



**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
CONSOLIDATED FINANCIAL STATEMENTS (PUBLIC)
AS OF DECEMBER 31, 2016 AND 2015, AND FOR THE
YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

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International Wire Group Holdings, Inc.

Dated: March 17, 2017

By: /s/ Donald F. DeKay
Donald F. DeKay
Senior Vice-President, Chief Financial Officer
and Secretary

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

International Wire Group Holdings, Inc. (“International Wire Group Holdings” or “Holdings”) makes forward-looking statements in this report that are based on management’s current beliefs and assumptions and on information currently available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, the effects of competition, outlook, objectives, plans, intentions and goals. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believes,” “expects,” “may,” “will,” “should,” “seeks,” “pro forma,” “anticipates,” “intends,” “plans,” “estimates,” or the negative of any thereof or other variations thereof or comparable terminology, or by discussions of strategy or intentions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Undue reliance should not be placed on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we issue this report.

We refer to International Wire Group Holdings, Inc. and its subsidiaries, including International Wire Group, Inc., as “we,” “us,” “our,” the “Company” or other variations thereof or comparable terminology throughout this report.

Business

Overview

We, together with our wholly-owned subsidiary International Wire Group, Inc. (“IWG”) and other subsidiaries, manufacture and market wire products, including bare, silver-plated, nickel-plated and tin-plated copper wire, engineered wire products and high performance conductors, for other wire suppliers, distributors and original equipment manufacturers or “OEMs”. Our products include a broad spectrum of copper wire configurations and gauges with a variety of electrical and conductive characteristics and are utilized by a wide variety of customers primarily in the industrial and energy, electronics and data communications, automotive/specialty vehicles, aerospace and defense and medical products industries. We have eighteen manufacturing facilities and one distribution facility located throughout the United States, France, Italy and Poland.

At December 31, 2016, we had three segments: Bare Wire, Engineered Wire Products — Europe and High Performance Conductors. These segments, described in more detail below, are strategic business units organized around three product categories that follow management’s internal organization structure.

- *Bare Wire.* Our bare and tin-plated copper wire products (or conductors) are used to transmit digital, video and audio signals or conduct electricity. These products are sold to a diverse customer base of approximately 1,000 insulated wire manufacturers and various industrial OEMs for use in automotive/specialty vehicles, consumer and appliance, electronics and data communications, and industrial and energy markets.
- *Engineered Wire Products — Europe.* Our bare and tin-plated copper wire products are engineered and used to conduct electricity either for power or for grounding purposes and are sold to a diverse customer base of various OEMs for use in the aerospace, automotive/specialty vehicles and industrial and energy (including electrical appliances, power supply and railway) markets.
- *High Performance Conductors.* Our High Performance Conductors segment manufactures specialty high performance conductors that include tin, nickel and silver-plated copper and copper alloy conductors including standard and customized high and low temperature conductors as well as specialty film insulated conductors and micro diameter tubing products. These products are used by a variety of customers in the commercial and military aerospace and defense, electronics and data communications, industrial and energy and medical products markets.

International Wire Group Holdings is incorporated in the state of Delaware. Our principal executive offices are located at 12 Masonic Avenue, Camden, New York, and our telephone number at such address is (315) 245-3800. Our internet address is <http://itwg.client.shareholder.com> or <http://www.internationalwiregroup.com>.

Bare Wire Segment

Our external sales of bare wire products are primarily to wire insulators, who apply insulating materials to the bare wire through an extrusion process. These wire insulators are located primarily in the United States, Canada and Mexico and sell their insulated wire to a variety of customers in the following markets:

- automotive/specialty vehicles;
- consumer and appliance;
- electronics and data communications including broadcast/video, audio/microphone/sound for entertainment, medical, safety and security control, local area network (“LAN”) and computer system applications; and
- industrial and energy including heating, ventilating and air conditioning (“HVAC”), circuit protection, digital and cellular phone tower, elevator, mining and oil exploration, mass transit, utility power distribution, wind turbine, oil and water well, transformer and fuse link, welding and irrigation applications.

We manufacture a broad array of bare and tin-plated copper conductors including the following:

- *Single End Wire.* Single end wire is an individual wire drawn to the customer’s size requirements ranging from .16 to .00157 inches in diameter (6 American Wire Gauge (“awg”) to 46 awg). Single end wire is capable of transmitting signals or electrical currents between two points and is used to transmit digital, video and audio signals or low voltage current in a variety of wire products used in motor controls, local area networks, security systems, television or telephone connections and water sprinkler systems. Single end wire is generally the least expensive form of wire to produce due to its simple configuration.
- *Stranded Wire.* Stranded wire is comprised of a number of single end wires twisted together in a specific geometric pattern that preserves each individual wire’s relative position for the length of the wire. Stranded wire, like single end wire, transmits digital, video and audio signals or low voltage current. However, stranded wire is more flexible and capable of connecting multiple terminals allowing for a wider range of applications. Stranded wire is generally used in products that connect peripherals to the personal computer (“PC”), connect the internal components of the PC, and control HVAC, security and other functions inside buildings. In addition, stranded wire is used in antilock braking systems, airbag systems, utility power distribution and circuit breakers.
- *Bunched Wire.* Bunched wire is formed by twisting a number of single end wires in a random pattern. Bunched wire allows increased flexibility while maintaining conductivity. This type of wire is the primary wire used in appliance and automotive/specialty vehicles wire harnesses. In addition, bunched wire is commonly used for transmission of electrical current in lighting fixture cords, extension cords and power cords for portable power hand tools.
- *Cabled Wire and Braided Wire.* Cabled wire and braided wire are combinations of single, bunched or stranded wire twisted together in various patterns and thicknesses. These wires transmit electrical current and are typically used in mining, mass transportation, automotive/specialty vehicles, utility power distribution and other industrial applications.
- *Shielding Wire.* Shielding wire is comprised of varying numbers of single end wires that are wound together in parallel construction around a bobbin. Shielding wire does not transmit signals or voltage but rather shields the signal traveling through the core conductor from outside interference. This type of wire is primarily used in data communication applications, telecommunications equipment, cable television equipment and security systems.

Engineered Wire Products — Europe Segment

Our sales of engineered wire products in Europe are primarily specialty braids, ropes, connections, wire mesh and flexible bars. These products are sold to OEMs who use our products as component parts in items such as circuit breakers, panel boards, transformers, power generating systems and transportation equipment. Our sales are to a variety of customers in the following markets:

- aerospace;
- automotive/specialty vehicles; and
- industrial and energy, including electrical appliances, power supply and railway.

We manufacture specialty braids, ropes, connections, wire mesh and flexible bars using copper as the primary raw material with either insulating material, strips or terminals. In addition, we manufacture braided wire which is sold as a component part or we apply either insulating material and/or types of terminals to meet customers’ specifications.

High Performance Conductors Segment

Our High Performance Conductors segment manufactures specialty high performance conductors which include tin, nickel and silver-plated copper and copper alloy conductors including standard and customized high and low temperature conductors as well as specialty film insulated conductors and micro diameter tubing products.

Our external sales of high performance conductors in the United States, Europe and Asia are primarily directly to distributors and to wire insulators that manufacture wire and cable products by applying insulation, through a variety of processes, for applications in high temperature environments. Our High Performance Conductors segment's film insulated and tubing products are sold to medical products manufacturers either directly or through our manufacturers' representatives specializing in the medical market which are sold under our "MinVasive" brand. Our High Performance Conductors segment products are sold to a variety of customers in the following markets:

- commercial and military aerospace and defense including avionics, commercial and defense satellite systems, commercial and military aircraft wiring, defense weapons and security systems;
- electronics and data communications including consumer electronics, test equipment, and data and voice communication systems;
- industrial and energy including automotive and geophysical applications, heat and freeze control systems, industrial power systems; and
- medical products, including medical diagnostic and test equipment including components for minimally invasive medical products.

Marketing

We sell our products through a combination of direct (company employed) sales people and manufacturers' representatives. Our sales organization is supported by an internal marketing staff and customer service groups. Collectively, these departments act as a bridge between our customers and our production and engineering staff. Our engineers work directly with customers to manufacture our products to the customers' exact specifications. In addition, engineers work closely with our production managers, quality supervisors and customer service representatives to ensure the timely delivery of quality products.

International Operations

We currently have international operations in France, Italy and Poland. For each of the years ended December 31, 2016, 2015 and 2014, approximately 8%, 9% and 8% of our consolidated net sales originated from these non-U.S. operations, respectively. We have a manufacturing facility in Vinovo, Italy, a manufacturing facility in Dabrowa Gornicza, Poland and two manufacturing facilities, including a sales/distribution facility, in Saint-Chamond, France. We also maintain sales offices in Germany and Spain.

Raw Materials

A portion of our revenue is derived from processing customer-owned ("tolled") copper. The value of tolled copper is excluded from both our sales and costs of sales, as title to the tolled copper and the related risks of ownership do not pass to us at any time. The remainder of our sales include Company owned ("owned") copper. Accordingly, for these sales, copper is included in both sales and cost of sales. In order to compare tolled customers with non-tolled customers, we sometimes refer to "adder sales", which is the net sales from our products less, if applicable, the invoiced amounts of owned copper and certain other metals.

The principal raw material used in our products is 5/16 inch copper rod, which is sourced either directly from global copper producers or through rod mill operators in North America. All of our Company owned copper is currently purchased from four suppliers. Copper rod prices are based on market prices, which are generally established by reference to the New York Mercantile Exchange, Inc. ("COMEX") prices, plus a premium charged to convert copper cathode to copper rod and deliver it to the required location. Copper prices are affected by a number of factors, including worldwide demand, mining and transportation capacity, political instability and financial markets. Copper supply is generally affected by the number and capacity of the mines that produce copper. For instance, production problems at a single major mine can impact worldwide supply and therefore prices.

In order to reduce the potential negative impact of fluctuations in the price of copper, we have copper price pass-through arrangements with our customers based on variations of monthly copper price formulas. These pass-through arrangements are less effective when copper prices are volatile. Additionally, these pass-through arrangements do not apply to the scrap which is created in the production process (and subsequently sold as scrap), as the selling price for the copper in the scrap sales may be more or less than the purchase price at the time we acquired the copper. Changing copper prices may adversely affect both profitability and liquidity

depending on the magnitude of these changes, the timing of purchases, quantity levels and the applicable account receivable and payable payment terms.

Moreover, since we generally do not obtain long-term purchase commitments, our customers may cancel, reduce or delay their orders if they believe copper prices will increase or decrease significantly. Additionally, declining copper prices can result in inventory charges, increasing our costs of goods sold and negatively impacting profitability. Conversely, a significant increase in the price of copper can negatively impact our short-term liquidity because of the period of time between our purchase of copper at an increased price and the time at which we receive cash payments after selling end products to customers reflecting the increased price.

Tin is also a component in certain of our products in the Bare Wire and High Performance Conductors segments. The High Performance Conductors segment also uses silver and nickel. The cost of silver, nickel and tin is generally passed through to our customers through a variety of pricing mechanisms. Our price of silver includes a margin and market fluctuations in the price of silver can result in an increase or decrease in profitability at a given volume.

We order material based on purchase orders received and accepted and seek to minimize the inventory of material not identified for specific orders. We work with our suppliers to develop just-in-time supply systems which reduce inventory carrying costs. Generally, we do not have long-term purchase agreements with our suppliers.

Manufacturing and Distribution

We are committed to the highest quality standards for our products, a standard maintained in part by continuous improvements to our production processes and upgrades to and investments in our manufacturing equipment. Our equipment can be adapted to satisfy the changing needs of our customers. We maintain advanced quality assurance and testing equipment to ensure the products we manufacture will consistently meet customer quality requirements. The following is a description of our manufacturing and distribution facilities and processes for our major product lines.

Bare Wire

As of December 31, 2016, we had twelve facilities dedicated to the production and distribution of bare wire products in the United States. Nine of these facilities are located in New York, one in Indiana, one in Texas and one in New Mexico. The manufacturing of bare wire consists of one or more of the following five processes: wire drawing, plating, bunching and stranding, braiding and cabling.

- *Wire Drawing Process.* Wire drawing is a multi-step process in which raw copper material, primarily 5/16-inch copper rod, is drawn through a series of dies of decreasing diameter.
- *Plating Process.* After being drawn, our wire products may be plated through an electroplating process. We have the capability to plate copper wire with tin. Approximately 25% of our bare wire products are plated with tin. The plating process prevents the bare copper from oxidizing and also allows the wire to be soldered, which is an important quality in many electrical applications.
- *Bunching and Stranding Process.* Bunching and stranding is the process of twisting together single strand wires to form a construction ranging from 7 to over 200 strands. If the wire is bunched, the individual strands of wire are twisted together in a random pattern. Stranded wire is composed of a number of single end wires twisted together in a specific geometric pattern where each strand's relative position is maintained throughout the length of the wire.
- *Braiding Process.* Braiding combines any number of wires into a tubular but very flexible product that subsequently can be flattened to make ground strap. Braiding can also be performed over insulated conductors to create an electrical shield.
- *Cabling Process.* Cabling is the process of twisting bunched wire to form a construction ranging from 49 to 47,000 strands.

Engineered Wire Products — Europe

As of December 31, 2016, we had four facilities dedicated to the production and distribution of specialty wire products in Europe, two located in France, one located in Italy and one located in Poland. The production of specialty wire products in Europe consists of manufacturing specialty braids, ropes, connections, wire mesh and flexible bars using copper as the primary raw material with either insulating material, strips or terminals. It also consists of manufacturing braided wire which is sold as a component part or sold after we apply either insulating material and/or types of terminals to meet customers' specifications.

High Performance Conductors

Our High Performance Conductors segment has two facilities dedicated to the production and distribution of high performance conductor and medical device products in the United States, one located in South Carolina and one located in Georgia. In addition,

there is a sales/distribution facility in France. The manufacturing of high performance conductors consists of one or more of the following four processes: wire drawing, plating, bunching and stranding and cabling.

- *Wire Drawing Process.* Wire drawing is a multi-step process in which raw materials, primarily copper, and to a lesser extent, aluminum, copper-clad steel, copper-clad aluminum and various copper alloys, are drawn through a series of dies of decreasing diameter.
- *Plating Process.* After being drawn, our wire products may be plated through a tin, silver or nickel electroplating process. Approximately 95% of our high performance conductors products are plated with one of these materials. The plating processes are used to prevent the copper wires from oxidizing. Additionally, silver and tin plating improves the solderability of wires, and nickel plating allows copper wires to be used in high-temperature applications.
- *Bunching and Stranding Process.* Bunching and stranding is the process of twisting together single strand wires to form a construction ranging from 7 to over 100 strands. If the wire is bunched, the individual strands of wire are twisted together in a random pattern. Stranded wire is composed of a number of single end wires twisted together in a specific geometric pattern where each strand's relative position is maintained throughout the length of the wire.
- *Cabling Process.* Cabling is the process of twisting bunched wire to form a geometric construction ranging from 49 to over 2,000 strands.

Additionally, our facility in Georgia manufactures medical grade products that utilize two additional processes: film insulating and tubing.

- *Film Insulating.* Film insulating is the process of coating bare or silver-plated wires with insulating materials such as polyethylene or polyimide. This process is performed over multiple passes in an oven that cures the film being applied.
- *Tubing.* Tubing is the process of removing the copper mandrel (wire) from a previously film insulated product in order to create a tube with very thin walls and a precise internal dimension. This tube is then flushed with acid to remove contaminant materials, rinsed, dried and cut to size.

Competition

As a result of the diversity of our product offerings, we believe that no single competitor competes with us across the entire spectrum of our product lines. However, in each market served, we experience competition from at least one major competitor. We compete primarily on the basis of quality, reliability, price, reputation, customer service and delivery time. A number of customers we serve have in-house or “captive” wire production facilities, and we sell to them to meet needs in excess of their internal production capacity.

Backlog

Due to the manner in which we process orders, we have no significant order backlog. We follow the industry practice of producing our products on an ongoing basis to meet customer demand without significant delay. We believe the ability to supply orders in a timely fashion is a competitive factor in our market, and therefore, attempts to minimize order backlog to the extent practicable.

Environmental Matters

We are subject to a number of federal, state, local and foreign environmental laws and regulations relating to the storage, handling, use, emission, discharge, release or disposal of materials into the environment and the investigation and remediation of contamination associated with such materials. These laws include, but are not limited to, the Comprehensive Environmental Response Compensation and Liability Act (“CERCLA”), the Water Pollution Control Act, the Clean Air Act and the Resource Conservation and Recovery Act, the regulations promulgated thereunder, and any state and foreign analogs. We have been, and may be in the future, identified as potentially responsible parties with respect to several sites designated for cleanup under CERCLA or similar state laws, which impose liability for cleanup of certain waste sites and for related natural resource damages without regard to fault or the legality of waste generation or disposal. Persons liable for such costs and damages generally include the site owner or operator and persons that disposed or arranged for the disposal of hazardous substances found at those sites. Although CERCLA imposes joint and several liability on all potentially responsible parties, in application, the potentially responsible parties typically allocate the investigation and cleanup costs based upon, among other things, the volume of waste contributed by each potentially responsible party. Also, our operations are governed by laws and regulations relating to employee health and safety. We believe that we are in material compliance with such applicable laws and regulations and that our existing environmental controls are adequate. Further, we have no current plans for substantial capital expenditures in this area.

As is the case with most manufacturers, we could incur costs relating to environmental compliance, including remediation costs related to historical hazardous materials handling and disposal practices at certain facilities, although we do not believe that such costs would materially and adversely affect us. In the past, we have undertaken remedial activities to address on-site soil contamination caused by historic operations. None of these activities have resulted in any material liability.

We currently do not anticipate that compliance with environmental laws or regulations or the costs to remediate the sites discussed above will have a material adverse effect on us. As mentioned above, however, the risk of environmental liability and remediation costs is inherent in the nature of our business and, therefore, there can be no assurance that material environmental costs, including remediation costs, will not arise in the future. In addition, it is possible that future developments (e.g., new regulations or stricter regulatory requirements) could cause us to incur material costs to comply with applicable environmental laws and regulations.

Directors and Executive Officers of the Company

Set forth below are the name, age and respective positions of the directors and executive officers of our Company as of February 28, 2017.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Hugh Steven Wilson	69	Chairman of the Board of Directors
Peter Reed	37	Director
Adam Kleinman	42	Director
Peter Blum	66	Director
Sanford D. Lyons	60	Director
Walter A. Jones	63	Director
Rodney D. Kent	69	Director
Edwin J. Flynn	56	Director, Chief Executive Officer and President
Donald F. DeKay	62	Senior Vice President, Chief Financial Officer and Secretary
Andrew Adams	50	President of IWG Bare Wire Division

Hugh Steven Wilson has been a director and Chairman of the Board of Directors of our Company since October 20, 2009. Mr. Wilson is a member of the advisory board of Tennenbaum Capital Partners, LLC (“Tennenbaum”). On July 31, 2012, Mr. Wilson retired as Managing Partner of Tennenbaum, a position he had held since 2005. Prior to joining Tennenbaum in 2005, he retired from the international law firm of Latham & Watkins where he was a senior partner and was Global Co-Chair of the Mergers and Acquisitions Practice Group and former Chairman of both the National Litigation Department and the National Mergers and Acquisitions Litigation Practice Group. Mr. Wilson also serves as Vice Chairman and a director of Burford Capital Limited and as Chairman and a director of Great Elm Capital Group, Inc. He holds a J.D. degree from the University of Chicago Law School and a Master of Laws degree from Harvard Law School.

Peter Reed has been a director of our Company since February 17, 2010. Mr. Reed is a Managing Director and Partner of MAST Capital Management, LLC (“MAST”) and is responsible for portfolio management and investment research in a variety of industries. Prior to joining MAST in 2004, Mr. Reed was with Brown, Gibbons, Lang & Co. where he worked on various mergers and acquisitions, restructurings, and debt and equity private placements. Mr. Reed is Chief Executive Officer of Great Elm Capital Corporation and Chief Investment Officer of Great Elm Capital Management, LLC. Mr. Reed is also the Chairman of the Board of the Nebraska Book Company, a director of Great Elm Capital Group, Inc., Great Elm Capital Corporation, Inc., Avanti Communications Group plc and is a Trustee of the Nativity Preparatory School (Boston). He earned his B.S. in Finance from Miami University.

Adam Kleinman was appointed as a director of our Company on February 27, 2013. Mr. Kleinman is the Chief Operating Officer, General Counsel and a Partner at MAST, which he joined in March 2009 and the Chief Operating Officer and General Counsel of Great Elm Capital Management, LLC, which he joined in November 2016. From 2004 to 2009, he was an associate with the law firm Bingham McCutchen LLP where he represented financial institutions, hedge funds and corporate borrowers on a broad range of commercial transactions. Mr. Kleinman is a director of the Nebraska Book Company and Ezenia! Inc. He holds a B.A. degree from Haverford College and a J.D. degree from the University of Virginia School of Law.

Peter Blum has been a director of our Company since October 20, 2004. Mr. Blum has served as the President of Blum Consulting, LLC, a consulting firm, since 2002. Prior to 2002, Mr. Blum was a Managing Principal of Towers Perrin (now Towers Watson). He was also a consultant for the Wharton Center for Applied Research. In addition, he served as the Business Development Manager and Research and Development Manager for British Oxygen Company. Mr. Blum received B.S. and M.S. degrees in Metallurgy and Materials Science from Lehigh University and an MBA from The Wharton School of the University of Pennsylvania.

Sanford (“Sandy”) D. Lyons was appointed as a director of our Company on February 27, 2013. Since returning to the United States in 2010, Mr. Lyons has been involved in various consulting and business start-up activities. Currently, he serves as the CEO of The River Group, a global management consulting firm of which he is a founding member. Mr. Lyons held several positions with Draka Holding N.V. (“Draka”), a multi-billion dollar global cable manufacturing company headquartered in the Netherlands, from

2004 to 2010, including CEO and Chairman of the Board of Management of Draka. He served as the CEO of the U.S. based global cable manufacturer, Corning Cable Systems, and as the CEO of the leading fiber optic cable manufacturer, Siecor Corporation, prior to his time with Draka. Mr. Lyons holds an engineering degree from the United States Military Academy.

Walter A. Jones was appointed as a director of our Company on February 27, 2013. Mr. Jones, now retired, was a Managing Director of CoMetrics Partners LLC from 2010 through 2013 specializing in restructuring and financial advisory services. From 2006 to 2010 he was a partner with JH Cohn, LLP, a consulting, audit and tax advisory firm. From 1997 to 2006 he was a Principal with Mahoney Cohen, a consulting, audit and tax advisory firm. Mr. Jones is a director and audit committee member of Neenah Enterprises, Inc. He has a B.S. in industrial engineering from Pennsylvania State University.

Rodney D. Kent has been a director of our Company since June 1995. Mr. Kent was Chief Executive Officer of our Company from June 2005 through December 2014. Previously, Mr. Kent served as our President and Chief Operating Officer and he held those positions from May 2000 through May 2005. Prior to being named as President and Chief Operating Officer, Mr. Kent served as President of our Bare Wire segment from April 1995. Mr. Kent also serves as Chairman of the Board of Prime Materials Recovery, Inc.

Edwin J. Flynn has been our Chief Executive Officer since January 2015 and President since July 2014. Mr. Flynn also serves as a director of our Company and has been a director since February 2015. He also served as our Chief Operating Officer from January 2013 through December 2014 and as President, Bare Wire Division from April 2011 through May 2014. Previously, Mr. Flynn served as President of Thermax, a division of Belden, Inc., since 2007.

Donald F. DeKay was named Senior Vice President, Chief Financial Officer and Secretary of our Company on January 1, 2014. Previously, Mr. DeKay served as Vice President — Finance of our Company and he held that position from July 2001 through December 2013. Mr. DeKay also serves as a director of Prime Materials Recovery, Inc.

Andrew Adams is President, Bare Wire Division and has held such position since May 9, 2014. Prior to joining our Company, Mr. Adams was CEO of EF Johnson, a manufacturer of mission critical radio and communication systems, from November 2010 through April 2014. Prior to EF Johnson, Mr. Adams was President, Industrial Solutions Division of Belden Inc. from December 2008 through October 2010 and before that was President, Alpha Wire, also a Belden company from July 2007 through November 2008. Earlier in his career Mr. Adams worked for Harris Corporation, holding positions of increasing responsibility in Product Development and Engineering from August 1992 through June 2007.

Available Information

We maintain an Internet website at <http://itwg.client.shareholder.com> where our financial and other information is available.

Risk Factors

Risks Related to Our Business

We depend on industries that are highly volatile and cyclical in nature and produce technologically advanced products with short life cycles, and as a result, our business and results of operations may be adversely affected.

We ultimately derive our revenues from customers in the aerospace and defense, automotive/specialty vehicles, consumer and appliance, electronics and data communications, industrial and energy and medical products markets. Demand for our products depends, in large part, upon the general macroeconomic conditions of these end markets, which are highly volatile and cyclical in nature. Factors affecting any of these industries in general, or our customers in particular, could have a negative impact on the demand for our products and our results of operations. These factors include:

- rapid changes in technology, evolving industry standards and requirements for continuous improvement in products and services resulting in short product life cycles;
- the failure of our customers to successfully market their products;
- the failure of our customers' products to gain widespread commercial acceptance;
- loss of market share or dramatic shifts in demand causing our customers to exit the business; and
- recessionary periods in our customers' markets, such as the recent global economic downturn.

We cannot predict the future demand trends or product life cycles of the industries that we work with or the effect of fluctuations in costs on our future operating results. We may not be able to adjust our product prices rapidly enough and our future profitability may be adversely affected.

Economic downturns in national or international economies in general or in the industries we serve in particular could have a material adverse effect on our sales, results of operations, cash flows and access to capital. A challenging global economic environment or a downturn in the markets we serve could adversely affect our operating results and price of our securities in a material manner.

A challenging national or global economic environment could cause substantial reductions in our revenue and results of operations as a result of weaker demand by the end users of our products and price erosion. Price erosion may occur through competitors becoming more aggressive in pricing practices. A challenging global economy could also make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities. Our customers could also face issues gaining timely access to sufficient credit, which could have an adverse effect on our results if such events cause reductions in revenues, delays in collection or write-offs of receivables. Further, the demand for many of our products is economically sensitive and vary with general economic activity, trends in nonresidential construction, investment in manufacturing facilities and automation, demand for information and broadcast technology equipment and other economic factors. Deteriorating economic conditions generally or in the industries we serve could result in decreased demand for our products and materially impact our business, prospects, financial condition, cash flows, results of operations and price of our securities.

Advancing technologies, such as fiber optic and wireless technologies and alternative metals, may make some of our products less competitive and negatively impact our business.

Technological developments could adversely impact our business. Many of the markets we serve are characterized by advances in information processing and communications capabilities, including advances driven by the expansion of digital technology, which require increased transmission speeds and greater bandwidth. Our markets are also subject to increasing requirements for mobility, information security and transmission reliability. The relative costs and merits of copper-based and fiber optic solutions could change in the future as various competing technologies address market opportunities.

For example, a significant decrease in the cost and complexity of the installation of fiber optic systems or a significant increase in the cost of copper-based systems (compared to alternative metals such as aluminum, copper-clad or a new alloy) could make fiber optic systems or alternative metals superior on a price performance basis to copper systems and could have a material adverse effect on our business. Also, advancing wireless technologies, as they relate to network and communication systems, may reduce the demand for our products by reducing the need for premises wiring. Wireless communications depend heavily on a fiber optic backbone and do not depend to the same extent on copper-based systems. An increase in the acceptance and use of voice and wireless technology, or introduction of new wireless or fiber optic based technologies, may have a material adverse effect on the marketability of our products and our profitability. Our sales of certain of our copper wire products face increased competition from wireless and other similar technologies and the increased acceptance and use of these technologies could increase the competition we face and have a negative impact on our business, financial condition and operating results.

The price of copper, the principal raw material used in our products, as well as the prices of silver, nickel and tin, which are also used in our products, and the price of fuel and energy, are subject to price fluctuations and may negatively impact our profitability and/or liquidity.

The principal raw material used in our products is 5/16 inch copper rod, which we source either directly from global copper producers or through rod mill operators in North America. Copper rod prices are based on market prices, which are generally established by reference to the New York Mercantile Exchange, Inc. ("COMEX") prices. As copper is a world-traded commodity, its price has historically been subject to fluctuations. In 2016, the high monthly average COMEX price was \$2.57 per pound in December and the low monthly average COMEX price was \$2.01 per pound in January. In 2015, the high monthly average COMEX price was \$2.89 per pound in May and the low monthly average COMEX price was \$2.08 per pound in December. For the full year, copper averaged \$2.20 per pound in 2016, \$2.51 per pound in 2015 and \$3.12 per pound in 2014.

Volatile copper prices may adversely affect both our profitability and liquidity, depending on the magnitude of these changes, the timing of purchases, quantity levels and the applicable account receivable and account payable payment terms. In 2016, the decreased average cost and selling price of copper contributed to a decrease in net sales compared to 2015. Similarly, in 2015, the decreased average cost and selling price of copper contributed to a decrease in net sales compared to 2014. In addition, since we generally do not obtain long-term purchase commitments, our customers may cancel, reduce or delay their orders if they believe copper prices will be falling (in order to purchase our products at lower prices in the future) or in response to increases in copper prices. Declining copper prices can also result in inventory charges, increasing our costs of goods sold and, therefore, negatively impacting our profitability.

Significant increases in the price of copper could also negatively impact our short-term liquidity because of the period of time between our purchase of copper at an increased price and the time at which we receive cash payments after selling end products to customers reflecting the increased price. We generally pass through the cost of copper, silver, nickel and tin to our customers through a variety of pricing mechanisms including pricing pass-through arrangements, fixed percentage margins for silver and product

surcharges. While we expect to continue to use these mechanisms, there can be no assurance that we will be able to continue to pass through the costs of such raw materials or that our pass-through arrangements will be effective in minimizing the impact to our profitability, especially when raw material prices are volatile. Moreover, since the price of silver that is charged to our customers includes a fixed percentage margin, decreases in the price of silver can result in a decrease in profitability at a given volume. We also pay freight costs on certain customer orders, and if fuel surcharges cause an increase in freight costs, our profitability would decline.

Disruptions in the supply of copper and other raw materials used in our products could cause us to be unable to meet customer demand, which could result in the loss of customers and net sales.

The principal raw material used in our products is 5/16 inch copper rod. Other significant raw materials that we use are silver, nickel, tin and certain alloys. There are a limited number of domestic and foreign suppliers of copper rod and these other raw materials. All of our Company owned copper is currently purchased from four suppliers. Generally, we do not have long-term purchase agreements with our suppliers. Our suppliers may also change the terms of our purchase agreements and trade credit if they believe we are too highly leveraged or for any other reason. We currently have copper trade terms of up to 30 days. The reduction or loss of copper trade terms would decrease our accounts payable and increase our operating cash requirements. If we are unable to maintain good relations with our suppliers or if there are any business interruptions at our suppliers for any reason, including, without limitation, natural catastrophes, their business failure, financial difficulties, strikes or an inability to obtain raw materials, we may not have access to a sufficient supply of raw materials. If we lose one or more key suppliers and are unable to locate an alternative supply, we may not be able to meet customer demand, which could result in the loss of customers and net sales.

We generally do not obtain long-term volume purchase commitments from customers, and, therefore, cancellations, reductions in production quantities and delays in production by our customers could reduce our operating income and cash flows.

We generally do not obtain firm, long-term purchase commitments from our customers and we continue to experience reduced lead-times in customer orders. Customers may cancel, reduce or delay their orders for various reasons, including changes in production quantities or inventory levels. Order cancellations, reductions or delays by a significant customer or by a group of customers could harm our operating results. To be successful, we must excel in terms of service, product quality and price not only compared to our direct competitors but also compared to our customers' internal manufacturing capabilities.

In addition, we make significant decisions, including determinations regarding the level of business we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of our customers' commitments and the likelihood of rapid changes in demand for their products may impair our ability to accurately estimate our future customer requirements. As a consequence of the above factors, many of which are beyond our control, our operating results may vary significantly.

We may not be able to accurately forecast demand for our products.

We order raw materials and supplies and plan production based on discussions with our customers and internal forecasts of demand. If we are unable to accurately forecast demand for our products, in terms of both volume and specific products, we may experience delayed product shipments and customer dissatisfaction. Additionally, failure to accurately forecast demand could have an adverse impact on our business, financial condition and operating results.

The loss of a significant customer or customer consolidation could significantly reduce our sales and impact our long-lived assets as well.

One customer represented 11%, 13% and 18% of our consolidated net sales for the years ended December 31, 2016, 2015 and 2014, respectively. Another customer represented 8%, 8% and 11% of our consolidated net sales for the years ended December 31, 2016, 2015 and 2014, respectively. The loss of either of these customers or any other key customer, or any material reduction in our customers' orders or in their orders from their customers, would reduce our revenues and could result in the impairment of property, plant and equipment, goodwill or identifiable intangibles.

Some of our large customers have in-house wire production facilities and may decrease orders from us in response to economic downturns or as a result of increased in-house capacity.

Some of our large customers have in-house or "captive" wire production facilities. During economic downturns, customers with in-house wire production facilities generally decrease orders to outside suppliers before reducing in-house wire production. As a result, we may be disproportionately impacted by a downturn. Additionally, if these customers expand the production capacity of their in-house facilities, they may also decrease orders to outside suppliers, including us, as a result.

Changes in net sales may not correlate with actual changes in our business levels, because the changes in net sales may be substantially influenced by changes in the price of copper and other raw materials or in the proportion of tolled copper.

A portion of our revenue is derived from manufacturing products using tolled copper, which means that our customer supplies us with the copper (instead of us buying the copper). Unlike the remainder of our sales that are from Company owned (“owned”) copper, the value of tolled copper is excluded from both our sales and costs of sales, as title to the tolled copper and the related risks of ownership do not pass to us at any time. This may result in changes to our net sales that are not due to changes in business levels, but rather due to changes in the proportion of tolled copper to owned copper that is used in our products. For example, our 2016 net sales decreased by \$113.0 million compared to 2015, but if the proportion of tolled copper had remained the same as 2015, our net sales would have decreased by \$105.9 million, assuming nothing else in 2016 had changed.

We include the cost of owned copper and other raw materials in both net sales and costs of goods sold. This may also result in changes to our net sales that are not due to changes in business levels, but rather due to volatility in copper prices. For example, our 2016 net sales decreased by \$113.0 million compared to 2015, but if copper prices had been the same as 2015, our net sales would have decreased by \$59.5 million, assuming nothing else in 2016 had changed.

Excluding the effects of both lower copper prices and a higher proportion of tolled copper in 2016, net sales decreased by \$52.4 million in 2016 compared to 2015.

We have risks associated with inventory.

Our business requires us to maintain substantial levels of inventory. We must identify the right mix and quantity of products to keep in our inventory to meet customer orders. Failure to do so could adversely affect our sales and earnings. If our inventory levels are too high, we are at risk that an unexpected change in circumstances, such as a shift in market demand, drop in prices, or default or loss of a customer, could have an unfavorable impact on the net realizable value of our inventory.

The wire manufacturing industry is highly competitive and we face domestic and foreign competition in each of our business segments.

We face competition from other manufacturers for each of our products and in each of our geographic regions. These companies compete on price, reputation and quality, product technology and characteristics, and terms. Some multinational competitors have greater engineering, financial, manufacturing, or marketing resources than we have. Future actions by competitors, such as reduced pricing, business alliances, new product introductions, market penetration, and other similar actions, could have a negative effect on our revenues and profitability. Moreover, during economic downturns, some competitors that are highly leveraged both financially and operationally could become more aggressive in their pricing of products, which could lead to price erosion and have a material adverse effect on our business, financial condition and operating results.

The results of vigorous competition could result in price compression, reduced sales, margin pressure or loss of market share, thereby affecting our future earnings. Moreover, wire manufacturers must provide increasingly rapid product turnaround for their customers. On occasion, customers may require rapid increases in production, which can stress our resources and reduce operating margins. We may not have sufficient capacity at any given time to meet all of our customers’ demands concurrently. In addition, because some of our operating expenses are relatively fixed, a reduction in customer demand can dramatically harm our gross margins and operating results on a short-term basis. Customers often expect decreased prices over time. Furthermore, an increase in imports of products competitive with our products could adversely affect our sales.

If we are unable to continue to achieve productivity improvements, our profitability may be adversely affected.

We have experienced pressures on the pricing of our products over the past few years and expect pricing pressure to continue for the foreseeable future. A component of our business strategy is to increase our profitability by lowering costs through improving our processes and productivity. In the event we are unable to continue to implement measures improving our manufacturing techniques and processes, we may not achieve desired efficiency or productivity levels, and our profitability may decline. In addition, productivity increases are related in part to factory utilization rates. Decreases in utilization rates would adversely impact productivity. Further pricing pressures, without offsetting cost reductions, could adversely affect our results of operations and financial performance.

Growth through acquisitions is an important part of our long-term strategy, and we may not be able to successfully identify, finance or integrate acquisitions in order to grow our business.

Growth through acquisitions has been, and we expect it to continue to be, an important part of our long-term strategy. We have evaluated, and expect to continue to evaluate, potential strategic transactions. From time to time, we may engage in discussions regarding potential acquisitions. Any of these transactions could be material to our financial condition and results of operations. We may not be successful in identifying, financing and closing acquisitions on favorable terms. Potential acquisitions may require us to obtain additional financing or issue additional equity securities or securities convertible into equity securities, and any such financing and issuance of equity may not be available on terms acceptable to us or at all. Uncertainty in U.S. and global financial markets could

make it more expensive for us to pursue or complete acquisitions. If we finance an acquisition with debt, it could result in higher leverage and interest costs.

Our acquisition and expansion plans may fail to perform as expected.

The process of integrating our acquisitions or expanding our business may create unforeseen operating difficulties and expenditures and is risky. We may not be able to realize the benefits expected from such acquisitions. The areas where we face risks include:

- we may not be able to integrate the new acquisition or expansion into our existing operations successfully. Integration may pose risks with respect to production, customer service and market share of existing operations;
- the property or asset may fail to meet our estimate of profitability, either temporarily or for a longer time and we may fail to achieve potential revenue enhancements and potential cost savings;
- our management's time and focus may be diverted from operating our existing business;
- we may experience cultural challenges associated with integrating employees from the acquired company into our organization;
- we may be unable to retain key employees from the acquired business;
- we may acquire businesses that are subject to technological or competitive risks; and
- we may incur future goodwill impairment charges with respect to the acquired assets.

We may in the future incur goodwill, other intangible assets and long-lived asset impairment charges.

At December 31, 2016, we had goodwill and other intangible assets of \$76.7 million and property, plant and equipment of \$85.6 million. While we believe the estimates and judgments about future cash flows used in the goodwill, other intangible assets and long-lived asset impairment tests are reasonable, we cannot provide assurance that future impairment charges will not be required if the expected cash flow estimates as projected by management do not occur, especially if the recent economic recession returns for a lengthy period or were to become more severe. We assess goodwill for impairment annually and between annual assessments if an event occurs or if circumstances change that indicate the fair value of a reporting unit is below the unit's carrying amount.

We may be subject to income tax rate fluctuations as well as to additional tax liabilities, which could impact our financial position.

Because we have operations both in the United States and abroad, we are subject to taxes in various jurisdictions. Our effective tax rate is subject to fluctuation as the income tax rates for each year are a function of various factors, including:

- the mix of profits or losses earned by us and our subsidiaries in multiple tax jurisdictions with a broad range of income tax rates;
- changes in contingencies related to taxes, interest or penalties resulting from tax audits; and
- changes in tax laws or the interpretations of such laws, including proposed import tariffs and/or border adjustment proposals.

Changes in the mix of these factors and other factors may cause our effective tax rate to fluctuate between periods, which could have a negative effect on our financial position.

We are also subject to non-income taxes, such as payroll, sales, use and property taxes, in various jurisdictions. Significant judgment is required in determining our provision for income taxes and other tax liabilities. Although we believe that our tax estimates are reasonable, we cannot provide assurance that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

Our exposure to the credit risk of our customers may adversely affect our financial results.

If our customers experience financial difficulties, we could have difficulty recovering amounts owed to us from these customers. Although we have a process to administer credit and believe our allowance for bad debts is adequate, in the future we may experience losses as a result of our inability to collect our accounts receivable. If our customers fail to meet their payment obligations to us, we could experience reduced cash flows and losses in excess of amounts reserved. Some customers are thinly capitalized and/or marginally profitable. Actual bad debt write-offs may differ from our estimates, which may have a material adverse effect on our financial condition, operating results and cash flows.

We depend heavily on our key employees, and the loss of key employees could harm our business.

Our ability to provide high-quality products and levels of service depends in part on our ability to retain our skilled personnel in the areas of product engineering, manufacturing and sales. Our success is also dependent on the management and leadership skills of our senior management team. The loss of any of these individuals or an inability to attract and retain additional personnel could prevent us from implementing our business strategy. The loss of our key employees who have intimate knowledge of our manufacturing process could lead to increased competition to the extent that those employees are hired by a competitor and are able to recreate our

manufacturing process. We do not have employment agreements with any of our key employees, except for Edwin J. Flynn, Donald F. DeKay and Andrew Adams.

If our relationship with our employees deteriorates, our business could suffer.

Unions may attempt to organize our employees or we could be subject to work stoppages, strikes or other types of conflicts with our employees or organized labor in the future. Any such event could result in increased costs, delay or reduce our production, distract management from operating our business and harm our relationships with key customers and suppliers, which could damage our business, results of operations and financial condition.

Damage to our manufacturing and distribution facilities due to fire, natural disaster or other events could harm our business and financial results.

We have manufacturing facilities and a distribution facility in the United States, France, Italy and Poland.

The destruction or closure of any of our facilities for a significant period of time as a result of fire, explosion, act of war or terrorism, blizzard, flood, tornado, earthquake, lightning or other natural disaster could harm us financially, increasing our costs of doing business and limiting our ability to manufacture and deliver our products on a timely basis. Such events could harm our business and have a negative impact on our financial condition, operating results and cash flows.

A portion of our business depends on sales outside the United States, exposing us to additional risks that may have an adverse effect on our international operations and their ability to repatriate earnings to us.

We have operations in France, Italy and Poland, and approximately 9% of our net sales for the year ended December 31, 2016 were attributable to manufacturing and distribution facilities located outside of the United States. Because we have broad geographic coverage, we are exposed to additional risks, including:

- economic or political instability;
- foreign exchange rate fluctuations;
- restrictions on the transfer of funds into or out of a country;
- difficulties in staffing and managing foreign personnel;
- cultural differences;
- effects of the European debt crisis; and
- compliance with export controls and economic sanctions laws.

Sales and expenses are denominated in the euro for our French and Italian operations and the zloty for our Polish operation. As a result, these operations are subject to market risk with respect to fluctuations in the relative value of currencies. When the U.S. dollar strengthens against other currencies, the results of our non-U.S. operations are translated at a lower exchange rate and thus into lower reported revenues. There can be no assurance that we can effectively mitigate our currency exchange risk. We currently do not have any currency hedging programs in place. We also face political risks in the U.S., including tax or regulatory risks or potential adverse impacts from legislative impasses over, or significant legislative, regulatory or executive changes in, fiscal or monetary policy and other foreign and domestic government policies, including, but not limited to, trade policies and import/export policies.

Furthermore, as a U.S. corporation, we and our subsidiaries are subject to the regulations imposed by the Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. Any determination that we or any of our subsidiaries have violated the FCPA could subject us to significant fines and other penalties and damage our reputation.

Any significant breakdown, intrusion, interruption or corruption of our information systems or data breaches could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, shipping of products, billing our customers, tracking inventory, supporting accounting functions and financial statement preparation, paying our employees, and otherwise running our business. Despite our implementation of security mechanisms, our information systems are vulnerable to disruptions from computer viruses, natural disasters, unauthorized access, cyber attack and other similar disruptions. A material breach in the security of our information systems could include the theft of our intellectual property or trade secrets. Such disruptions or security breaches could result in the theft, unauthorized use or publication of our intellectual property, trade secrets and/or confidential business information, harm our competitive position or our reputation with our customers or suppliers, reduce the value of our investment in research and development and other strategic initiatives, or otherwise adversely affect our business. Like other global companies, we may experience incidents related to our information systems, including malware and computer virus attacks,

unauthorized access, systems failures and disruptions. We have measures and defenses in place against unauthorized access, but we may not be able to prevent, immediately detect or remediate such events.

Additionally, utilities and other operators of critical energy infrastructure that serve our facilities face heightened security risks, including cyber attacks. In the event of such an attack, disruption in service from our utility providers could disrupt our manufacturing operations which rely on a continuous source of power (electrical, gas, etc.). Any disruption in our information systems or those of the third parties upon whom we rely could have a significant impact on our business.

In addition, we may need to enhance our information systems to provide additional capabilities and functionality as we grow and make acquisitions. The implementation of new information systems and enhancements is frequently disruptive to the underlying business of an enterprise. Any disruptions affecting our ability to accurately report our financial performance on a timely basis could adversely affect our business in a number of respects. If we are unable to successfully implement potential future information systems enhancements, our financial position, results of operations, and cash flows could be negatively impacted.

We might have difficulty protecting our intellectual property from use by competitors, or competitors might accuse us of violating their intellectual property rights.

Disagreements about patents and intellectual property rights occur in our industry. Sometimes these disagreements are settled through an agreement for one party to pay royalties to another. The unfavorable resolution of an intellectual property dispute could preclude us from manufacturing and selling certain products, could require us to pay a royalty on the sale of certain products, or could impair our competitive advantage or result in a loss of market share if a competitor wins the right to sell products for which we believe we own the intellectual property. Intellectual property disputes could result in legal fees and other costs and may divert management's attention or cause a delay in product shipment or launch.

We are subject to environmental laws and regulations that can impose significant costs and expose us to potential financial liabilities.

Our operations are regulated under a number of federal, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of, or exposure to, hazardous materials and occupational health and safety. In some cases we must obtain permits or install pollution control or safety equipment to comply with these requirements. Violations of these laws can lead to material liability, fines or penalties. In addition, new or more stringent requirements and changes in enforcement policies could be imposed, including potential restrictions associated with the emission of greenhouse gases, such as cap-and-trade legislation, and could result in additional costs. Various federal, state, local and foreign laws and regulations impose liability on current or previous real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at or emanating from the property. In addition, because we are a generator of regulated materials, we, along with any other person who arranges for the disposal of those materials, may be subject to potential financial exposure for costs associated with the investigation and remediation of sites at which such materials have been disposed, if those sites become contaminated. Liability may be imposed without regard to the legality of the original actions and without regard to whether we knew of, or were responsible for, the presence of such hazardous or toxic substances, and in some circumstances, we could be responsible for payment of the full amount of the liability, whether or not any other responsible party is also liable. If any such environmental liabilities are identified in the future, the cost of complying with environmental laws and regulations, and the potential liability associated with noncompliance, could adversely affect our operations.

Changes in industry standards and regulatory requirements may adversely affect our business.

As a manufacturer of wire products, we are subject to a number of industry standard setting authorities. In the event that we are unable to meet any such standards when adopted, our business could be adversely affected. In addition, some of our products and our customers' products are subject to the requirements of federal, state, local or foreign regulatory authorities. Changes in the standards and requirements imposed by such authorities could have an adverse effect on us, including any increases in minimum wage or overtime pay requirements. For example, there have been a number of legislative and regulatory changes and proposed changes to the healthcare system. Doctors, clinics, hospitals and other end-users of our products may decline to purchase our customers' products to the extent there is uncertainty regarding reimbursement of medical procedures using such products and any other related matters. We are unable to predict what legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement, may be enacted in the future, or what effect such legislation or regulation may have on us.

General economic factors that are beyond our control may harm our business by causing demand for our products to decline or increasing our costs.

A number of factors beyond our control could decrease the demand of our existing customers and impair our ability to attract new customers. These include recessionary economic cycles and cyclical downturns in our customers' businesses. Furthermore, customers encountering adverse economic conditions may have difficulty paying for our products. Additionally, terrorist activities,

anti-terrorist efforts, war or other armed conflicts involving the United States or its interests abroad may have a material adverse effect on the U.S. and global economies and on our business, results of operations or financial condition. Finally, economic conditions can also cause fluctuations in our expenses. The cost of raw materials, labor and utilities are determined in part by general economic conditions and demand.

Holdings is controlled by funds controlled by MAST Capital Management, LLC (“MAST”), whose interests may be different from your interests or the interests of the Company.

Substantially all of the common stock of Holdings is owned by funds controlled by MAST. The interests of MAST may conflict with your interests in material respects. In addition, conflicts between MAST and holders of IWG’s 10.750% Senior Secured Notes due 2021 (the “Senior Secured Notes”) may arise with respect to, among other things, our strategic direction and significant corporate transactions, conflicts related to corporate opportunities that could be pursued by us on the one hand, or by MAST, on the other hand, or other contractual relationships between us and MAST or its affiliates. We cannot anticipate in what form such differing or conflicting interests may arise, and so long as these principal stockholders continue to own a significant amount of our outstanding capital stock, they will continue to have the ability to strongly influence or effectively control our decisions.

The results of the United Kingdom’s referendum on withdrawal from the European Union may have a negative effect on European and global economic conditions, financial markets and our business.

On June 23, 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last up to two years after the United Kingdom government formally initiates a withdrawal process. The timing of this process has not yet been determined. The effects of the referendum will depend in part on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. The referendum has created significant uncertainty about the political and economic circumstances of the United Kingdom and the European Union. These developments have had and may continue to have an adverse effect on European and global economic or market conditions and the stability of European, foreign exchange and global financial markets, including the European markets we serve. Any of these factors, and others we cannot anticipate, could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations, particularly our European operations, and reduce the price of our securities.

Any material litigation may harm our financial condition or results of operations.

We face risk of loss resulting from product liability, securities, fiduciary liability, intellectual property, antitrust, contractual, warranty, environmental, fraud and other lawsuits, whether or not such claims are valid. Our financial condition or results of operations may be adversely affected by unfavorable outcomes, expenses and costs exceeding amounts estimated or insured.

Risks Related to the Senior Secured Notes

Our substantial debt could adversely affect our financial condition and prevent us from fulfilling our obligations under the Senior Secured Notes. Despite our current level of debt, we may be able to incur additional debt that would exacerbate these risks.

We have a substantial amount of debt, which requires significant interest and principal payments. Subject to the limits contained in the indenture governing the Senior Secured Notes and the Revolving Credit Facility (defined herein), we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. As of December 31, 2016, IWG had \$275.1 million of total debt and had approximately \$34.6 million of additional borrowing capacity under its Revolving Credit Facility (after giving effect to \$4.1 million in outstanding letters of credit). If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences to the holders of Senior Secured Notes, including the following:

- making it more difficult for IWG to satisfy its obligations with respect to the 10.75% Senior Secured Notes or any of it or its subsidiaries’ other obligations;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;

- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

We may be unable to service our indebtedness, including the Senior Secured Notes.

Our ability to make scheduled payments on and to refinance our indebtedness, including the Senior Secured Notes and the Revolving Credit Facility, depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the international banking and capital markets. We cannot assure our noteholders that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt, including the Senior Secured Notes and the Revolving Credit Facility, to refinance our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt, including the Senior Secured Notes, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations.

The indenture governing the Senior Secured Notes and the Revolving Credit Facility impose significant operating and financial restrictions on IWG and its subsidiaries. These restrictions may prevent us, directly or indirectly, from capitalizing on business opportunities.

The indenture governing the Senior Secured Notes and the Revolving Credit Facility impose significant operating and financial restrictions on IWG and its subsidiaries which may prevent them, and indirectly prevent us, from capitalizing on business opportunities. The restrictions in the indenture governing the Senior Secured Notes limit our ability and the ability of our subsidiaries, among other things, to:

- incur additional indebtedness or enter into sale and leaseback obligations;
- pay certain dividends or redeem or make certain distributions on our capital stock or repurchase Holdings capital stock or repay any subordinated indebtedness;
- make certain investments;
- make certain loans, investments or other restricted payments;
- place restrictions on the ability of subsidiaries to pay dividends or make other payments to us;
- engage in transactions with Holdings stockholders or affiliates;
- sell certain assets or merge with or into other companies;
- guarantee indebtedness; and
- create liens.

These covenants limit, directly or indirectly, our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. Our ability to meet the financial ratio contained in our Revolving Credit Facility can be affected by events beyond our control, and we cannot assure you that we will meet this financial test if it springs into effect.

A default under any of our debt agreements could cause our other debt to become due and payable as a result of the cross-acceleration provision contained in the Senior Secured Notes and the cross-default provision contained in the Revolving Credit Facility. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt. Any default under the agreements governing our indebtedness and the remedies sought by the holders of such indebtedness could render us unable to pay principal and interest on the Senior Secured Notes and substantially decrease their value.

IWG and its subsidiaries may not have the funds necessary to finance the repurchase of the Senior Secured Notes in connection with a change of control offer required by the indenture.

Upon the occurrence of specific kinds of change of control events, the indenture governing the Senior Secured Notes requires IWG to make an offer to repurchase all of its outstanding Senior Secured Notes at 101% of the principal amount thereof, plus accrued and unpaid interest (and additional interest, if any) to, but not including, the date of repurchase.

However, it is possible that IWG and its subsidiaries will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the Senior Secured Notes. If IWG is required to repurchase the Senior Secured Notes, IWG would probably require third party financing. We cannot be sure that we would be able to obtain third party financing on acceptable terms, or at all. In addition, restrictions under the Revolving Credit Facility may not allow IWG to repurchase the Senior Secured Notes upon a change of control. If IWG and its subsidiaries could not refinance such debt or otherwise obtain a waiver from the holders of such debt, IWG would be prohibited from repurchasing the Senior Secured Notes, which would constitute an event of default under the indenture. If the indebtedness under the Revolving Credit Facility is not paid, the lenders thereunder may seek to enforce security interests in the collateral securing such indebtedness, thereby limiting our ability to raise cash to purchase the Senior Secured Notes, and reducing the practical benefit of the offer to purchase provisions to the holders of the Senior Secured Notes. In addition, certain important corporate events, such as leveraged recapitalizations that would increase IWG's level of indebtedness, would not constitute a "Change of Control" under the indenture.

IWG may not have the funds necessary to finance the repurchase of the Senior Secured Notes in connection with an excess cash flow offer required by the indenture.

Subject to certain conditions, the indenture governing the Senior Secured Notes requires IWG, within 95 days of the end of each fiscal year, to make an offer to repurchase Senior Secured Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the date of repurchase with a portion of our excess cash flow for the prior fiscal year. However, restrictions under the Revolving Credit Facility or other future debt instruments may not allow us to repurchase the Senior Secured Notes in an excess cash flow offer. If we could not refinance such debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the Senior Secured Notes, which would constitute an event of default under the indenture. If the indebtedness under the Revolving Credit Facility is not paid, the lenders thereunder may seek to enforce security interests in the collateral securing such indebtedness, thereby limiting our ability to raise cash to purchase the Senior Secured Notes, and reducing the practical benefit of the offer to purchase provisions to the holders of the Senior Secured Notes. In addition, we will not be required to make an excess cash flow offer if the making of such an excess cash flow offer would violate Delaware General Corporation Law.

The Senior Secured Notes will be effectively subordinated to indebtedness secured by liens on the collateral ranking prior to the liens on the collateral securing the Senior Secured Notes and will be structurally subordinated to all indebtedness and liabilities of IWG's subsidiaries that are not guarantors.

Obligations under the Revolving Credit Facility are secured by a first-priority lien on substantially all of IWG and the guarantors' assets. The Senior Secured Notes and the related guarantees are secured by a second-priority lien in the collateral securing indebtedness under the Revolving Credit Facility. Any rights to payment and claims by the holders of the Senior Secured Notes will, therefore, be subject to the rights to payment or claims by IWG's lenders under the Revolving Credit Facility with respect to distributions of such collateral. Only when IWG and its subsidiaries' obligations under the Revolving Credit Facility and certain other first-priority lien obligations are satisfied in full will the proceeds of the collateral be available to repay the Senior Secured Notes. Consequently, the Senior Secured Notes and the guarantees will be effectively subordinated to the Revolving Credit Facility and such other first-priority lien obligations to the extent of the value of the collateral. In addition, the Senior Secured Notes and the guarantees will be effectively subordinated to any of IWG and the guarantors' indebtedness that is secured by assets that do not constitute collateral to the extent of the value of such assets.

Additionally, not all of IWG's subsidiaries are guarantors of the Senior Secured Notes, and the Senior Secured Notes and the guarantees are structurally subordinated to all indebtedness and liabilities of IWG's non-guarantor subsidiaries. As of and for the year ended December 31, 2016, IWG's subsidiaries that are not guarantors accounted for approximately 8% of IWG's consolidated revenues, 9% of IWG's total assets and 2% of IWG's total liabilities. As of December 31, 2016, IWG's subsidiaries that are not guarantors had \$5.8 million of liabilities.

The right of noteholders to exercise remedies with respect to the collateral is limited, even during an event of default under the indenture. In addition, collateral will be subject to any exceptions, defects, encumbrances, liens and other imperfections that are accepted by the lenders under the Revolving Credit Facility.

The rights of the holders of the Senior Secured Notes with respect to the collateral securing the Senior Secured Notes are limited, even during an event of default under the indenture governing the Senior Secured Notes. Any actions that may be taken in respect of any of the collateral securing the Revolving Credit Facility on a first-priority basis, including the ability to cause the commencement

of enforcement proceedings against such collateral and to control the conduct of such proceedings are limited and, in most cases, controlled and directed by the lenders under the Revolving Credit Facility and other obligations secured by first-priority liens. In those circumstances, the trustee, on behalf of the holders of the Senior Secured Notes, will not have the ability to control or direct such actions, even if an event of default under the indenture governing the Senior Secured Notes has occurred or if the rights of the holders of the Senior Secured Notes are or may be adversely affected. The agent and the lenders under the Revolving Credit Facility are under no obligation to take into account the interests of the holders of the Senior Secured Notes and guarantees when determining whether and how to exercise their rights with respect to the collateral securing the Revolving Credit Facility on a first-priority basis, subject to the intercreditor agreement, and their interests and rights may be significantly different from or adverse to the interests of the holders of the Senior Secured Notes. To the extent that collateral is released from the first-priority liens in accordance with the Revolving Credit Facility, the second-priority liens securing the Senior Secured Notes and the guarantees will also automatically be released.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from the guarantors or subordinate the Senior Secured Notes to other obligations of IWG's subsidiary guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee of the Senior Secured Notes could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the debt, evidenced by its guarantee:

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and
- was insolvent or rendered insolvent by reason of such incurrence; or
- was engaged in a business or transaction for which the subsidiary guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that subsidiary guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of IWG's creditors or the creditors of such guarantor. A court could thus void the obligations under the guarantees, subordinate them to such guarantor's other debt or take action detrimental to the holders of the Senior Secured Notes.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred.

Generally, however, a subsidiary guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

Each guarantee contains a provision intended to limit the guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer law, or may eliminate the guarantor's obligations or reduce the guarantor's obligations to an amount that effectively makes the guarantee worthless.

There are circumstances other than repayment or discharge of the Senior Secured Notes under which guarantees in respect of the Senior Secured Notes will be released automatically, without the consent of the noteholders or the trustee.

Each of IWG's domestic restricted subsidiaries is required to guarantee the Senior Secured Notes if such domestic restricted subsidiary guarantees our Revolving Credit Facility or any indebtedness of the Company or any guarantor. If the guarantee of such domestic restricted subsidiary of the Revolving Credit Facility or such other indebtedness is released other than as a result of a payment thereon, the guarantee of such domestic restricted subsidiary in respect of the Senior Secured Notes will be released automatically without the consent of the noteholders or the trustee. Accordingly, an investor in the Senior Secured Notes should not expect that the guarantees in respect of the Senior Secured Notes will remain in place for so long as the Senior Secured Notes remain outstanding.

Holders of the Senior Secured Notes and guarantees will share all collateral equally and ratably with the lenders under certain additional secured indebtedness that IWG or any of its subsidiaries will be permitted by the indenture to incur in the future. If there is a default, the value of that collateral may not be sufficient to repay the holders of the Senior Secured Notes and guarantees and the lenders under such indebtedness.

The Senior Secured Notes and guarantees will be secured equally and ratably with the lenders under certain additional secured indebtedness that IWG or any of its subsidiaries will be permitted by the indenture governing the Senior Secured Notes to incur in the future, subject to compliance with covenants set forth in IWG and its subsidiaries' outstanding debt agreements. The indenture permits the incurrence of additional secured indebtedness, including additional notes, which would share the collateral equally and ratably with the Senior Secured Notes. As a result, if there is a default, the value of the remaining collateral may not be sufficient to repay the holders of the Senior Secured Notes and guarantees and the lenders under any such additional secured indebtedness.

We, through IWG and the guarantors, will in most cases have control over the collateral, and the sale of particular assets by IWG or a guarantor could reduce the pool of assets securing the Senior Secured Notes and the guarantees.

The indenture and the collateral documents will, subject to certain limitations, allow IWG and the guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the collateral securing the Senior Secured Notes and the guarantees. In addition, IWG and the guarantors will not be required to comply with all or any of Section 314(d) of the Trust Indenture Act of 1939. For example, so long as no default or event of default under the indenture governing the Senior Secured Notes would result therefrom, IWG or a guarantor may, among other things, without any release or consent by the indenture trustee and/or the collateral agent, conduct ordinary course activities with respect to the collateral, such as selling, factoring, abandoning or otherwise disposing of collateral and making ordinary course payments (including repayments of indebtedness in the ordinary course of business).

The collateral is subject to casualty risks.

We, through our subsidiaries, intend to maintain insurance or otherwise insure against hazards in a manner appropriate and customary for our business. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate IWG and the guarantors fully for their losses. If there is a complete or partial loss of any collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the Senior Secured Notes and the guarantees. In the event of a total or partial loss to any of the facilities of IWG or the guarantors, certain items of equipment, fixtures and other improvements, and inventory may not be easily replaced. Accordingly, even though there may be insurance coverage, the extended period needed to manufacture or construct replacement for such items could cause significant delays.

In the event of a bankruptcy with respect to IWG or any of the guarantors, holders of the Senior Secured Notes may be deemed to have an unsecured claim to the extent that the obligations in respect of the Senior Secured Notes exceed the fair market value of the collateral securing the Senior Secured Notes.

In any bankruptcy proceeding with respect to IWG or any of the guarantors, it is possible that the bankruptcy trustee, the debtor-in-possession or competing creditors will assert that the fair market value of the collateral with respect to the Senior Secured Notes on the date of the bankruptcy filing was less than the then-current principal amount of the Senior Secured Notes. Upon a finding by the bankruptcy court that the Senior Secured Notes were under-collateralized, the claims in the bankruptcy proceeding with respect to the Senior Secured Notes would be bifurcated between a secured claim in an amount equal to the value of the collateral and an unsecured claim with respect to the remainder of its claim which would not be entitled to the benefits of security in the collateral. Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of the Senior Secured Notes to receive post-petition interest and a lack of entitlement on the part of the unsecured portion of the Senior Secured Notes to receive "adequate protection" under federal bankruptcy laws. In addition, if any payments of post-petition interest had been made at any time prior to such a finding of under-collateralization, those payments would be recharacterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the Senior Secured Notes. No appraisal of the fair market value of the collateral was prepared in connection with the offering. Therefore, the value of the noteholders' interest in the collateral may not equal or exceed the principal amount of the Senior Secured Notes.

There may not be sufficient collateral to pay all or any of the Senior Secured Notes especially if IWG or a guarantor incurs additional senior secured indebtedness, which will dilute the value of the collateral securing the Senior Secured Notes and guarantees.

The fair market value of the collateral is subject to fluctuations based on factors that include, among others, the condition of the markets and sectors in which we operate, the ability of IWG and its subsidiaries to sell the collateral in an orderly sale, the condition of the national and local economies, the availability of buyers and other similar factors. The value of the assets pledged as collateral for the Senior Secured Notes also could be impaired in the future as a result of our failure to implement our business strategy, competition or other future trends.

In the event of foreclosure on the collateral, the proceeds from the sale of the collateral may not be sufficient to satisfy in full the obligations of IWG and the guarantors under the Senior Secured Notes, any additional indebtedness secured equally and ratably with the Senior Secured Notes, the Revolving Credit Facility and any additional obligations secured by first-priority liens. The amount to be received upon such a sale would be dependent on numerous factors, including but not limited to the timing and the manner of the

sale. In addition, the book value of the collateral should not be relied on as a measure of realizable value for such assets. By its nature, portions of the collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the collateral can be sold in a short period of time in an orderly manner. A significant portion of the collateral includes assets that may only be usable, and thus retain value, as part of our existing operating business. Accordingly, any such sale of the collateral separate from the sale of certain operating businesses of IWG or a guarantor may not be feasible or of significant value.

To the extent that pre-existing liens, liens permitted under the indenture governing the Senior Secured Notes and other rights, encumber any of the collateral securing the Senior Secured Notes and the guarantees, those parties have or may exercise rights and remedies with respect to the collateral that could adversely affect the value of the collateral and the ability of the collateral agent, the trustee under the indenture governing the Senior Secured Notes or the holders of the Senior Secured Notes to realize or foreclose on the collateral. Consequently, liquidating the collateral securing the Senior Secured Notes may not result in proceeds in an amount sufficient to pay any amounts due under the Senior Secured Notes after also satisfying the obligations to pay any creditors with prior liens. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the Senior Secured Notes, the holders of the Senior Secured Notes (to the extent not repaid from the proceeds of the sale of the collateral) would have only an unsecured, unsubordinated claim against IWG and the guarantors' remaining assets.

IWG or any guarantor may incur additional secured indebtedness under the indenture governing the Senior Secured Notes, including the issuance of additional Senior Secured Notes or the incurrence of other forms of indebtedness secured equally and ratably with the Senior Secured Notes and/or borrowings under the Revolving Credit Facility, subject to certain specified conditions. Any such incurrence could dilute the value of claims of lenders under the Revolving Credit Facility and holders of the Senior Secured Notes to the collateral securing the Senior Secured Notes and guarantees.

It may be difficult to realize the value of the collateral pledged to secure the Senior Secured Notes.

IWG and the guarantors' obligations under the Senior Secured Notes and the guarantees are secured only by the collateral. The collateral agent's ability to foreclose on the collateral on noteholders' behalf may be subject to perfection, the consent of third parties, priority issues, state law requirements and practical problems associated with the realization of the collateral agent's security interest in the collateral, including cure rights, foreclosing on the collateral within the time periods permitted by third parties or prescribed by laws, statutory rights of redemption, and the effect of the order of foreclosure. We cannot assure noteholders that the consents of any third parties and approvals by governmental entities will be given when required to facilitate a foreclosure on such assets. Accordingly, the collateral agent may not have the ability to foreclose upon the collateral or assume or transfer the right to operate the collateral. We cannot assure noteholders that foreclosure on the collateral will be sufficient to acquire all assets necessary for operations or to make all payments on the Senior Secured Notes.

State law may limit the ability of the collateral agent, trustee and the holders of the Senior Secured Notes to foreclose on the real property and improvements included in the collateral.

The Senior Secured Notes are secured by, among other things, liens or other restrictions on real property located in the states of Georgia, Indiana, New York, South Carolina and Texas. The laws of those states may limit the ability of the trustee and the holders of the Senior Secured Notes to foreclose or take other actions on the real property collateral located in those states. Laws of those states govern the perfection, enforceability and foreclosure of mortgage liens against real property interests which secure debt obligations such as the Senior Secured Notes. These laws may impose procedural requirements for foreclosure different from and necessitating a longer time period for completion than the requirements for foreclosure of security interests in personal property. Debtors may have the right to reinstate defaulted debt (even if it has been accelerated) before the foreclosure date by paying the past due amounts and a right of redemption after foreclosure. Governing laws may also impose security first and one form of action rules, which rules can affect the ability to foreclose or the timing of foreclosure on real and personal property collateral regardless of the location of the collateral and may limit the right to recover a deficiency following a foreclosure.

The holders of the Senior Secured Notes and the trustee also may be limited in their ability to enforce a breach of the "no liens" and "no transfers or assignments" covenants contained in the mortgages and other restrictions. Some decisions of state courts have placed limits on a lender's ability to prohibit and to accelerate debt secured by real property upon breach of covenants prohibiting sales or assignments or the creation of certain junior liens or leasehold estates, and the lender may need to demonstrate that enforcement of such covenants is reasonably necessary to protect against impairment of the lender's security or to protect against an increased risk of default. Although such court decisions may have been preempted, at least in part, by certain federal laws, the scope of such preemption, if any, is uncertain. Accordingly, a court could prevent the trustee and the holders of the Senior Secured Notes from declaring a default and accelerating the Senior Secured Notes by reason of a breach of this covenant, which could have a material adverse effect on the ability of the holders of the Senior Secured Notes to enforce the covenant.

In the event of Holdings bankruptcy or the bankruptcy of IWG or any of the guarantors, the ability of the holders of the Senior Secured Notes to realize upon the collateral will be subject to certain bankruptcy law limitations.

The ability of holders of the Senior Secured Notes to realize upon the collateral will be subject to certain bankruptcy law limitations in the event Holdings bankruptcy or of a bankruptcy proceeding with respect to IWG or any of the guarantors. Under applicable U.S. federal bankruptcy laws, secured creditors are prohibited from repossessing their security from a debtor in a bankruptcy case without bankruptcy court approval and may be prohibited from disposing of security repossessed from such debtor without bankruptcy court approval. Moreover, applicable federal bankruptcy laws generally permit the debtor to continue to retain collateral, including cash collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given “adequate protection.”

The meaning of the term “adequate protection” may vary according to the circumstances, but is intended generally to protect the value of the secured creditor’s interest in the collateral in the commencement of the bankruptcy case and may include cash payments or the granting of additional security if and at such times as the court, in its discretion, determines that a diminution in the value of the collateral occurs as a result of the stay of repossession or the disposition of the collateral during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term “adequate protection” and the broad discretionary powers of a U.S. bankruptcy court, we cannot predict whether or when the trustee under the indenture governing the Senior Secured Notes could foreclose upon or sell the collateral or whether or to what extent holders of Senior Secured Notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of “adequate protection.”

Moreover, the collateral agent and the indenture trustee may need to evaluate the impact of the potential liabilities before determining to foreclose on collateral consisting of real property, if any, because secured creditors that hold a security interest in real property may be held liable under environmental laws for the costs of remediating or preventing the release or threatened releases of hazardous substances at such real property. Consequently, the collateral agent may decline to foreclose on such collateral or exercise remedies available in respect thereof if it does not receive indemnification to its satisfaction from the holders of the Senior Secured Notes.

The value of the collateral securing the Senior Secured Notes may not be sufficient to secure post-petition interest.

In the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding against IWG and its subsidiaries, holders of the Senior Secured Notes will only be entitled to post-petition interest under the U.S. bankruptcy law to the extent that the value of their security interest in the collateral is greater than their pre-bankruptcy claim. Holders of the Senior Secured Notes that have a security interest in collateral with a value equal to or less than their pre-bankruptcy claim will not be entitled to post-petition interest under U.S. bankruptcy law.

There are circumstances other than repayment or discharge of the Senior Secured Notes under which the collateral securing the Senior Secured Notes and guarantees will be released automatically, without the consent of the noteholders, the consent of the lenders under the Revolving Credit Facility or the consent of the trustee or the collateral agent.

Under various circumstances, all or a portion of the collateral securing the Senior Secured Notes and guarantees will be released automatically, including:

- a taking by eminent domain, condemnation or other similar circumstances;
- a sale, transfer or other disposal of such collateral in a transaction not prohibited under the indenture governing the Senior Secured Notes (other than to the issuer or a guarantor);
- with respect to collateral held by a guarantor, upon the release of such guarantor from its guarantee; and
- with respect to any collateral securing the Revolving Credit Facility on a first-priority basis, upon any sale or other disposition of such collateral (a) by the lenders under the Revolving Credit Facility, subject to the intercreditor agreement, or (b) so long as such sale or other disposition is not prohibited by the indenture governing the Senior Secured Notes by IWG or its subsidiaries with the consent of those lenders.

The imposition of certain permitted liens will cause the assets on which such liens are imposed to be excluded from the collateral securing the Senior Secured Notes and the guarantees. There are certain other categories of property that are also excluded from the collateral.

The indenture governing the Senior Secured Notes permits liens in favor of third parties to secure certain purchase money indebtedness and capital lease obligations, and any assets subject to such liens will be automatically excluded from the collateral securing the Senior Secured Notes and the guarantees (so long as the documents applicable to such lien prohibit any other liens on such assets). The ability of IWG or of its subsidiaries to incur purchase money indebtedness and capital lease obligations is subject to certain limitations. Other categories of excluded assets include any interest in any after acquired real property if the fair market value thereof is less than \$1,000,000, leasehold interests, rights or interests in any contract, license, lease, permit or similar agreements, the pledge of which would violate applicable law or such contract, license, permit, or similar agreement, equity in excess of 65% of the voting shares of the first-tier foreign subsidiaries of IWG or those of any of the guarantors and the proceeds of certain of the

foregoing. If an event of default occurs and the Senior Secured Notes are accelerated, the Senior Secured Notes and the guarantees will rank equally with the holders of other unsubordinated and unsecured indebtedness of the relevant entity with respect to such excluded assets.

The rights of noteholders in the collateral may be adversely affected by the failure to perfect security interests in certain collateral in the future.

Applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate of title and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. The trustee or the collateral agent may not monitor, or IWG and its subsidiaries may not inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the Senior Secured Notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest in favor of the Senior Secured Notes against third parties. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the Senior Secured Notes against third parties.

No public market exists for the Senior Secured Notes. An active trading market may not develop for the Senior Secured Notes, which may hinder noteholders' ability to liquidate their investment.

No public market exists for the Senior Secured Notes. We, including IWG, do not intend to list the Senior Secured Notes on any national securities exchange or seek the admission of the Senior Secured Notes for quotation through any automated interdealer quotation system. In addition, the liquidity of the trading market in the Senior Secured Notes, and the market price quoted for the Senior Secured Notes, may be adversely affected by changes in the overall market for non-investment grade securities, prevailing interest rates and by changes in IWG and its subsidiaries' financial performance or prospects or in the financial performance or prospects of companies in our industry generally. As a result, we cannot assure noteholders that an active trading market will develop or be maintained for the Senior Secured Notes. If an active market does not develop or is not maintained, the market price and liquidity of the Senior Secured Notes may be adversely affected.

Even if a trading market for the Senior Secured Notes does develop or remain active, noteholders may not be able to sell their Senior Secured Notes at a particular time, if at all, or they may not be able to obtain the price they desire for their Senior Secured Notes. If the Senior Secured Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on many factors, including prevailing interest rates, the market for similar securities, IWG's credit rating, the interest of securities dealers in making a market for the Senior Secured Notes, the price of any other securities we, including IWG, issue, our performance, prospects, operating results and financial condition, as well as of other companies in the industry.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial fluctuations in the price of securities. Therefore, even if a trading market for the Senior Secured Notes develops, it may be subject to disruptions and price volatility.

The Senior Secured Notes are subject to transfer restrictions.

The Senior Secured Notes have not been and will not be registered under the Securities Act or any state securities laws. Absent registration, the Senior Secured Notes may be offered or sold only in transactions that are not subject to or that are exempt from the registration requirements of the Securities Act and applicable state securities laws. As a result, noteholders may be required to bear the risk of their investment for an indefinite period of time.

Discussion and Analysis of Financial Condition and Results of Operations and Liquidity

Overview

We, together with our wholly owned-subsubsidiary International Wire Group, Inc. ("IWG") and other subsidiaries, manufacture and market wire products, including bare, silver-plated, nickel-plated and tin-plated copper wire, engineered wire products and high performance conductors for other wire suppliers, distributors and original equipment manufacturers or "OEMs". Our products include a broad spectrum of copper wire configurations and gauges with a variety of electrical and conductive characteristics and are utilized by a wide variety of customers primarily in the industrial and energy, electronics and data communications, automotive/specialty vehicles, aerospace and defense and medical products industries. We have eighteen manufacturing facilities and one distribution facility located throughout the United States, France, Italy and Poland. For the year ended December 31, 2016, we operated our business in the following three segments:

- **Bare Wire.** Our bare and tin-plated copper wire products (or conductors) are used to transmit digital, video and audio signals or conduct electricity. These products are sold to a diverse customer base of approximately 1,000 insulated wire manufacturers and

various industrial OEMs for use in automotive/specialty vehicles, consumer and appliance, electronics and data communications and industrial and energy markets.

- *Engineered Wire Products — Europe.* Our bare and tin-plated copper wire products are engineered and used to conduct electricity either for power or for grounding purposes and are sold to a diverse customer base of various OEMs for use in the aerospace, automotive/specialty vehicles and industrial and energy (including electrical appliances, power supply and railway) markets.
- *High Performance Conductors.* Our High Performance Conductors segment manufactures specialty high performance conductors that include tin, nickel and silver-plated copper and copper alloy conductors including standard and customized high and low temperature conductors as well as specialty film insulated conductors and micro diameter tubing products. These products are used by a variety of customers in the commercial and military aerospace and defense, electronics and data communications, industrial and energy and medical products markets.

Demand for our products is directly related to two primary factors:

- demand for the end products in which our products are incorporated; and
- our ability to compete with other suppliers in the industries we serve.

Important indicators of demand for all of our products include a number of general economic factors such as gross domestic product, interest rates and consumer confidence. In specific industries, management also monitors the following factors:

- *Automotive/specialty vehicles market* — North American industry production statistics are influenced by labor relations issues, regulatory requirements and trade agreements. For the year ended December 31, 2016, automotive industry production volumes increased by 2% compared to the same period for 2015 (based on data from Automotive News).
- *Electronics and data communications and industrial and energy markets* — while the end user applications are very diverse, some of the contributing factors to demand in those markets include technology spending and major industrial and/or infrastructure projects, including build-out of computer networks, mining development, oil exploration and production projects, mass transit and general commercial and industrial real estate development.
- Additional factors relevant to the High Performance Conductors segment include commercial aircraft deliveries, spending levels in the military and defense markets and demand in the medical product markets. Full year commercial aerospace shipments for 2016 were up 3.3% from 2015, based on the number of units shipped, resulting in a record year for commercial aircraft sales of 1,443 airplanes. In addition, December 2016 was the largest single month of aircraft deliveries ever. Airbus had 8.3% growth in deliveries, while Boeing deliveries were down 1.8% compared to 2015. The backlog remains strong, with 13,567 planes on order, which equates to over ten years of production at current delivery rates. The defense market continued to see soft demand throughout the year. Demand for our medical products components in the fourth quarter of 2016 increased 2.2% over the same period in 2015, due to slightly higher demand from the OEM device manufacturers.

We compete with other suppliers of wire products on the basis of price, quality, delivery and the ability to provide a sufficient array of products to meet most of our customers' needs. We believe our highly flexible production equipment permits us to provide a high quality product while also permitting us to efficiently manufacture our products, which assists in our ability to provide competitively priced products. Also, we invest in engineering so that we can continue to provide our customers with the array of products and features they demand. Finally, our production facilities are located near many of our customers' manufacturing facilities, which allows us to meet our customers' delivery demands, including assisting with inventory management for just-in-time production techniques.

A portion of our revenue is derived from processing customer-owned ("tolled") copper. The value of tolled copper is excluded from both our sales and costs of sales, as title to the tolled copper and the related risks of ownership do not pass to us at any time. The remainder of our sales include Company owned ("owned") copper. Accordingly, for these sales, copper is included in both net sales and cost of sales. The main factor that causes fluctuations in the proportion of tolled copper from one period to the next is the decision by our customers whether to use their copper or purchase our owned copper. We have some customers who only use their own tolled copper, others who only purchase our owned copper and others who use some tolled copper and some owned copper purchased from us. This decision is based on each customer's internal factors which are unknown to us and outside of our control.

Our costs and expenses in producing these products fall into three main categories: raw materials (including copper, silver, nickel, tin and alloys), labor and, to a lesser extent, utilities. Copper is the primary raw material incorporated in all of our products. As copper is a world-traded commodity, its price has historically been subject to fluctuations. The average price of copper based upon The New York Mercantile Exchange, Inc. ("COMEX") decreased to \$2.20 per pound for the year ended December 31, 2016 from \$2.51 per pound for the year ended December 31, 2015, or 12%.

In order to reduce the potential negative impact of fluctuations in the price of copper, we have copper price pass-through arrangements with our customers based on variations of monthly copper price formulas. These pass-through arrangements are less effective when copper prices are volatile. Additionally, these pass-through arrangements do not apply to the scrap which is created in

the production process (and subsequently sold as scrap) as the selling price for the copper in the scrap sales may be more or less than the purchase price at the time we acquired the copper. Changing copper prices may adversely affect both profitability and liquidity depending on the magnitude of these changes, the timing of purchases, quantity levels and the applicable account receivable and payable payment terms.

Moreover, since we generally do not obtain long-term purchase commitments, our customers may cancel, reduce or delay their orders if they believe copper prices will decrease significantly. Additionally, declining copper prices can result in inventory charges, increasing our costs of goods sold and negatively impacting profitability. Conversely, a severe increase in the price of copper can negatively impact our short-term liquidity because of the period of time between our purchase of copper at an increased price and the time at which we receive cash payments after selling end products to customers reflecting the increased price. As of December 31, 2016, a \$0.10 per pound fluctuation in the price of copper would have approximately a \$2.9 million impact on our working capital. Increased working capital requirements cause us to increase our borrowings, which increases our interest expense.

Other raw materials we use include silver, nickel, tin and alloys. The cost of these raw materials are generally passed through to our customers through a variety of pricing mechanisms. Our price of silver includes a margin and consequently market fluctuations in the price of silver can result in an increase or decrease in profitability at a given volume. For the year ended December 31, 2016, the average price of silver increased by 10%, the average price of nickel decreased by 19% and the average price of tin increased by 11%, compared to the year ended December 31, 2015.

Our labor and utility expenses are directly tied to our level of production. While the number of employees we use in our operations fluctuates with sales volume, our cost per employee continues to rise with increases in wages and the costs of providing medical coverage, workers' compensation and other benefits to employees. The cost of providing medical coverage is impacted by continued inflation in medical products and services. Utility rates vary by season and also fluctuate with changes in the prices for coal, natural gas and other similar commodities which are used in the generation of power.

Results of Operations

The following table sets forth certain statement of operations data in millions of dollars for the periods indicated:

	For the Year Ended December 31,					
	2016		2015		2014	
Net sales	\$ 526.0	100.0%	\$ 639.0	100.0%	\$ 766.5	100.0%
Operating expenses:						
Cost of goods sold, exclusive of depreciation and amortization expense shown below	442.2	84.1%	545.0	85.3%	658.0	85.8%
Selling, general and administrative expenses	38.0	7.2%	39.5	6.2%	42.7	5.6%
Depreciation and amortization	17.2	3.3%	17.6	2.8%	17.1	2.2%
Loss/(gain) on sale of property, plant and equipment	0.0	0.0%	0.0	0.0%	(0.8)	(0.1)%
Operating income	28.6	5.4%	36.9	5.7%	49.5	6.5%
Other (expense)/income:						
Interest expense	(26.9)	(5.1)%	(24.2)	(3.8)%	(22.9)	(3.0)%
Amortization of deferred financing costs	(2.0)	(0.3)%	(2.0)	(0.3)%	(1.8)	(0.3)%
Loss on early extinguishment of debt	(6.8)	(1.3)%	(0.2)	(0.0)%	—	—%
Other, net	—	—%	0.1	0.0%	—	—%
(Loss)/income before income tax (benefit)/provision	(7.1)	(1.3)%	10.6	1.6%	24.8	3.2%
Income tax (benefit)/provision	(4.8)	(0.4)%	2.1	0.3%	8.9	1.1%
Net (loss)/income	<u>\$ (2.3)</u>	<u>(0.9)%</u>	<u>\$ 8.5</u>	<u>1.3%</u>	<u>\$ 15.9</u>	<u>2.1%</u>

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Net sales were \$526.0 million and \$639.0 million for the years ended December 31, 2016 and 2015, respectively. Sales for the year ended December 31, 2016 were \$113.0 million, or 17.7%, below comparable 2015 levels, as a result of the decreased average cost and selling price of copper (\$53.5 million), lower volume in the Bare Wire, Europe and HPC segments from decreased customer demand in all major markets except the electronics and data communications market (\$52.2 million), a higher proportion of tolled copper shipped in the 2016 period compared to the 2015 period (\$7.1 million), unfavorable changes in foreign currency exchange rates (\$0.1 million) and lower customer pricing/mix (\$0.1 million). For sales of product comprised of tolled copper, the value of the copper material processed is excluded from sales. Accordingly, as the proportion of tolled sales increase, sales decrease. Total pounds of product sold for the year ended December 31, 2016, decreased 9.8% compared to the year ended December 31, 2015. Of the total pounds processed for the years ended December 31, 2016 and 2015, respectively, 45.7% and 44.5% were from tolled copper. The average price of copper based upon COMEX decreased to \$2.20 per pound for the year ended December 31, 2016 from \$2.51 per pound for the year ended December 31, 2015.

Cost of goods sold, exclusive of depreciation and amortization expense, as a percentage of sales decreased to 84.1% for the year ended December 31, 2016 from 85.3% for the year ended December 31, 2015. The decrease of 1.2 percentage points was due to a decrease in the average cost and selling price of copper (1.5 percentage points) and higher silver profits (0.2 percentage points), partially offset by lower LIFO/copper profits (0.5 percentage points).

Selling, general and administrative expenses were \$38.0 million for the year ended December 31, 2016 and \$39.5 million for the year ended December 31, 2015. This decrease of \$1.5 million was primarily the result of \$2.4 million of lower stock-based compensation expense and \$0.4 million lower transportation costs (primarily fuel cost related and, to a lesser extent, volume), partially offset by \$1.3 million of other cost increases, net. These expenses, as a percent of net sales, increased to 7.2% for the year ended December 31, 2016 from 6.2% for the year ended December 31, 2015, primarily due to lower net sales.

Depreciation and amortization was \$17.2 million for the year ended December 31, 2016 compared to \$17.6 million for the year ended December 31, 2015.

Operating income for the year ended December 31, 2016 was \$28.6 million compared to \$36.9 million for the year ended December 31, 2015, a decrease of \$8.3 million, or 22.5%, primarily from lower sales volume and lower LIFO/copper profits, partially offset by higher silver profits and lower selling, general and administrative expenses.

Interest expense was \$26.9 million for the year ended December 31, 2016 compared to \$24.2 million for the year ended December 31, 2015. This increase of \$2.7 million was primarily the result of the Company's debt refinancing in the third quarter of 2016.

Amortization of deferred financing costs were \$2.0 million for each of the years ended December 31, 2016 and 2015.

Loss on early extinguishment of debt was \$6.8 million for the year ended December 31, 2016 due to the Company's debt refinancing in the third quarter of 2016. Loss on early extinguishment of debt was \$0.2 million for the year ended December 31, 2015 due to the repurchase of \$12.9 million of PIK Notes during the period.

Income tax benefit was \$4.8 million and income tax provision was \$2.1 million for the years ended December 31, 2016 and 2015, respectively. The Company's effective tax rate for the years ended December 31, 2016 and 2015 was 67.5% and 20.2%, respectively. The higher effective tax rate in 2016 was primarily a result of the lower income before income tax (benefit)/provision in the 2016 period versus the 2015 period.

Net loss was \$2.3 million, or \$0.50 per basic and diluted share, and net income was \$8.5 million, or \$1.74 per basic share and diluted share, for the years ended December 31, 2016 and 2015, respectively.

Year Ended December 31, 2015 versus Year Ended December 31, 2014

Net sales were \$639.0 million and \$766.5 million for the years ended December 31, 2015 and 2014, respectively. Sales for the year ended December 31, 2015 were \$127.5 million, or 16.6%, below comparable 2014 levels, as a result of the decreased average cost and selling price of copper (\$76.6 million), lower volume in the Bare Wire and HPC segments, from decreased customer demand in all major markets except the electronics and data communications and medical device markets (\$74.0 million), unfavorable changes in foreign currency exchange rates (\$9.1 million) and lower customer pricing/mix (\$2.0 million). These factors were partially offset by a lower proportion of tolled copper shipped in the 2015 period compared to the 2014 period (\$34.2 million). For sales of product comprised of tolled copper, the value of the copper material processed is excluded from sales. Accordingly, as the proportion of tolled sales decrease, sales increase. Total pounds of product sold for the year ended December 31, 2015, decreased 11.6% compared to the year ended December 31, 2014. Of the total pounds processed for the years ended December 31, 2015 and 2014, respectively, 44.5% and 49.0% were from tolled copper. The average price of copper based upon COMEX decreased to \$2.51 per pound for the year ended December 31, 2015 from \$3.12 per pound for the year ended December 31, 2014.

Cost of goods sold, exclusive of depreciation and amortization expense, as a percentage of sales decreased to 85.3% for the year ended December 31, 2015 from 85.8% for the year ended December 31, 2014. The decrease of 0.5 percentage points was due to a decrease in the average cost and selling price of copper (1.6 percentage points) and higher LIFO/copper profits (0.7 percentage points), partially offset by less favorable plant utilization (1.0 percentage points), the change in the proportion and level of tolled and owned copper sales (0.7 percentage points) and lower silver and non-copper metal profits (0.1 percentage points).

Selling, general and administrative expenses were \$39.5 million for the year ended December 31, 2015 and \$42.7 million for the year ended December 31, 2014. This decrease of \$3.2 million was primarily the result of \$1.3 million of lower bonus accruals, \$0.9 million of decreased legal and professional costs and \$1.7 million lower transportation costs and \$1.6 million of other cost reductions, net, partially offset by \$2.3 million of higher stock-based compensation expense. These expenses, as a percent of net sales, increased

to 6.2% for the year ended December 31, 2015 from 5.6% for the year ended December 31, 2014, primarily due to due to lower net sales.

Depreciation and amortization was \$17.6 million for the year ended December 31, 2015 compared to \$17.1 million for the year ended December 31, 2014. This increase of \$0.5 million was due to depreciation on additional property, plant and equipment.

There was a gain on sale of property, plant and equipment of \$0.8 million for the year ended December 31, 2014 as the result of the sale of certain assets during the period.

Operating income for the year ended December 31, 2015 was \$36.9 million compared to \$49.5 million for the year ended December 31, 2014, a decrease of \$12.6 million, or 25.5%, primarily from lower sales volume, lower silver and non-copper metal profits and less favorable plant utilization, partially offset by higher LIFO/copper profits and lower selling, general and administrative expenses.

Interest expense was \$24.2 million for the year ended December 31, 2015 compared to \$22.9 million for the year ended December 31, 2014. This increase of \$1.3 million was primarily the result of the issuance of the \$26.0 million of PIK Notes in the second quarter of 2015.

Amortization of deferred financing costs were \$2.0 million for the year ended December 31, 2015 and \$1.8 million for the year ended December 31, 2014.

Loss on early extinguishment of debt was \$0.2 million for the year ended December 31, 2015 due to the repurchase of \$12.9 million of PIK Notes during the period.

Income tax provision was \$2.1 million and \$8.9 million for the years ended December 31, 2015 and 2014, respectively. The Company's effective tax rate for the years ended December 31, 2015 and 2014 was 20.2% and 35.8%, respectively. The lower effective tax rate in 2015 was primarily a result of the impact of certain discrete items related to the reversal of a portion of our uncertain tax positions due to the statute of limitations expiration.

Net income was \$8.5 million, or \$1.74 per basic and diluted share, and \$15.9 million, or \$2.75 per basic share and \$2.69 per diluted share, for the years ended December 31, 2015 and 2014, respectively.

Liquidity and Capital Resources

Working Capital and Cash Flows

Net cash provided by operating activities was \$8.8 million for the year ended December 31, 2016 compared to net cash provided by operating activities of \$48.8 million for the year ended December 31, 2015. This decrease of \$40.0 million was primarily the result of an unfavorable accounts receivable impact of \$19.2 million, an unfavorable inventory impact of \$14.9 million, an unfavorable prepaid expenses and other assets impact of \$3.8 million and other unfavorable impacts, net, of \$2.1 million.

Accounts receivable of \$81.5 million decreased \$6.2 million, or 7.1%, from year-end 2015. This decrease was primarily due to lower sales levels, partially offset by an increase of one day in day's sales outstanding to 63 days as of December 31, 2016 compared to 62 days as of December 31, 2015. The allowance for doubtful accounts as a percentage of accounts receivable increased from 1.5% at December 31, 2015 to 1.7% as of December 31, 2016 reflecting a decrease in the accounts receivable balance from December 31, 2015 to December 31, 2016.

Inventories of \$46.3 million as of December 31, 2016 increased by \$6.4 million from December 31, 2015. This increase was the result of higher inventories in the Bare Wire, Europe and High Performance Conductors segments driven by metal price and quantity increases (\$10.9 million), partially offset by an increase in the LIFO reserve (\$4.5 million).

Accounts payable were \$7.3 million as of December 31, 2016, or a decrease of \$8.2 million from December 31, 2015 levels, resulting from the timing of payments.

Net cash used in investing activities was \$11.5 million for the year ended December 31, 2016, compared to \$13.3 million for the year ended December 31, 2015. This decrease in net cash used of \$1.8 million resulted from \$1.8 million of lower capital expenditures in the 2016 period.

Net cash used in financing activities was \$0.6 million for the year ended December 31, 2016, compared to net cash used in financing activities of \$30.3 million for the year ended December 31, 2015. There were net borrowings under a credit agreement with Wells Fargo Capital Finance, LLC, as administrative agent, and the other lenders and agents party thereto (the "Revolving Credit

Facility”) of \$40.2 million and net repayments of \$14.6 million for the years ended December 31, 2016 and 2015, respectively. There were proceeds from the issuance of 10.750% Senior Secured Notes of \$250.3 million, repurchase of 8.50% Senior Secured Notes of \$250.0 million, repurchase of PIK Notes of \$13.1 million, repurchase of 10.750% Senior Secured Notes of \$15.7 million, payments for debt issuance costs of \$7.5 million and prepayment fees on early extinguishment of debt of \$4.8 million for the year ended December 31, 2016. There were repurchases of common stock of \$28.9 million, proceeds from the issuance of PIK Notes of \$26.0 million, repurchase of PIK Notes of \$12.9 million, a tax benefit on stock option exercise and repurchases of \$0.3 million and payments for debt issuance costs of \$0.2 million for the year ended December 31, 2015.

Liquidity

We require cash for working capital, capital expenditures, debt service and taxes. Our working capital requirements generally increase when demand for our products increases or when copper, silver, nickel or tin costs increase significantly or rapidly. As of December 31, 2016, a \$0.10 per pound fluctuation in the price of copper would have approximately a \$2.9 million impact on our working capital. The average price of copper based upon COMEX decreased to \$2.20 per pound for the year ended December 31, 2016 from \$2.51 per pound for the year ended December 31, 2015.

Our principal sources of cash are cash generated from operations and borrowings under the Revolving Credit Facility. We expect that ongoing requirements for working capital, capital expenditures, debt service and taxes will be funded from operating cash flow and borrowings under the Revolving Credit Facility.

As of December 31, 2016, we had \$6.2 million of unrestricted cash and cash equivalents. Actual borrowing availability under the Revolving Credit Facility is subject to a borrowing base calculation, generally based upon a percentage of eligible accounts receivable, inventory and property, plant and equipment. As of December 31, 2016, the borrowing base was \$78.8 million, our outstanding indebtedness under the Revolving Credit Facility was \$40.2 million and outstanding letters of credit were \$4.0 million, resulting in a remaining availability as of such date of \$34.6 million. The Company must also comply with a 1.0 to 1.0 fixed charge coverage ratio when either (1) the minimum availability under the Revolving Credit Facility falls below \$12.5 million or (2) there is a default or event of default.

We expect our cash on hand, operating cash flow and available borrowings under the Revolving Credit Facility will be sufficient to meet our anticipated operating expenses, capital expenditures and debt service requirements for the next twelve months and the foreseeable future. Our ability to generate sufficient cash flow to meet our operating needs could be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control. Any significant reduction in customer demand for our products, change in competitive conditions, increases in our major material components including copper and other metals, or adverse changes in economic conditions in the United States or worldwide could impact our ability to generate sufficient cash flow to fund operations.

Off-Balance Sheet Arrangements

We have not historically utilized off-balance sheet financing arrangements. We did not have any such arrangements as of December 31, 2016. We do lease certain facilities and equipment under leases provided by various third parties. Since the terms of these leases meet the definition of operating leases, the future lease payments are not reflected on our consolidated balance sheet. As of December 31, 2016, the future minimum lease payments under these arrangements totaled \$6.2 million. See Note 11 to our consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
International Wire Group Holdings, Inc.
Camden, New York

We have audited the accompanying consolidated financial statements of International Wire Group Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive (loss)/income, stockholders' (deficit)/equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Wire Group Holdings, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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 Company has omitted the disclosures required under Accounting Standards Codification Topic 280, "Segment Reporting", in the accompanying notes to the consolidated financial statements. In our opinion, disclosure of such information is required by accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
March 17, 2017

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015**

	2016	2015
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 6,238	\$ 9,671
Accounts receivable, less allowances of \$1,359 and \$1,288.....	81,502	87,741
Refundable income taxes	2,477	1,739
Inventories	46,269	39,886
Prepaid expenses and other	13,797	9,534
Total current assets	150,283	148,571
Property, plant and equipment, net	85,621	88,205
Goodwill	66,335	66,335
Identifiable intangibles, net.....	10,396	12,255
Restricted cash	1,204	1,129
Other assets	5,004	5,066
Total assets.....	<u>\$ 318,843</u>	<u>\$ 321,561</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 7,311	\$ 15,492
Accrued and other liabilities	5,723	6,575
Accrued workers' compensation costs.....	4,526	5,078
Accrued payroll and payroll related items	9,518	10,185
Customers' deposits	9,870	10,965
Accrued income taxes	—	82
Accrued interest	11,590	4,763
Total current liabilities	48,538	53,140
Long-term debt	268,455	259,648
Other long-term liabilities	8,302	9,505
Deferred income taxes	7,949	10,740
Total liabilities	<u>333,244</u>	<u>333,033</u>
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Common stock, \$.01 par value, 6,000,000 and 10,000,000 shares authorized, 4,653,986 and 4,648,376 issued and outstanding as of December 31, 2016 and 2015, respectively.....	46	46
Contributed capital.....	72,279	71,957
Accumulated deficit	(79,798)	(77,494)
Accumulated other comprehensive loss.....	(6,928)	(5,981)
Total stockholders' deficit	<u>(14,401)</u>	<u>(11,472)</u>
Total liabilities and stockholders' deficit.....	<u>\$ 318,843</u>	<u>\$ 321,561</u>

See accompanying notes to the consolidated financial statements.

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016, 2015 and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(In thousands, except share and per share data)</u>		
Net sales	\$ 526,009	\$ 638,997	\$ 766,553
Operating expenses:			
Cost of goods sold, exclusive of depreciation and amortization expense shown below	442,180	545,019	658,022
Selling, general and administrative expenses	38,035	39,473	42,661
Depreciation	14,006	14,459	13,920
Amortization	3,178	3,164	3,192
Loss/(gain) on sale of property, plant and equipment	<u>5</u>	<u>25</u>	<u>(809)</u>
Operating income	28,605	36,857	49,567
Other (expense)/income:			
Interest	(26,895)	(24,217)	(22,860)
Amortization of deferred financing costs	(1,996)	(1,967)	(1,815)
Loss on early extinguishment of debt	(6,784)	(149)	—
Other, net	<u>(9)</u>	<u>73</u>	<u>(92)</u>
(Loss)/income before income tax (benefit)/provision	(7,079)	10,597	24,800
Income tax (benefit)/provision	<u>(4,775)</u>	<u>2,139</u>	<u>8,869</u>
Net (loss)/income	<u>\$ (2,304)</u>	<u>\$ 8,458</u>	<u>\$ 15,931</u>
Net (loss)/income per share:			
Basic	<u>\$ (0.50)</u>	<u>\$ 1.74</u>	<u>\$ 2.75</u>
Diluted	<u>\$ (0.50)</u>	<u>\$ 1.74</u>	<u>\$ 2.69</u>
Weighted-average basic shares outstanding	4,649,790	4,862,800	5,801,957
Weighted-average diluted shares outstanding	4,649,790	4,862,800	5,925,888

See accompanying notes to the consolidated financial statements.

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME
For the Years Ended December 31, 2016, 2015 and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In thousands)	
Net (loss)/income.....	\$ (2,304)	\$ 8,458	\$ 15,931
Foreign currency translation adjustment.....	<u>(947)</u>	<u>(2,638)</u>	<u>(3,935)</u>
Comprehensive (loss)/income.....	<u>\$ (3,251)</u>	<u>\$ 5,820</u>	<u>\$ 11,996</u>

See accompanying notes to the consolidated financial statements.

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT)/EQUITY
For the Years Ended December 31, 2016, 2015 and 2014**

	Common Stock	Contributed Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total
Balance January 1, 2014	\$ 61	\$ 128,420	\$ (101,883)	\$ 592	\$ 27,190
Net income.....	—	—	15,931	—	15,931
Other comprehensive loss:					
Foreign currency translation adjustment....	—	—	—	(3,935)	(3,935)
Proceeds from the issuance of common stock ..	2	2,923	—	—	2,925
Repurchase and retirement of common stock ..	(9)	(24,360)	—	—	(24,369)
Repurchase of stock options	—	(6,637)	—	—	(6,637)
Tax benefit on stock option exercise and repurchases.....	—	520	—	—	520
Stock-based compensation.....	—	966	—	—	966
Balance December 31, 2014	54	101,832	(85,952)	(3,343)	12,591
Net income.....	—	—	8,458	—	8,458
Other comprehensive loss:					
Foreign currency translation adjustment....	—	—	—	(2,638)	(2,638)
Repurchase and retirement of common stock ..	(8)	(28,865)	—	—	(28,873)
Repurchase of stock options	—	(2,797)	—	—	(2,797)
Tax benefit on stock option repurchases and restricted stock vesting.....	—	254	—	—	254
Stock option liability reclassification.....	—	(1,735)	—	—	(1,735)
Stock-based compensation.....	—	3,268	—	—	3,268
Balance December 31, 2015	46	71,957	(77,494)	(5,981)	(11,472)
Net loss	—	—	(2,304)	—	(2,304)
Other comprehensive loss:					
Foreign currency translation adjustment....	—	—	—	(947)	(947)
Tax benefit on restricted stock vesting	—	12	—	—	12
Stock-based compensation.....	—	310	—	—	310
Balance December 31, 2016	<u>\$ 46</u>	<u>\$ 72,279</u>	<u>\$ (79,798)</u>	<u>\$ (6,928)</u>	<u>\$ (14,401)</u>

See accompanying notes to the consolidated financial statements.

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016, 2015 and 2014**

	2016	2015	2014
	(In thousands)		
Cash flows provided by operating activities:			
Net (loss)/income	\$ (2,304)	\$ 8,458	\$ 15,931
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:			
Depreciation	14,006	14,459	13,920
Amortization	3,178	3,164	3,192
Loss on early extinguishment of debt	6,784	149	—
Amortization of deferred financing costs and original issue discount	2,612	1,967	1,815
Accounts receivable allowances provision	147	241	143
Stock-based compensation expense	849	3,268	966
Loss/(gain) on sale of property, plant and equipment	5	25	(809)
Deferred income taxes	(2,791)	(188)	2,016
Change in operating assets and liabilities, net of acquisitions:			
Accounts receivable	5,725	24,905	5,301
Inventories	(6,609)	8,255	(6,528)
Prepaid expenses and other assets	(5,545)	(1,728)	(1,805)
Accounts payable	(8,460)	(6,387)	9,162
Accrued and other liabilities and workers' compensation costs	(1,377)	(1,833)	1,703
Accrued payroll and payroll related items	(566)	(1,095)	(364)
Customers' deposits	(1,095)	(980)	803
Accrued interest	6,827	247	(39)
Accrued/refundable income taxes	(835)	556	157
Other long-term liabilities	(1,719)	(4,689)	(398)
Net cash provided by operating activities	<u>8,832</u>	<u>48,794</u>	<u>45,166</u>
Cash flows used in investing activities:			
Capital expenditures	(11,495)	(13,339)	(14,440)
Proceeds from sale of property, plant and equipment	80	18	1,487
Restricted cash	(75)	4	46
Net cash used in investing activities	<u>(11,490)</u>	<u>(13,317)</u>	<u>(12,907)</u>
Cash flows used in financing activities:			
Proceeds from the issuance of PIK Notes	—	26,000	—
Repurchase of PIK Notes	(13,147)	(12,853)	—
Repurchase of 8.50% Senior Secured Notes	(250,000)	—	—
Issuance of 10.75% Senior Secured Notes	250,344	—	—
Repurchase of 10.75% Senior Secured Notes	(15,704)	—	—
Borrowings under Revolving Credit Facility	136,374	163,387	337,874
Repayments under Revolving Credit Facility	(96,171)	(177,955)	(354,950)
Debt issuance costs	(7,493)	(277)	—
Prepayment fees on early extinguishment of debt	(4,783)	—	—
Proceeds from the issuance of common stock	—	—	2,925
Repurchase of common stock	—	(28,873)	(24,369)
Repurchase of stock options	—	—	(6,637)
Tax benefit on stock option exercise, repurchases and restricted stock vesting	12	254	520
Net cash used in financing activities	(568)	(30,317)	(44,637)
Effects of exchange rate changes on cash and cash equivalents	(207)	(643)	(911)
Net change in cash and cash equivalents	(3,433)	4,517	(13,289)
Cash and cash equivalents at beginning of the year	9,671	5,154	18,443
Cash and cash equivalents at end of the year	<u>\$ 6,238</u>	<u>\$ 9,671</u>	<u>\$ 5,154</u>
Supplemental disclosure of cash flow information:			
Interest paid	\$ 20,068	\$ 23,520	\$ 22,846
Income taxes paid, net	\$ 202	\$ 2,304	\$ 5,458
Supplemental disclosure of non-cash investing and financing activities:			
Amount included in accounts payable and other for capital expenditures and other	<u>\$ 715</u>	<u>\$ 340</u>	<u>\$ 1,440</u>

See accompanying notes to the consolidated financial statements.

**INTERNATIONAL WIRE GROUP HOLDINGS, INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)**

1. Business Organization

International Wire Group Holdings, Inc., a Delaware corporation (the “Company,” “International Wire Group Holdings” or “Holdings”), through its wholly owned subsidiaries, manufactures and markets wire products, including bare, silver-plated, nickel-plated and tin-plated copper wire, engineered wire products and high performance conductors, for other wire suppliers, distributors and original equipment manufacturers or “OEMs”. The Company’s products include a broad spectrum of copper wire configurations and gauges with a variety of electrical and conductive characteristics and are utilized by a wide variety of customers primarily in the industrial and energy, electronics and data communications, automotive/specialty vehicles, aerospace and defense and medical products industries. We have eighteen manufacturing facilities and one distribution facility located throughout the United States, France, Italy and Poland.

2. Summary of Significant Accounting Policies

Principles of Consolidation, Use of Estimates

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. International Wire Group Holdings is a holding company and conducts all of its operations through IWG and its wholly owned subsidiaries. Unless the context otherwise requires, Holdings and the direct and indirect subsidiaries of Holdings are collectively referred to as “we”, “our” or “the Company.” Intercompany balances and transactions have been eliminated in consolidation.

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, except that management has omitted the footnote disclosures required under Accounting Standards Codification (“ASC”) 280, “*Segment Reporting*”.

Revenue Recognition

The Company recognizes revenue and related cost of goods sold when all of the following criteria are satisfied: persuasive evidence of an arrangement exists; risk of loss and title transfer to the customer; the price is fixed or determinable and collectability is reasonably assured. A provision for product returns is recorded based on historical experience and any notification received of pending returns.

The Company also recognizes revenues from services performed to process customer-owned (“tolled”) copper. Such revenue is recognized at the time the product is received by the customer and the above criteria are met. The value of tolled copper is excluded from both sales and cost of goods sold, as title to the tolled copper and the related risks of ownership do not pass to the Company at any time.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are included in net sales. Shipping and handling costs associated with outbound freight are included in selling, general and administrative expenses and totaled \$11,566, \$12,049 and \$12,563 for the years ended December 31, 2016, 2015 and 2014, respectively.

Cash and Cash Equivalents

For purposes of the consolidated balance sheet and the consolidated statement of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

Restricted Cash

At December 31, 2016 and 2015, the Company maintained restricted cash in the amount of \$1,204 and \$1,129, respectively, associated with deposits for self-insured workers' compensation programs.

Concentrations of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents in bank deposit accounts in excess of the FDIC insurance limits and accounts receivable. The Company has not experienced significant losses related to cash and cash equivalents and does not believe it is exposed to any significant credit risks relating to its cash and cash equivalents. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by review of their current credit information. An allowance for estimated credit losses is based upon historical experience and any customer-specific issues that have been identified. Account balances are charged off against the allowance when the Company believes it is probable the receivables will not be recovered. The Company does not have any off-balance sheet exposure related to its customers.

Inventories

Inventories in the Bare Wire and High Performance Conductors segments are valued at the lower of cost, using the last-in, first-out ("LIFO") method, or current estimated market. The LIFO method is utilized in determining inventory value as it results in better matching of current costs and revenues. Inventories in the Engineered Wire Products — Europe segment are valued at the lower of cost, using the first-in, first-out ("FIFO") method, or current estimated market.

Property, Plant and Equipment

Property, plant and equipment acquired in connection with acquisitions are recorded at fair market value; all other additions are recorded at cost. Depreciation is calculated using the straight-line method. The average estimated lives utilized in calculating depreciation are as follows: building — 25 to 45 years; building improvements — 10 to 25 years; machinery and equipment — 3 to 11 years; and furniture and fixtures — 3 to 7 years. The cost and related accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the respective accounts, and any resulting gains or losses are included in the consolidated statement of operations.

Goodwill

Under the provisions of Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*, goodwill is not amortized but is assessed at least annually for impairment on December 31st and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company uses a qualitative approach, or step zero, to test goodwill for impairment, which permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. If a two-step goodwill impairment test is required, in the first step the Company estimates the fair values of its reporting units based on the weighting of the present value of future cash flows approach and the market approach. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit used in the first step less the fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. The Company conducted its goodwill impairment analysis internally using the step zero approach in 2016, 2015 and 2014 and concluded that its goodwill was not impaired at December 31, 2016, 2015 and 2014.

Identifiable Intangibles

Identifiable intangible assets represent the fair market value of alloys, customer contracts, customer relationships, trade names and trademarks. Under the provisions of ASC 350, identifiable intangible assets are amortized over their projected useful lives of 15 years for customer contracts and relationships and 3-20 years for trade names, trademarks and alloys (formulation of two or more metals).

Impairment of Long-lived Assets

In accordance with the provisions of ASC 360, *Property, Plant, and Equipment*, the Company periodically evaluates the recoverability of its property, plant and equipment and identifiable intangible assets, exclusive of goodwill, when circumstances indicate that an event of impairment may have occurred. This periodic review may result in an adjustment of estimated depreciable lives or asset impairment. When indicators of impairment are present, the carrying values of the asset are evaluated in relation to their operating performance and future undiscounted cash flows of the underlying assets. If the future undiscounted cash flows are less than the carrying value of the underlying assets, potential impairment exists. The impairment is measured as the difference between the book value and the fair value of the underlying asset. Fair values are based on estimates of the market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. There were no impairment charges recorded for the years ended December 31, 2016, 2015 and 2014.

Deferred Financing Costs

Deferred financing costs, consisting of fees and other expenses associated with debt financing, are amortized over the term of the related debt using the effective interest method and are classified as a reduction of long-term debt.

Stock-based Compensation

For equity awards, Holdings measures compensation cost at fair value using the Black-Scholes option pricing model on the date of grant and recognizes compensation cost over the service periods for awards expected to vest, in accordance with ASC 718, *Compensation – Stock Compensation*. Liability awards are recorded at fair value on the date of grant using the Black-Scholes option pricing model, and are subsequently remeasured at fair value each interim and year end reporting period. The change in the fair value is recognized as stock-based compensation expense immediately for vested awards and over the remaining service period for unvested awards. The Company recorded stock-based compensation expense of \$849, \$3,268 and \$966, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations, in 2016, 2015 and 2014, respectively. The stock options are non-qualified which results in the creation of a deferred tax asset until the time the option is exercised.

Income Taxes

The Company accounts for certain items of income and expense in different periods for financial reporting and income tax purposes. Deferred income taxes are provided to recognize the effect of temporary differences between financial reporting and income tax purposes. Such taxes are provided for using enacted tax rates expected to be in place when such temporary differences are realized. A valuation allowance is recorded to reduce deferred income tax assets if it is determined that it is more likely than not that the full deferred income tax asset would not be realized.

Foreign Currency Translation

The Company has operations in France, Italy and Poland. The euro is the functional currency for the Company's foreign subsidiaries located in France and Italy. The zloty is the functional currency of the Company's subsidiary located in Poland. Accordingly, assets and liabilities of these foreign subsidiaries are translated at the rate of exchange in effect at the balance sheet date. Income and expense items and cash flows of these subsidiaries are translated at the average monthly rate of exchange. Resulting translation gains and losses are reported in accumulated other comprehensive loss.

Exchange gains and losses arising from transactions in currencies other than the functional currency of the subsidiary involved are included in net income. To date, the effect of such amounts on net income has not been material.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of certain financial instruments. 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 on the measurement date. In determining fair value, the accounting standards establish a three level hierarchy for inputs used in measuring fair value as follows: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities; and Level 3 inputs are unobservable and reflect our own assumptions. Financial instruments include cash, accounts receivable, accounts payable, and long-term debt. The carrying amounts of cash, accounts receivable and accounts payable approximate fair value because of the short-term nature of these financial instruments. The fair value of the IWG's 10.750% Senior Secured Notes due 2021 is based on current market data, which is considered Level 2, and was approximately \$243,325 at December 31, 2016. The fair value of the IWG's 8.50% Senior Secured Notes due 2017 was based on current market data, which is considered Level 2, and was approximately \$254,375 at December 31, 2015. The fair value of the Company's 10.00%/12.00% Senior PIK Toggle Notes was based on current market data, which is considered Level 2, and was approximately \$13,377 at December 31, 2015.

Forward Pricing Agreements for Purchases of Copper

In the normal course of business, the Company enters into forward pricing agreements for purchases of copper to match certain sales transactions. The Company accounts for these forward pricing arrangements under the “normal purchases and normal sales” scope exemption because these arrangements are for purchases of copper that will be delivered in quantities expected to be used by the Company over a reasonable period of time in the normal course of business. For these arrangements, it is probable at the inception and throughout the life of the arrangements that the arrangements will not settle net and will result in physical delivery of the inventory. The Company expects to recover the cost of copper under these agreements as a result of firm sales price commitments with customers.

Net Income Per Share

ASC 260, *Earnings per Share*, requires the computation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share is determined by giving effect to the exercise of diluted stock options and nonvested restricted stock using the treasury stock method. The following table provides a reconciliation of the number of shares outstanding for basic and diluted earnings per share:

	For the Year Ended December 31,		
	2016	2015	2014
Weighted-average shares outstanding — basic.....	4,649,790	4,862,800	5,801,957
Dilutive effect of stock options and nonvested restricted stock	—	—	123,931
Weighted-average shares outstanding — diluted.....	<u>4,649,790</u>	<u>4,862,800</u>	<u>5,925,888</u>

Weighted-average shares outstanding for the years ended December 31, 2016, 2015 and 2014 exclude 3,771, 1,571 and 66,016 options respectively, because they are anti-dilutive since the exercise price of these options was greater than the average market price of the common shares in the periods.

Significant Customers

The Company had sales to two significant customers in the year 2016, 2015 and 2014. Sales to one customer represented 11%, 13% and 18% of the Company’s net sales and sales to the other customer represented 8%, 8% and 11% of the Company’s net sales for the years ended December 31, 2016, 2015 and 2014, respectively.

Concentration of Copper Suppliers

The Company’s principal raw material used in its products is 5/16 inch copper rod, which is sourced either directly from global copper producers or through rod mill operators in North America. All of our Company owned copper is currently purchased from four suppliers.

Other Comprehensive Income

ASC 220, *Comprehensive Income*, establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. For the years ended December 31, 2016, 2015 and 2014, the Company had two components of comprehensive (loss)/income: net (loss)/income and foreign currency translation adjustments.

Recently Issued Accounting Standards

Described below are the new accounting pronouncements that were adopted by the Company in 2016 or that, once adopted in the future, may have an effect on the Company’s consolidated financial statements. New pronouncements that are not applicable to the Company have been excluded below.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest: Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 makes amendments to the presentation of debt issuance costs. This pronouncement is effective for

financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted ASU 2015-03 during the first quarter of fiscal 2016 and applied its provisions retrospectively, which resulted in a reclassification of \$3,499 of unamortized deferred financing costs from long-term assets to a reduction in long-term debt within its consolidated balance sheet as of December 31, 2015.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Topic 330: Simplifying the Measurement of Inventory*. ASU 2015-11 requires an entity to measure in scope inventory at the lower of cost and net realizable value. This pronouncement is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. ASU 2015-11 should be applied on a prospective basis. The Company is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact of the adoption of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact of the adoption of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flow: Topic 230: Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. This pronouncement is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Topic 350: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 is intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This pronouncement is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is in the process of assessing the impact that the adoption of this ASU will have on its consolidated financial statements.

Management does not expect any other recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company's consolidated financial statements.

3. Inventories

The composition of inventories at December 31 is as follows:

	2016	2015
Raw materials	\$ 12,608	\$ 12,264
Work-in-process.....	12,360	10,548
Finished goods	<u>21,301</u>	<u>17,074</u>
Total inventories	<u>\$ 46,269</u>	<u>\$ 39,886</u>

Inventories in the Bare Wire and High Performance Conductors segments are valued at the lower of cost, using the LIFO method, or current estimated market. The primary components of inventory costs include raw materials used in the production process (copper, tin, nickel, silver, alloys and other) and production related labor and overhead costs net of scrap sales. Had Bare Wire and High Performance Conductors inventories been valued using the FIFO method, inventories would have been \$17,805 and \$13,258 higher as of December 31, 2016 and 2015, respectively. Inventories in the Engineered Wire Products — Europe segment are valued at the lower of cost, determined using the FIFO method, or current estimated market. During 2015, inventory quantities were reduced at the Bare Wire and High Performance Conductors segments which resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in the prior years as compared with the cost of 2015 purchases. The effect of this reduction in inventory decreased cost of goods sold by \$1,717 and increased net income by \$1,370, or \$0.28 per basic and diluted share, for the year ended December 31, 2015.

4. Property, Plant and Equipment

The composition of property, plant and equipment at December 31 is as follows:

	2016	2015
Land	\$ 4,764	\$ 4,806
Building and improvements	43,032	42,417
Machinery and equipment	191,075	180,496
Construction in progress	5,584	6,143
	244,455	233,862
Less: accumulated depreciation	(158,834)	(145,657)
	<u>\$ 85,621</u>	<u>\$ 88,205</u>

Depreciation expense was \$14,006, \$14,459 and \$13,920 for the years ended December 31, 2016, 2015 and 2014, respectively.

5. Goodwill and Identifiable Intangibles

The carrying amounts of goodwill are as follows:

	For the Year Ended December 31,	
	2016	2015
Balance, beginning of year	\$ 66,335	\$ 66,335
Balance, end of year	<u>\$ 66,335</u>	<u>\$ 66,335</u>

All goodwill is included in the Bare Wire segment. The Company completed its annual impairment assessment at December 31, 2016, 2015 and 2014 and concluded that goodwill was not impaired.

The components of identifiable intangible assets at December 31 are as follows:

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer contracts and relationships	\$ 19,897	\$13,692	\$ 19,897	\$12,365
Trade names and trademarks	10,858	6,712	10,858	6,182
Alloys	92	47	92	45
Total identifiable intangible assets	<u>\$ 30,847</u>	<u>\$20,451</u>	<u>\$ 30,847</u>	<u>\$18,592</u>

Amortization expense for identifiable intangible assets was \$1,859, \$1,860 and \$1,942 for the years ended December 31, 2016, 2015 and 2014, respectively. The estimated amortization expense for identifiable intangible assets held as of December 31, 2016 is as follows:

2017	\$ 1,859
2018	1,859
2019	1,733
2020	1,223
2021	1,223
Thereafter	2,499
Total	<u>\$ 10,396</u>

6. Related Party Transactions

The Company sells a portion of its production scrap to Prime Materials Recovery, Inc. ("Prime"). In addition, Prime also performs certain scrap processing services for the Company and sells copper rod to the Company. Prime is a closely held company and its major shareholder, chairman and director is a director of the Company. In addition, the Chief Financial Officer of the Company holds a minority ownership interest and is a director of Prime. Net sales to Prime for the years ended December 31, 2016, 2015 and 2014, were \$15,425, \$17,699 and \$29,378, respectively. The Company had outstanding accounts receivable from Prime related to those sales of \$3,601 and \$1,237 at December 31, 2016 and 2015, respectively. The Company purchased \$3,588, \$168 and \$1,688 of copper rod from Prime for the years ended December 31, 2016, 2015 and 2014, respectively. The Company has outstanding accounts payable to Prime of \$0 and \$2 at December 31, 2016 and 2015, respectively.

7. Long-Term Debt

The composition of long-term debt at December 31 is as follows:

	<u>2016</u>	<u>2015</u>
IWG Senior Revolving Credit Facility	\$ 40,203	\$ —
IWG 8.50% Senior Secured Notes	—	250,000
10.00%/12.00% PIK Notes	—	13,147
IWG 10.750% Senior Secured Notes	243,340	—
Discount on 10.750% Senior Secured Notes	(8,448)	—
Total long-term debt	275,095	263,147
Less unamortized deferred financing costs on debt obligations	(6,640)	(3,499)
Less current maturities	—	—
Long-term portion of long-term debt	<u>\$268,455</u>	<u>\$259,648</u>

IWG Senior Revolving Credit Facility

IWG and its domestic subsidiaries are parties to a credit agreement (the “Revolving Credit Facility”) with Wells Fargo Capital Finance, LLC, as administrative agent, and the other lenders and agents party thereto. On July 26, 2016, IWG amended its Revolving Credit Facility. The Revolving Credit Facility, as amended, decreases to the maximum revolving line of credit from \$175,000 to \$125,000, subject to borrowing base availability and includes a \$25,000 letter of credit sub-facility. The collateral for the Revolving Credit Facility includes substantially all of the assets of IWG and its domestic subsidiaries, as well as 65% of the voting capital stock and 100% of the non-voting capital stock of, or other equity interests in, IWG’s first-tier foreign subsidiaries.

Borrowings and letters of credit under the Revolving Credit Facility are limited in the aggregate to the lesser of the maximum revolving line of credit (currently \$125,000) or the borrowing base, which is calculated based upon the value of, among other things, eligible accounts receivable and eligible inventory and may limit the amount of loans and letters of credit otherwise available to IWG. As of December 31, 2016, letters of credit in the amount of \$4,058 were outstanding and \$40,203 was drawn under the Revolving Credit Facility. Availability under the Revolving Credit Facility was \$34,578 as of December 31, 2016.

Interest on the loans outstanding under the Revolving Credit Facility accrues at a rate per annum equal to, at IWG’s election, either (1) LIBOR plus a margin ranging from 1.75% to 2.25% depending on IWG’s borrowing availability under the Revolving Credit Facility or (2) a base rate plus 0.50%. IWG also pays an unused line fee ranging from 0.25% to 0.375% per annum depending on borrowing availability under the Revolving Credit Facility. If IWG obtains any letters of credit under the Revolving Credit Facility, it must pay an upfront issuance fee of 0.50% of the face amount of such letter of credit (plus other customary and reasonable fees charged by the issuing bank), and ongoing fees ranging from 1.75% to 2.25% per annum (depending on borrowing availability) on the aggregate undrawn face amount of all outstanding letters of credit. Each of these interest rates and fees increase by 2.00% per annum at any time a default exists under the Revolving Credit Facility.

IWG’s Revolving Credit Facility requires IWG and its subsidiaries to observe affirmative and negative covenants (including financial covenants). These covenants include limitations on IWG’s and its subsidiaries’ ability to make acquisitions, dispose of assets, incur additional indebtedness (including guarantee obligations), create liens, make investments, engage in mergers, pledge assets as collateral, repurchase, redeem or acquire its common stock or pay dividends, change the nature of its business or engage in certain transactions with affiliates. IWG must also comply with a 1.0 to 1.0 fixed charge coverage ratio when either (1) the minimum availability under the Revolving Credit Facility falls below \$12,500 or (2) there is a default or event of default. IWG was in compliance with such conditions and covenants at December 31, 2016.

IWG’s Revolving Credit Facility was extended by the July 26, 2016 amendment and will mature on April 30, 2021.

Subject to certain exceptions (including the ability to prepay the 10.750% Senior Secured Notes in certain circumstances), IWG must prepay the loans outstanding from time to time under the Revolving Credit Facility using the net cash proceeds of certain debt and equity issuances, asset sales, tax refunds, settlements and judgments. IWG may also voluntarily prepay those loans, and reduce the commitments, under the Revolving Credit Facility at any time.

IWG must prepay the loans under the Revolving Credit Facility by the following amounts (subject to certain exceptions):

- An amount equal to 100 percent of the net proceeds of the incurrence of certain subordinated indebtedness by the Company or any of its subsidiaries, if not otherwise used to repay the 10.750% Senior Secured Notes or to make acquisitions or other investments permitted by the Revolving Credit Facility; and
- An amount equal to 100 percent of the net proceeds of any non-ordinary course sale or other disposition by the Company or any of its subsidiaries of certain assets, except for certain exceptions, if not otherwise used to repay the 10.750% Senior Secured Notes or to make acquisitions or other investments permitted by the Revolving Credit Facility; and

- 100% of certain extraordinary cash receipts (including tax refunds and judgments), if not otherwise used to repay the 10.750% Senior Secured Notes or to make acquisitions or other investments permitted by the Revolving Credit Facility.

The carrying value of the borrowings under the Revolving Credit Facility approximates fair value due to its variable interest rate.

IWG 10.750% Senior Secured Notes

On July 26, 2016, IWG completed the offering of \$260,000 of its 10.750% Senior Secured Notes due 2021 (the “10.750% Senior Secured Notes”). The 10.750% Senior Secured Notes will mature on August 1, 2021. The 10.750% Senior Secured Notes pay interest semi-annually on February 1 and August 1, beginning on February 1, 2017. The 10.750% Senior Secured Notes are guaranteed on a senior secured basis by each of IWG’s existing and certain of its future domestic subsidiaries. The 10.750% Senior Secured Notes and the guarantees are secured, subject to certain exceptions and permitted liens, on a second-priority basis by a lien on the assets of IWG and the domestic subsidiaries that secure borrowings under IWG’s Revolving Credit Facility, including 65% of the voting capital stock and 100% of the non-voting capital stock of, or other equity interests in, IWG’s first-tier foreign subsidiaries. The fair value of the 10.750% Senior Secured Notes was approximately \$243,325 at December 31, 2016.

Prior to August 1, 2019, IWG may redeem some or all of the 10.750% Senior Secured Notes at a redemption price equal to the sum of 100% of principal amount plus accrued interest plus a “make-whole” payment. Beginning August 1, 2019, IWG may redeem some or all of the 10.750% Senior Secured Notes at the redemption price set forth below plus accrued and unpaid interest. In addition, any time prior to August 1, 2019, IWG may redeem up to 40% of the 10.750% Senior Secured notes with the proceeds of certain sales of equity securities at 110.750% of the principal amount plus accrued interest. IWG’s ability to redeem the 10.750% Senior Secured Notes is also subject to restrictions in its Revolving Credit Facility.

	Redemption Price
2019	105.375%
2020 and thereafter	100.000%

Upon the occurrence of a change of control, we must offer to purchase the 10.750% Senior Secured Notes at 101% of the principal amount of the 10.750% Senior Secured Notes, plus accrued interest.

The indenture governing the 10.750% Senior Secured Notes contains restrictive covenants which, among other things, limits the ability of IWG and some of its subsidiaries to (subject to exceptions): incur additional indebtedness; make certain restricted payments; pay dividends or make other payments to IWG; engage in transactions with affiliates; sell certain assets or merge with or into companies; guarantee indebtedness; create liens.

Under the indenture governing the 10.750% Senior Secured Notes, IWG is required, within 95 days of the end of each fiscal year, to make an offer to purchase 10.750% Senior Secured Notes with excess cash flow from the prior fiscal year (the “Excess Cash Flow Offer”) at a price of 101% of the principal amount plus accrued interest. The amount of excess cash flow committed to the Excess Cash Flow Offer ranges from 50% to 75% based on IWG’s consolidated leverage ratio. The Excess Cash Flow Offer for the fiscal year ended December 31, 2016 will be limited to excess cash flow for the six months ended December 31, 2016. IWG’s ability to make the Excess Cash Flow Offer is subject to restrictions under its Revolving Credit Facility.

IWG used the net proceeds of the offering, together with advances under its Revolving Credit Facility and cash on its balance sheet, to (1) redeem all of its outstanding 8.50% Senior Secured Notes (defined below) at a redemption price equal to 100% of the principal amount of the 8.50% Senior Secured Notes plus accrued and unpaid interest to, but excluding, the redemption date and (2) fund the repurchase of all of the outstanding 10.00%/12.00% PIK Toggle Notes of Holdings due 2020. The redemption of the 8.50% Senior Secured Notes was completed on October 15, 2016. In connection with IWG’s redemption of its outstanding 8.50% Senior Secured Notes and our redemption of the 10.00%/12.00% PIK Toggle Notes of Holdings due 2020, IWG and Holdings incurred prepayment fees of \$4,767 and wrote-off deferred financing costs of \$2,381. The total of these items is \$7,148 which is included in loss on the early extinguishment of debt in the accompanying consolidated statement of operations for 2016.

IWG 8.50% Senior Secured Notes

On October 4, 2012, IWG completed the offering of \$250,000 of its 8.50% Senior Secured Notes due 2017 (the “8.50% Senior Secured Notes”). The 8.50% Senior Secured Notes were scheduled to mature on October 15, 2017. The 8.50% Senior Secured Notes paid interest semi-annually on April 15 and October 15, beginning on April 15, 2013. The 8.50% Senior Secured Notes were guaranteed on a senior secured basis by each of IWG’s existing and certain of its future domestic subsidiaries. The 8.50% Senior Secured Notes and the guarantees were secured, subject to certain exceptions and permitted liens, on a second-priority basis by a lien on the assets of IWG and the domestic subsidiaries that secure borrowings under IWG’s Revolving Credit Facility, including 65 percent of the capital stock of, or other equity interests in, IWG’s first-tier foreign subsidiaries.

On July 26, 2016, IWG used the net proceeds of the offering of its 10.750% Senior Secured Notes, together with advances under its Revolving Credit Facility and cash on its balance sheet, to fully fund the redemption of all of the outstanding 8.50% Senior Secured Notes and discharge the indenture governing the 8.50% Senior Secured Notes. The redemption of the 8.50% Senior Secured Notes was completed on October 15, 2016.

PIK Notes

On April 15, 2015, Holdings issued \$26,000 of Senior PIK Toggle Notes due 2020 (the “PIK Notes”), bearing interest at 10.00%/12.00%. Holdings received \$26,000 in proceeds from the offering of the PIK Notes (the “PIK Offering”). The proceeds were used for share repurchases and general corporate purposes. Fees and expenses related to the offering of the PIK Notes were paid from available cash.

The PIK Notes were scheduled to mature on April 15, 2020. The PIK Notes required the payment of interest semi-annually in arrears on each April 15 and October 15.

On July 16, 2015, Holdings redeemed \$10,000 of the PIK Notes at 100.0% plus accrued interest. On October 26, 2015, Holdings redeemed \$2,862 of the PIK Notes at 100.0% plus accrued interest. On July 26, 2016, Holdings redeemed and cancelled \$13,138 of the PIK Notes, which represented all of the PIK Notes then outstanding, at 100.0% plus accrued interest and discharged its obligations under the indenture governing the PIK Notes.

Scheduled Maturities of Long-Term Debt

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

2017	\$ —
2018	—
2019	—
2020	—
2021	<u>283,543</u>
Total	<u>\$283,543</u>

8. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Under ASC 740, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. ASC 740 requires current recognition of net deferred tax assets to the extent that it is more likely than not that such net assets will be realized. To the extent that the Company believes that its net deferred tax assets will not be realized, a valuation allowance must be recorded against those assets.

The income tax (benefit)/provision consists of the following:

	For the Year Ended December 31,		
	2016	2015	2014
Current			
Federal	\$ (2,611)	\$ 1,127	\$ 4,960
State	314	579	592
Foreign	<u>287</u>	<u>364</u>	<u>1,095</u>
	<u>(2,010)</u>	<u>2,070</u>	<u>6,647</u>
Deferred			
Federal	(2,470)	(213)	1,565
State	(150)	184	828
Foreign	<u>(145)</u>	<u>98</u>	<u>(171)</u>
	<u>(2,765)</u>	<u>69</u>	<u>2,222</u>
Total income tax (benefit)/provision	<u>\$ (4,775)</u>	<u>\$ 2,139</u>	<u>\$ 8,869</u>

The U.S. and foreign components of income before income taxes were as follows:

	For the Year Ended December 31,		
	2016	2015	2014
Domestic	\$ (8,497)	\$ 8,847	\$ 21,633
Foreign	<u>1,418</u>	<u>1,750</u>	<u>3,167</u>
Income before income tax (benefit)/provision	<u>\$ (7,079)</u>	<u>\$ 10,597</u>	<u>\$ 24,800</u>

The reconciliation between the statutory income tax rate and effective tax rate in dollars is summarized below:

	For the Year Ended December 31,		
	2016	2015	2014
Federal income tax at statutory rate of 35%	\$ (2,477)	\$ 3,709	\$ 8,678
State income taxes, net of federal tax benefit.....	55	547	713
Foreign rate differential	(354)	(151)	(184)
Impact of foreign operations	(60)	(56)	(122)
State tax credits	(422)	(485)	(127)
Change in valuation allowance	364	371	270
Change in state effective rate on deferred income taxes	58	113	342
Change in reserve for uncertain tax positions	(1,557)	(1,173)	76
Deduction for domestic production activities	79	(315)	(472)
Other	(461)	(421)	(305)
	<u>\$ (4,775)</u>	<u>\$ 2,139</u>	<u>\$ 8,869</u>

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31 are as follows:

	2016	2015
Deferred tax assets:		
Accounts receivable allowances	\$ 461	\$ 436
Inventories	116	—
Accrued liabilities not yet deductible.....	3,900	4,089
Net operating loss (“NOL”) carryforward	1,696	1,770
Alternative minimum tax credit carryforward	153	—
State tax credits	4,736	4,314
Stock-based compensation	870	681
Other	<u>822</u>	<u>835</u>
	12,754	12,125
Valuation allowance.....	<u>(5,904)</u>	<u>(5,540)</u>
	<u>6,850</u>	<u>6,585</u>
Deferred tax liabilities:		
Depreciation and amortization	14,799	16,817
Inventories	<u>—</u>	<u>508</u>
	14,799	17,325
Net deferred tax liability	<u>\$ (7,949)</u>	<u>\$ (10,740)</u>

At December 31, 2016, the Company has state net operating loss carryforwards for Indiana totaling \$19,000. Additionally, the Company has an alternative minimum tax credit carryforward of \$153 which is available to further reduce income taxes over an infinite period.

A valuation allowance is required against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Valuation allowances continue to be recorded against NOL’s and other deferred tax assets since it is not more-likely-than-not the tax benefits will be realized. The valuation allowance for deferred taxes was \$5,904 and \$5,540 at December 31, 2016 and 2015, respectively. The Company recorded net changes to the valuation allowance of \$364, \$371 and \$270 for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company’s unrecognized tax benefits related to uncertain tax positions at December 31, 2016 relate to federal and various state jurisdictions. The following table summarizes the activity related to the Company’s unrecognized tax benefits:

	For the Year Ended December 31,		
	2016	2015	2014
Balance at beginning of year.....	\$ 3,883	\$ 4,885	\$ 4,797
Increases related to current year tax positions	62	175	193
Increases related to prior year tax positions	—	—	—
Decreases related to prior year tax positions.....	—	—	(29)
Expiration of statute of limitations for the assessment of taxes	(1,490)	(1,177)	(76)
Settlements	<u>—</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>\$ 2,455</u>	<u>\$ 3,883</u>	<u>\$ 4,885</u>

The total unrecognized tax benefits balance at December 31, 2016 and 2015 is included in other long-term liabilities on the consolidated balance sheets, and is comprised of tax benefits that, if recognized, would affect the effective rate.

As of December 31, 2016, the liability for potential penalties and interest totals \$398, of which a \$66 reduction was recorded in 2016. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

Holdings or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

Holdings, IWG and their subsidiaries that are included in the U.S. federal return have entered into a tax sharing agreement that reflects each party's rights and obligations relating to payments and refunds of income taxes.

In general, the federal and state income tax liabilities for which the parties to the tax sharing agreement are jointly and severally liable are allocated in proportion to each party's taxable income, with any party that has a taxable loss being compensated currently. Other provisions include tax audits, settlements and return filings in cases where more than one party has an interest in the results of these events.

9. Retirement Benefits and Stock Option Plans

The Company sponsors a defined contribution retirement plan, which provides retirement benefits for eligible employees. Company contribution expense related to the retirement plan for the years ended December 31, 2016, 2015 and 2014 amounted to \$1,347, \$1,318 and \$1,246, respectively.

On May 11, 2006, the Company's stockholders approved the 2006 Management Stock Option Plan and the 2006 Stock Option Plan for Non-Employee Directors. Under the 2006 Management Stock Option Plan, options for up to 1,300,000 shares of common stock are available for grant to the eligible members of management. Under the 2006 Stock Option Plan for Non-Employee Directors, options for up to 300,000 shares of common stock are available for grant to non-employee directors. The options will be granted at no less than 100% of the fair market value of the Company's stock on the date of the grant and have a life of no longer than 10 years.

At December 31, 2016, there were options available for grants to purchase 1,185,666 shares of common stock under the 2006 Management Stock Option Plan and 276,900 shares under the 2006 Stock Option Plan for Non-Employee Directors.

While Holdings is not obligated to repurchase outstanding vested stock options in the future, its recent history of repurchasing outstanding vested options has caused its stock option awards to be considered liability awards during the year ended December 31, 2015. Accordingly, the liability recorded totaled \$2,274 and \$1,735 as of December 31, 2016 and 2015, respectively, which is included in other long-term liabilities on the consolidated balance sheets.

On August 10, 2015, Holdings offered to repurchase its vested stock options outstanding from option holders at a price of \$40.00 per option minus the exercise price. The offer closed on August 17, 2015. As a result of the offer, Holdings repurchased 138,633 options with a weighted average exercise price of \$19.83 for a total cost of approximately \$2,797.

Under the 2006 Management Stock Option Plan (as amended and restated effective August 18, 2011) and the 2006 Stock Option Plan for Nonemployee Directors (as amended and restated effective August 18, 2011), the Company may grant nonemployee directors and management restricted common stock with vesting contingent upon completion of specified service periods ranging from one to three years.

On October 20, 2016, the Company granted 5,610 shares of restricted common stock to nonemployee directors. The weighted-average grant-date fair value of the restricted common stock granted during the year ended December 31, 2016 was \$48.00 per share and the shares vest over a period of one year. On October 20, 2015, the Company granted 7,854 shares of restricted common stock to nonemployee directors. The weighted-average grant-date fair value of the restricted common stock granted during the year ended December 31, 2015 was \$44.00 per share and the shares vest over a period of one year. The Company recorded \$310 and \$208 of compensation expense related to outstanding shares of restricted common stock held by nonemployee directors during the years ended December 31, 2016 and 2015, respectively. The fair value of nonvested restricted common stock awards was equal to the closing trading price of the Company's common stock on the grant date.

10. Stock Repurchases

During the year ended December 31, 2016, Holdings made no repurchases of shares of its common stock. During the year ended December 31, 2015, Holdings repurchased the following shares of its common stock in privately negotiated transactions:

<u>Repurchase Date</u>	<u>Number of Shares</u>	<u>Purchase Price</u>	<u>Price per Share</u>	<u>Settlement Date</u>
June 10, 2015.....	1,966	\$ 69	\$ 35.00	June 10, 2015
April 28, 2015.....	1,966	\$ 69	\$ 35.00	April 28, 2015
April 16, 2015.....	754,807	\$ 26,418	\$ 35.00	April 16, 2015
January 6, 2015.....	66,200	\$ 2,317	\$ 35.00	January 6, 2015

11. Commitments and Contingencies

The Company leases certain property, transportation vehicles and other equipment under operating leases. Total rental expense under operating leases was \$4,409, \$4,549 and \$5,148 for the years ended December 31, 2016, 2015 and 2014, respectively. Future minimum lease payments under operating leases for the years ended December 31 are as follows:

2017	\$ 2,135
2018	1,813
2019	1,261
2020	320
2021	192
Thereafter.....	<u>501</u>
Total	<u>\$ 6,222</u>

The Company is subject to legal proceedings and claims that arise in the normal course of business. In the opinion of management, the ultimate liabilities with respect to these actions will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

12. Subsequent Events

In accordance with the provisions of ASC 855, *Subsequent Events*, the Company has evaluated all subsequent events to ensure that this financial information includes appropriate disclosure of events both recognized in the consolidated financial statements as of December 31, 2016, and events which occurred subsequent to December 31, 2016 but before March 17, 2017, the date the financial statements were issued, which were not recognized in the consolidated financial statements. As of March 17, 2017, there were no subsequent events which required recognition or disclosure.