NN INC
Form 10-Q
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-23486

NN, Inc.
(Exact name of registrant as specified in its charter)

Delaware	62-1096725
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

6210 Ardrey Kell Road
Charlotte, North Carolina 28277
(Address of principal executive offices, including zip code)
(980) 264-4300
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2018, there were 42,104,207 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
NN, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)
Amounts in thousands of dollars, except per share data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$205,683	$148,156	$571,180	$463,658
Cost of sales (exclusive of depreciation and amortization shown separately below)	156,408	111,272	431,492	340,266
Selling, general and administrative expense	22,480	16,985	71,298	51,630
Acquisition related costs excluded from selling, general and administrative expense	597	619	5,810	619
Depreciation and amortization	21,259	13,384	51,798	39,006
Other operating income, net	(733)	—	(638)	(270)
Restructuring and integration expense (adjustments), net	(209)	345	2,137	362
Income from operations	5,881	5,551	9,283	32,045
Interest expense	18,608	12,739	46,592	39,916
Loss on extinguishment of debt and write-off of debt issuance costs	6,624	—	19,562	39,639
Derivative gain on change in interest rate swap fair value	—	(27)	—	(14)
Other (income) expense, net	308	(755)	1,882	(1,192)
Loss from continuing operations before benefit for income taxes and share of net income from joint venture	(19,659)	(6,406)	(58,753)	(46,304)
Benefit for income taxes	5,609	1,724	12,732	14,204
Share of net income from joint venture	266	1,202	1,744	4,139
Loss from continuing operations	(13,784)	(3,480)	(44,277)	(27,961)
Income from discontinued operations, net of tax (Note 2)	—	129,441	—	140,195
Net income (loss)	$(13,784)	$125,961	$(44,277)	$112,234
Other comprehensive income (loss):				
Reclassification adjustment for discontinued operations	$—	$(9,243)	$—	$(9,243)
Foreign currency translation gain (loss)	(4,193)	6,411	(14,509)	21,027
Other comprehensive income (loss)	$(4,193)	$(2,832)	$(14,509)	$11,784
Comprehensive income (loss)	$(17,977)	$123,129	$(58,786)	$124,018
Basic net loss per share:				
Loss from continuing operations per share	$(0.48)	$(0.13)	$(1.59)	$(1.02)
Income from discontinued operations per share	—	4.70	—	5.12
Net income (loss) per share	$(0.48)	$4.57	$(1.59)	$4.10
Weighted average shares outstanding	28,688	27,544	27,784	27,403
Diluted net loss per share:				
Loss from continuing operations per share	$(0.48)	$(0.13)	$(1.59)	$(1.02)
Income from discontinued operations per share	—	4.70	—	5.12
Net income (loss) per share	$(0.48)	$4.57	$(1.59)	$4.10
Weighted average shares outstanding	28,688	27,544	27,784	27,403

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
Amounts in thousands of dollars

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$17,789	$224,446
Accounts receivable, net	149,982	108,446
Inventories	124,109	82,617
Income tax receivable	39,357	43,253
Other current assets	22,735	18,518
Total current assets	353,972	477,280
Property, plant and equipment, net	352,138	259,280
Goodwill	624,455	454,612
Intangible assets, net	384,683	237,702
Investment in joint venture	39,324	39,822
Other non-current assets	8,750	6,307
Total assets	$1,763,322	$1,475,003
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$66,302	$52,990
Accrued salaries, wages and benefits	27,921	21,145
Current maturities of long-term debt	31,726	17,283
Other current liabilities	23,854	17,003
Total current liabilities	149,803	108,421
Deferred tax liabilities	102,195	71,564
Non-current income tax payable	—	5,593
Long-term debt, net of current portion	843,520	790,805
Other non-current liabilities	26,770	12,516
Total liabilities	1,122,288	988,899
Commitments and contingencies (Note 12)		
Total stockholders' equity	641,034	486,104
Total liabilities and stockholders' equity	$1,763,322	$1,475,003

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
Amounts in thousands of dollars and shares

	Number of shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2017	27,572	$275	$292,494	$211,080	$ (17,745)	$486,104
Net loss	—	—	—	(44,277)	—	(44,277)
Cash dividends declared	—	—	—	(5,835)	—	(5,835)
Shares issued	14,375	144	217,168	—	—	217,312
Share-based compensation expense	165	2	3,423	—	—	3,425
Shares issued for option exercises	27	—	274	—	—	274
Restricted shares and performance shares forgiven for taxes and forfeited	(35)	—	(723)	—	—	(723)
Change in estimate of performance share vesting	—	—	(802)	49	—	(753)
Foreign currency translation loss	—	—	—	—	(14,509)	(14,509)
Adoption of new accounting standard (Note 1)	—	—	—	16	—	16
Balance, September 30, 2018	42,104	$421	$511,834	$161,033	$ (32,254)	$641,034

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
Amounts in thousands of dollars

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net income (loss)	$(44,277)	$112,234
Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities:		
Depreciation and amortization of continuing operations	51,798	39,006
Depreciation and amortization of discontinued operations	—	7,722
Amortization of debt issuance costs	3,631	3,237
Loss on extinguishment of debt and write-off of debt issuance costs	19,562	39,639
Share of net income from joint venture, net of cash dividends received	(1,744)	17
Gain on disposal of discontinued operations, net of tax and cost to sell	—	(123,010)
Compensation expense from issuance of share-based awards	2,623	3,220
Deferred income taxes	(14,737)	70
Other	255	(123)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(19,656)	(14,867)
Inventories	(18,207)	(10,328)
Accounts payable	3,733	(3,317)
Income taxes receivable and payable, net	(1,681)	(19,409)
Other	5,485	(2,765)
Net cash provided by (used by) operating activities	(13,215)	31,326
Cash flows from investing activities		
Acquisition of property, plant and equipment	(46,998)	(31,674)
Cash paid to acquire businesses, net of cash received	(399,011)	—
Short term investment	—	(8,000)
Proceeds from sale of business, net of cash sold	—	371,436
Other	650	1,184
Net cash provided by (used by) investing activities	(445,359)	332,946
Cash flows from financing activities		
Cash paid for debt issuance or prepayment costs	(20,703)	(38,130)
Dividends paid	(5,812)	(5,764)
Proceeds from issuance of common shares	217,435	—
Proceeds from long-term debt	288,594	317,000
Repayment of long-term debt	(234,000)	(301,313)
Proceeds from (repayments of) short-term debt, net	10,474	(3,968)
Other	(3,161)	(490)
Net cash provided by (used by) financing activities	252,827	(32,665)
Effect of exchange rate changes on cash flows	(910)	1,368
Net change in cash and cash equivalents	(206,657)	332,975
Cash and cash equivalents at beginning of period	224,446	14,405 (1)
Cash and cash equivalents at end of period	$17,789	$347,380

(1) Cash and cash equivalents as of December 31, 2016, includes $8.1 million of cash and cash equivalents that were included in current assets of discontinued operations.

During the nine months ended September 30, 2018, we had noncash additions to property, plant and equipment of approximately $15.6 million.

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2018
(Unaudited)
Amounts in thousands of dollars and shares, except per share data

Note 1. Interim Financial Statements

Nature of Business

NN, Inc., is a global diversified industrial company that combines advanced engineering and production capabilities with in-depth materials science expertise to design and manufacture high-precision components and assemblies for the medical, aerospace and defense, electrical, automotive and general industrial markets. As used in this Quarterly Report on Form 10-Q, the terms “NN,” the “Company,” “we,” “our,” or “us” refer to NN, Inc., and its subsidiaries. As of September 30, 2018, we had 51 facilities in North America, Europe, South America and China.

In January 2018, we implemented a new enterprise and management structure designed to accelerate growth and further balance our portfolio by aligning our strategic assets and businesses. Our businesses were reorganized into the Mobile Solutions, Power Solutions, and Life Sciences groups and are based principally on the end markets they serve. The Autocam Precision Components Group reported in our historical financial statements was renamed as Mobile Solutions. The Mobile Solutions group is focused on growth in the general industrial and automotive end markets. The Precision Engineered Products Group reported in our historical financial statements was bifurcated into two new groups – Power Solutions and Life Sciences. The Power Solutions group is focused on growth in the electrical and aerospace and defense end markets. The Life Sciences group is focused on growth in the medical end market.

Basis of Presentation

The accompanying condensed consolidated financial statements have not been audited, except that the Condensed Consolidated Balance Sheet as of December 31, 2017, was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Annual Report”), which we filed with the U.S. Securities and Exchange Commission (the “SEC”), on April 2, 2018. Certain prior period amounts have been reclassified to conform to the current period’s presentation. Historical periods presented reflect reclassifications to reflect discontinued operations (see Note 2). Historical periods also reflect revisions that we disclosed in our 2017 Annual Report (see Note 17). In management’s opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to fairly state our results of operations for the three months and nine months ended September 30, 2018 and 2017; financial position as of September 30, 2018, and December 31, 2017; and cash flows for the nine months ended September 30, 2018 and 2017, on a basis consistent with our audited consolidated financial statements other than the adoption of new accounting standards, such as revenue recognition. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary to present fairly the Company’s financial position and operating results for the interim periods.

Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes included in the 2017 Annual Report. The results for the three months and nine months ended September 30, 2018, are not necessarily indicative of results for the year ending December 31, 2018, or any other future periods.

Except for per share data or as otherwise indicated, all dollar amounts presented in the tables in these Notes to Condensed Consolidated Financial Statements are in thousands.

Prior Periods’ Financial Statement Revision

As disclosed in our 2017 Annual Report, we identified various misstatements in our previously issued 2016 and 2015 annual financial statements and interim periods in 2016 and 2017. These prior period errors related primarily to (i) accounting for income and franchise taxes, (ii) accounting for the gain on the disposition of a business, (iii) accounting for indemnification assets related to a prior acquisition, (iv) accounting for foreign currency transactions, (v) accounting for the translation of foreign subsidiary assets and joint venture, and (vi) other immaterial errors, including errors that had previously been adjusted for as out of period corrections in the periods identified. We assessed the materiality of the misstatements on prior periods' financial statements in accordance with SEC Staff Accounting Bulletin ("SAB") Topic 1.M, Materiality, codified in Accounting

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Standards Codification ("ASC") Topic 250, Accounting Changes and Error Corrections, ("ASC 250") and concluded that the misstatements were not material to any prior annual or interim periods.

In accordance with ASC 250 (SAB Topic 1.N, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we revised our previously issued 2016 and 2015 annual financial statements in our 2017 Annual Report. Accordingly, in connection with this Quarterly Report, we are revising our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and our Condensed Consolidated Statement of Cash Flows, the related notes, and other financial information for the three months and nine months ended September 30, 2017, to correct for those misstatements that impacted such period. Refer to Note 17 for reconciliations between as originally reported and as revised quarterly amounts.

Accounting Standards Recently Adopted

Revenue Recognition. On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers, ("ASC 606"). We adopted ASC 606 utilizing the modified retrospective transition method. Under this transition method, we recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings as of January 1, 2018, and applied the new standard beginning with the most current period presented to contracts that were not completed at the date of initial application. The adoption adjustment, which was less than $0.1 million, represents the net profit on certain contracts that were accounted for on a consignment basis under ASC Topic 605, Revenue Recognition, ("ASC 605") Under ASC 605, a sale was not recognized under these consignment contracts until the inventory was used by our customers. Under the new standard, revenue is recognized earlier since the transfer of control to our customers occurs upon shipment from our facilities as our customers have obtained the ability to direct the use of, and obtain substantially all the remaining benefits from, the asset. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our results of operations on an ongoing basis. See Note 13 for the required disclosures related to the impact of adopting ASC 606 and a discussion of our updated policies related to revenue recognition and accounting for costs to obtain and fulfill a customer contract.

Definition of a Business. In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which changes the definition of a business. The new guidance requires an entity to first evaluate whether substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If that threshold is met, the set of assets and activities is not a business. If the threshold is not met, the entity evaluates whether the set meets the definition of a business. The new definition requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition guidance. The new guidance was effective for us beginning on January 1, 2018. We have applied the new definition of a business prospectively to all business combination transactions that occurred in 2018. The new guidance will have no effect on our historical financial statements.

Statement of Cash Flows. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This guidance provides clarification on how certain cash receipts and cash payments are presented and classified on the statement of cash flows, with focus on eight specific areas in which cash flows have, in practice, been presented inconsistently. The guidance was effective for NN beginning January 1, 2018, and is required to be adopted using a retrospective approach if practicable.

The new cash flow guidance requires that cash payments for debt prepayment costs be classified as cash outflows for financing activities. We paid $31.6 million for debt prepayment costs in April 2017. These debt prepayment costs were previously classified as cash used by operating activities in 2017. Under the new guidance, these costs are reclassified to cash used by financing activities when these comparable periods are presented in future filings.

The new guidance also requires entities to make an accounting policy election regarding classification of distributions received from equity method investees. Existing guidance does not currently address how an entity should determine which distributions represent returns on versus returns of investment. The lack of specific guidance has resulted in diversity in practice. The two allowable approaches are the "cumulative earnings" approach and the "nature of the distribution” approach, as defined by ASU 2016-15. Upon adoption of the new guidance on January 1, 2018, we utilized the cumulative earnings approach for classifying distributions received from our joint venture investment (see Note 8). This policy election is consistent with our historical accounting.

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Accounting Standards Not Yet Adopted

Leases. In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 creates Topic 842, Leases, ("ASC 842") in the ASC and supersedes ASC 840, Leases. Entities that hold numerous equipment and real estate leases, in particular those with numerous operating leases, will be most affected by the new guidance. The lease accounting standard is effective for NN beginning January 1, 2019, with modified retrospective adoption required and early adoption permitted. We intend to utilize the practical expedient to recognize a cumulative-effect adoption adjustment to retained earnings as of January 1, 2019, and not adjust comparative periods. The adoption of ASC 842 is expected to impact our balance sheet by adding lease-related assets and liabilities. The loan covenants in our credit facility provide for the continuation of covenant computations in accordance with GAAP prior to changes in accounting principles. Therefore, we do not expect the adoption of ASC 842 to affect our compliance. We have performed inquiries within each of our business groups and compiled information on operating and capital leases. We are using the results of these inquiries and compiled information to evaluate the impacts of the lease accounting standard on our financial position, results of operations, and related disclosures. Upon adoption, we expect to recognize a right-of-use asset and a lease liability for nearly all our leases that are currently classified as operating leases and are therefore not recorded on the balance sheet. We are implementing an enterprise-wide lease accounting system and are in the process of loading and verifying data in the system that will enable us to estimate the amounts of those assets and liabilities. We have reviewed all leases and are in the process of reviewing our documentation and conclusions to generate the initial accounting entries upon adoption of the standard. We expect the right-of-use asset and lease liability to exceed $50 million each.

Goodwill. In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on the current Step 1 test). The standard is effective for us beginning with impairment tests performed on or after January 1, 2020, with early adoption permitted. We are currently evaluating the impact this new guidance is expected to have on our financial position or results of operations and related disclosures.

Effects of Tax Reform in Other Comprehensive Income. In February 2018, the FASB issued guidance related to the impacts of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income ("AOCI") are adjusted, certain tax effects become stranded in AOCI. The FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, that permits reclassification of certain income tax effects of the Act from AOCI to retained earnings. The guidance also requires certain disclosures about stranded tax effects. ASU 2018-02 is effective for us on January 1, 2019, with early adoption in any period permitted. Entities may adopt the guidance using either at the beginning of the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. We are in the process of evaluating adoption method and the effects of this new guidance on our financial statements.

Fair Value Disclosures. In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, that modifies fair value disclosure requirements. The new guidance could impact us by streamlining disclosures of Level 3 fair value measurements. The modified disclosures are effective for NN beginning in the first quarter of 2020, with early adoption allowed. ASU 2018-13 changes only disclosures and does not impact our financial condition, results of operations, or cash flows. We are in the process of evaluating the effects of this guidance on our fair value disclosures.

Internal-Use Software. In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force), that provides guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor. Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. ASU 2018-15 is effective for us on January 1, 2020, using either a prospective or retrospective approach and with early adoption permitted. We are in the process of evaluating the effects of this guidance on our financial statements and on cloud computing arrangements that we may enter before the required effective date.

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Note 2. Discontinued Operations

On August 17, 2017, we completed the sale of our global precision bearing components business (the "PBC Business"). The PBC Business included all our facilities that were engaged in the production of precision steel balls, steel rollers, and metal retainers and automotive specialty products used primarily in the bearing industry. The sale of the PBC Business furthers management's long-term strategy to build a diversified industrial business with a comprehensive geographic footprint in attractive high-growth market segments. The PBC Business represented all of the Precision Bearing Components Group reportable segment disclosed in our historical financial statements.

In accordance with ASC 205-20, Presentation of Financial Statements – Discontinued Operations, the operating results of the PBC Business for the three and nine months ended September 30, 2017, are classified as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the discontinued operations, net of tax, as one line item on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). All historical Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) presented have been revised to reflect this presentation. Accordingly, results of the PBC Business have been excluded from continuing operations and group results for all periods presented in the condensed consolidated financial statements and the accompanying notes unless otherwise stated. The Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017, includes cash flows of the PBC Business in each line item unless otherwise stated.

The following table summarizes the major line items included in the results of operations of the discontinued operations.

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Net sales	$ 31,600	$ 168,287
Cost of sales (exclusive of depreciation and amortization shown separately below)	26,070	130,555
Selling, general and administrative expense	2,466	11,587
Depreciation and amortization	1,611	7,722
Restructuring and integration expense	—	429
Income from operations	1,453	17,994
Interest income (expense)	7	(181)
Other income (expense)	(66)	(84)
Income from discontinued operations before gain on disposal and provision for income taxes	1,394	17,729
Provision for income taxes	5,362	(219)
Income (loss) from discontinued operations before gain on disposal	6,756	17,510
Gain on disposal of discontinued operations	208,896	208,896
Provision for income taxes on gain on disposal	(86,211)	(86,211)
Income from discontinued operations, net of tax	$ 129,441	$ 140,195

The following table presents the significant noncash items and cash paid for capital expenditures of discontinued operations.

	Nine Months Ended September 30, 2017
Depreciation and amortization	$ 7,722
Acquisition of property, plant and equipment	$ 7,316

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Note 3. Acquisitions
Paragon Medical, Inc.
On May 7, 2018, we