
Diluted	$ 0.87				$ 1.16
Net income per share attributable to ordinary shareholders:					
Basic	$ 0.92				$ 1.30
Diluted	$ 0.70				$ 0.99
Shares used to compute net income from continuing operations per share attributable to ordinary shareholders:					
Basic	1,503,296				1,503,296
Diluted	1,967,926				1,967,926
Shares used to compute net income per share attributable to ordinary shareholders:					
Basic	1,503,296				1,503,296
Diluted	1,967,926				1,967,926

(1) The undistributed earnings attributable to preferred shareholders has been adjusted, on a pro forma basis, for the incremental earnings from Talon and Cal-Weld, after giving effect to pro forma adjustments, for the year ended December 30, 2016.