
Welspun USA, Inc.

Financial Report
(000s omitted)
March 31, 2018

Independent Auditor's Report	1
Financial Statements	
Balance Sheet	2
Statement of Operations	3
Statement of Stockholders' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-12

Independent Auditor's Report

To the Board of Directors
Welspun USA, Inc.

We have audited the accompanying financial statements of Welspun USA, Inc. (the "Company" or Welspun USA), which comprise the balance sheet as of March 31, 2018 and 2017 and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Welspun USA, Inc. as of March 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

April 27, 2018

Balance Sheet

March 31, 2018 and 2017
(000s omitted)

	2018	2017
Assets		
Current Assets		
Cash	\$ 438	\$ 2,609
Accounts receivable:		
Trade	50,655	47,489
Affiliates (Note 13)	10,073	3,125
Inventory (Note 4)	45,306	43,255
Prepaid expenses and other current assets:		
Prepaid expenses	2,914	627
Deferred tax assets (Note 9)	842	902
Total current assets	110,228	98,007
Property and Equipment - Net (Note 5)	1,119	581
Other Assets		
Deposits	304	232
Deferred tax assets (Note 9)	-	134
Total other assets	304	366
Total assets	\$ 111,651	\$ 98,954
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable:		
Trade accounts payable	\$ 303	\$ 458
Trade payables to related parties (Note 13)	48,780	40,125
Bank line of credit (Note 6)	35,497	32,301
Current portion of long-term debt (Note 7)	78	-
Accrued customer incentives	6,148	7,345
Accrued and other current liabilities	5,015	3,567
Total current liabilities	95,821	83,796
Long-term Debt - Net of current portion (Note 7)	90	-
Other Long-term Liabilities - Deferred rent (Note 10)	854	602
Total liabilities	96,765	84,398
Stockholders' Equity	14,886	14,556
Total liabilities and stockholders' equity	\$ 111,651	\$ 98,954

Statement of Operations

Years Ended March 31, 2018 and 2017
(000s omitted)

	<u>2018</u>	<u>2017</u>
Net Sales (Primary Revenue Stream)		
Product	\$ 236,200	\$ 221,806
Commission income - Related parties (Note 13)	<u>2,693</u>	<u>3,421</u>
Total net sales	238,893	225,227
Cost of Sales	<u>212,654</u>	<u>200,023</u>
Gross Profit	26,239	25,204
Operating Expenses	<u>23,898</u>	<u>22,318</u>
Operating Income	2,341	2,886
Nonoperating Income (Expense)		
Other income	4	-
Interest expense	<u>(1,187)</u>	<u>(889)</u>
Total nonoperating expense	<u>(1,183)</u>	<u>(889)</u>
Income - Before income taxes	1,158	1,997
Income Tax Expense (Note 9)	<u>828</u>	<u>711</u>
Net Income	<u><u>\$ 330</u></u>	<u><u>\$ 1,286</u></u>

Statement of Stockholders' Equity

Years Ended March 31, 2018 and 2017

(000s omitted)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 2016	\$ 217	\$ 8,683	\$ 4,370	\$ 13,270
Net income	-	-	1,286	1,286
Balance - March 31, 2017	217	8,683	5,656	14,556
Net income	-	-	330	330
Balance - March 31, 2018	<u>\$ 217</u>	<u>\$ 8,683</u>	<u>\$ 5,986</u>	<u>\$ 14,886</u>

Statement of Cash Flows

Years Ended March 31, 2018 and 2017
(000s omitted)

	2018	2017
Cash Flows from Operating Activities		
Net (loss) income	\$ 330	\$ 1,286
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation	257	144
Bad debt expense	-	(112)
Deferred income taxes	194	(135)
Deferred rent	252	276
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(10,114)	(10,492)
Inventory	(2,051)	(6,152)
Prepaid expenses and other assets	(2,287)	(238)
Deposits	(72)	(15)
Accounts payable	8,500	7,486
Accrued and other liabilities	250	1,208
Net cash used in operating activities	(4,741)	(6,744)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(794)	(334)
Cash Flows from Financing Activities		
Proceeds on long-term debt	168	-
Net proceeds from revolving credit facilities	3,196	8,860
Net cash provided by financing activities	3,364	8,860
Net (Decrease) Increase in Cash	(2,171)	1,782
Cash - Beginning of year	2,609	827
Cash - End of year	<u>\$ 438</u>	<u>\$ 2,609</u>
Supplemental Cash Flow Information - Cash paid for		
Interest	\$ 1,183	\$ 889
Income taxes	662	747

March 31, 2018 and 2017
(000s omitted)

Note 1 - Nature of Business

Welspun USA, Inc. (the "Company" or Welspun USA) was incorporated in the state of Delaware on August 11, 2000. The Company is a subsidiary of Welspun Global Brands Limited (formerly known as Welspun Retail Limited) (the "Parent" or Welspun Global), a foreign corporation incorporated in India, which owns a 69.17 percent interest in Welspun USA. The remaining 30.83 percent is held by Welspun India Limited (Welspun India).

Welspun USA is engaged in the business of importing and distributing terry bath towels, beach towels, bath rugs, bed sheets, area rugs, and other bedding products. Most of the Company's inventory is sourced through related parties. The Company also sells to department stores and hotels throughout the United States, Canada, Europe, and the Middle East.

Note 2 - Significant Accounting Policies

Trade Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was \$0 as of March 31, 2018 and 2017.

Trade receivables are periodically evaluated for collectibility based on past credit history with customers and their current financial condition. Changes in the estimated collectibility of trade receivables are recorded in the period in which the estimate is revised. The Company generally does not require collateral for trade receivables.

The Company has an agreement with an insurance company to insure all of its receivables except Bed Bath & Beyond, Costco, Walmart, and related party receivables. Approximately 78 percent of receivables was not covered by insurance for the years ended March 31, 2018 and 2017. A fixed percentage of sales is payable to the insurance company as a premium. The Company recognizes such premium expenses in the statement of operations at the same time as revenue for sales of goods is recognized. The Company has incurred insurance premium expenses totaling \$227 and \$274 for the years ended March 31, 2018 and 2017, respectively, which is included in operating expenses.

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined on a weighted-average method.

Prepaid Expenses and Other Current Assets

Prepaid expenses include advance payments made by the Company for routine expenses, including inventory purchases, office expenses, insurance premiums, marketing expenses, and lease payments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

March 31, 2018 and 2017
(000s omitted)

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Estimated useful lives are periodically reviewed and, when warranted, changes are made to them.

Leasehold improvements are amortized on the straight-line basis over the shorter of the remaining lease term and estimated useful life of the asset. Amortization is included in depreciation and amortization expense. See Note 5 for further discussion of property and equipment.

Credit Risk and Major Customers

Sales are predominately to retail companies in the textile industry located throughout the United States and Canada. The Company extends trade credit to its customers on terms that are generally practiced in the industry. Two major customers accounted for approximately 62 and 76 percent of accounts receivable and 63 and 64 percent of sales as of and for the years ended March 31, 2018 and 2017, respectively.

Income Taxes

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

The Company classifies interest and penalties associated with tax liabilities as income taxes in the accompanying financial statements. See Note 9 for further discussion of income taxes.

Revenue and Cost Recognition

Revenue is recognized when it is realized or realizable and has been earned. The Company's policy is to recognize revenue when risk of loss and title to the product transfers to the customer, typically when shipped. Net product sales are composed of gross sales, less expected returns, trade discounts, and customer allowances, which include costs associated with off-invoice mark-downs and other price reductions, as well as trade promotions. These incentive costs are recognized when the Company recognizes the related revenue. The Company regularly reviews and revises, when deemed necessary, its estimates of sales returns based primarily upon the historical rate of actual product returns.

The Company earns a 1 percent commission on sales by Welspun Global Brands Limited directly to customers located in the United States. The Company recognizes the commission income when earned as sales are made to customers.

Cost of Sales

Cost of sales primarily includes the cost of goods including the related expenses such as freight-in and custom duties.

Shipping and Handling Costs

The Company records shipping and handling costs for the delivery of finished goods in cost of sales in the statement of operations.

March 31, 2018 and 2017

(000s omitted)

Note 2 - Significant Accounting Policies (Continued)

Operating Expenses

Operating expenses generally include compensation expenses to sales, management, and other personnel, travel costs, royalty, credit insurance expenses, distribution expenses, depreciation on assets, rent, repairs, utilities, general insurance, advertising and marketing, professional fees, and other general expenses not attributable to cost of sales.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any. The Company has not yet finalized an analysis of its contracts to determine the impact of the new requirements; therefore, the Company is working with the Parent to determine the application method and plan for adoption.

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which will modify how deferred income taxes are presented on the balance sheet. The ASU will require all deferred tax assets and liabilities to be reported as noncurrent in a classified statement of financial position. The new guidance will be effective for the Company's year ending March 31, 2019. The ASU permits the new deferred income tax classification guidance to be applied either prospectively or retrospectively. The Company has not yet determined which application method it will use, and the impact of the new standard on the financial statements is not expected to be material.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending March 31, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Company's financial statements as a result of the leases for equipment, automobiles, and warehouses classified as operating leases. Management expects the adoption of the standard will result in significant long-term assets and liabilities being recorded on the balance sheet for leases currently classified as operating leases. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 27, 2018, which is the date the financial statements were available to be issued.

Notes to Financial Statements

March 31, 2018 and 2017

(000s omitted)

Note 3 - Change in Accounting Principle

As of April 1, 2017, the Company adopted new guidance related to the measurement of inventories. Under the new guidance, inventories are measured at the lower of cost and net realizable value (NRV), with NRV based on selling prices in the ordinary course of business, less costs of completion, disposal, and transportation. For the year ended March 31, 2017 and previous years, inventories were measured at the lower of cost or market, with market value generally based on replacement costs, adjusted for other factors. Prior periods have not been restated.

Note 4 - Inventory

Inventory at March 31, 2018 and 2017 consists of the following:

	2018	2017
Raw materials	\$ 12	\$ -
Trading goods	45,173	43,150
Packing materials	121	105
Total	<u>\$ 45,306</u>	<u>\$ 43,255</u>

As of March 31, 2018 and 2017, the Company recorded reserves for obsolescence and potential close-outs of inventory of \$440 and \$347, respectively. As of March 31, 2018 and 2017, the Company recorded in-transit inventory of \$15,214 and \$8,979, respectively.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Furniture and fixtures	\$ 520	\$ 502	7
Leasehold improvements	724	612	10-15
Office equipment	226	226	7
Machinery and equipment	740	455	7
Computer hardware	607	1,203	5
Computer software	240	394	3
Construction in progress	177	-	-
Total cost	<u>3,234</u>	<u>3,392</u>	
Accumulated depreciation	<u>2,115</u>	<u>2,811</u>	
Net property and equipment	<u>\$ 1,119</u>	<u>\$ 581</u>	

Depreciation expense for 2018 and 2017 was \$257 and \$144, respectively.

Note 6 - Line of Credit

The Company has line of credit with Citibank. Under the line of credit agreement, the Company has available borrowings of \$45,000,000. Interest is payable monthly at a rate ranging from 1.6 percent above the one-month LIBOR and a rate of .6 percent above the prime rate depending on borrowing levels (effective rates ranging from 3.25 to 5.35 percent at March 31, 2018 and an average interest rate of 3.33 percent for the year ended March 31, 2018). Outstanding borrowings are \$35,497 and \$32,301 as of March 31, 2018 and 2017, respectively. The line of credit is collateralized by inventory, receivables, and other current assets of the Company.

Notes to Financial Statements

March 31, 2018 and 2017

(000s omitted)

Note 6 - Line of Credit (Continued)

Under the line of credit agreement with the bank, the Company is subject to various financial covenants, including a quarterly minimum fixed-charge coverage ratio and a minimum accounts payable to related party balance.

Note 7 - Long-term Debt

At March 31, 2018, the Company had financed equipment payable to a bank, collateralized by the equipment financed with a fixed rate of interest at 3.88 percent with a monthly payment of approximately \$7. The equipment payable is financed over a term of 36 months, with a current portion of \$78 and a long-term portion of \$90.

Interest expense for the long-term debt and the line of credit discussed in Note 6 for 2018 and 2017 was \$1,187 and \$889, respectively.

Note 8 - Capital Stock

Common stock consists of 3,000,000 authorized shares of \$0.10 par value stock. As of March 31, 2018 and 2017, there were 2,168,706 shares issued and outstanding.

Note 9 - Income Taxes

The components of the income tax provision included in the statement of operations are all attributable to continuing operations and are detailed as follows:

	2018	2017
Current tax - Federal	\$ 563	\$ 788
Current tax - State and foreign	71	58
Deferred tax (recovery) - Federal	194	(129)
Deferred tax (recovery) - State and foreign	-	(6)
Total income tax expense	<u>\$ 828</u>	<u>\$ 711</u>

The Tax Cuts and Jobs Act was signed into law effective December 2017. The reduction of the corporate tax rates decreased the valuation of deferred tax assets and deferred tax liabilities at March 31, 2018. The change is included in income tax expense for 2018 as shown below in the reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes:

	2018	2017
Income tax expense, computed at 30.5 percent of pretax income for 2018 and 35% for 2017.	\$ 353	\$ 679
Effect of nondeductible expenses	6	3
Effect of state and foreign taxes	48	32
Changes to statutory tax rates	434	-
Adjustments of prior year estimates and other	(13)	(3)
Total provision for income taxes	<u>\$ 828</u>	<u>\$ 711</u>

Notes to Financial Statements

March 31, 2018 and 2017

(000s omitted)

Note 9 - Income Taxes (Continued)

The details of the net deferred tax assets are as follows:

	2018	2017
Net deferred tax assets:		
Deferred rent	\$ 205	\$ 221
Inventory	709	796
Depreciation and amortization	(92)	(32)
Deferred finance charges	20	51
	<u>842</u>	<u>1,036</u>
Net deferred tax asset	<u>\$ 842</u>	<u>\$ 1,036</u>

Deferred tax assets result from recognition of expenses for financial reporting purposes that are not deductible for tax purposes until paid. Deferred tax liabilities result from accelerated depreciation deductions for tax purposes, which are not yet deducted for financial statement purposes.

No valuation allowance has been recognized for the deferred tax assets as management believes all assets are recoverable.

Note 10 - Operating Leases

The Company is obligated under operating leases primarily for equipment, office, and warehouse space, expiring at various dates through 2025. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. The Company expenses the net minimum lease costs on the straight-line method over the life of the lease. The difference between lease expense and amounts payable under the lease agreement is recorded as deferred rent of \$854 and \$602 as of March 31, 2018 and 2017, respectively. The current portion of deferred rent is included in accounts payable. Total rent expense under these leases was \$2,914 and \$2,398 for 2018 and 2017, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending March 31	Amount
2019	\$ 2,202
2020	2,266
2021	2,299
2022	1,906
2023	1,429
Thereafter	<u>1,081</u>
Total	<u>\$ 11,183</u>

Note 11 - License Commitments

The Company has trademark licensing agreements under which it can utilize certain trade names in marketing its products. The Company has future commitments to pay of \$3,200 and \$3,600 as of March 31, 2018 and 2017, respectively. Minimum royalties, image fund fees, and merchandise coordinator fees were paid under these agreements.

Royalty expenses were \$563 and \$671 for the years ended March 31, 2018 and 2017, respectively.

Notes to Financial Statements

March 31, 2018 and 2017
(000s omitted)

Note 12 - Retirement Plans

The Company provides a defined contribution savings plan for substantially all employees. The plan provides for the Company to make a discretionary profit-sharing contribution and a required matching contribution. Expenses under the plan amounted to \$254 and \$224 for the years ended March 31, 2018 and 2017, respectively.

Note 13 - Related Party Transactions

The following is a description of transactions between the Company and related parties:

Sales and Purchases

Sales are made and services and inventory are purchased from entities affiliated through common ownership and the Parent. Amounts due from related parties include sales of product, chargebacks, commissions, and other receivables. The following is a summary of transactions and balances with related parties for 2018 and 2017:

	2018	2017
Sales and services to related parties	\$ 3,738	\$ 4,364
Due from related parties	10,073	3,125
Purchases from related parties	196,035	183,530
Due to related parties	48,780	40,125
Claims and rebates granted	11,924	16,796

The Company also earns a commission on sales to Welspun Global Brands Limited's customers in the United States. Amounts earned under the commission agreement were \$2,693 and \$3,421 for the years ended March 31, 2018 and 2017, respectively. These amounts are included in the sales to related parties in the above table.