Welspun USA, Inc.

Financial Report
March 31, 2017

Contents

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Plante & Moran, PLLC

May 4, 2017

Balance Sheet

March 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	$ 2,608,700	$ 826,994
Accounts receivable:		
Trade	47,489,312	39,492,278
Affiliates (Note 11)	3,124,791	275,035
Inventory (Note 3)	43,255,189	37,102,790
Prepaid expenses and other current assets:		
Prepaid expenses	549,849	311,526
Deferred tax assets (Note 7)	902,344	834,672
Total current assets	97,930,185	78,843,295
Property and Equipment - Net (Note 4)	581,279	391,895
Other Assets		
Deposits	232,204	217,684
Deferred tax assets (Note 7)	133,844	66,184
Total other assets	366,048	283,868
Total assets	**$ 98,877,512**	**$ 79,519,058**
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable:		
Trade accounts payable	$ 381,088	$ 760,249
Trade payables to related parties (Note 11)	40,124,974	32,016,719
Bank line of credit (Note 5)	32,301,262	23,441,605
Accrued customer incentives	7,345,193	7,024,434
Accrued and other current liabilities	3,567,018	2,679,828
Total current liabilities	83,719,535	65,922,835
Other Long-term Liabilities - Deferred rent (Note 8)	601,734	325,782
Total liabilities	84,321,269	66,248,617
Stockholder's Equity	14,556,243	13,270,441
Total liabilities and stockholder's equity	**$ 98,877,512**	**$ 79,519,058**

See notes to financial statements.

Statement of Operations

Years Ended March 31, 2017 and 2016

	2017	2016
Net Sales		
Product	$ 221,805,620	$ 189,884,571
Commission income - Related parties (Note 11)	3,420,787	3,443,805
Total net sales	225,226,407	193,328,376
Cost of Sales	200,022,913	168,973,921
Gross Profit	25,203,494	24,354,455
Operating Expenses	22,317,765	18,205,885
Operating Income	2,885,729	6,148,570
Nonoperating Income (Expense)		
Other income	-	2,656
Interest expense	(889,107)	(1,188,799)
Total nonoperating expense	(889,107)	(1,186,143)
Income - Before income taxes	1,996,622	4,962,427
Income Tax Expense (Note 7)	710,820	2,159,514
Net Income	**$ 1,285,802**	**$ 2,802,913**

See notes to financial statements.

Statement of Stockholders' Equity

Years Ended March 31, 2017 and 2016

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 2015	$ 216,871	$ 8,683,129	$ 1,567,528	$ 10,467,528
Net income	-	-	2,802,913	2,802,913
Balance - March 31, 2016	216,871	8,683,129	4,370,441	13,270,441
Net income	-	-	1,285,802	1,285,802
Balance - March 31, 2017	**$ 216,871**	**$ 8,683,129**	**$ 5,656,243**	**$ 14,556,243**

See notes to financial statements.

Welspun USA, Inc.

Statement of Cash Flows

Years Ended March 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Net income	$ 1,285,802	$ 2,802,913
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	144,234	133,205
Bad debt expense	(111,688)	(123,150)
Deferred income taxes	(135,332)	1,897
Deferred rent	275,952	262,100
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(10,491,993)	(3,761,685)
Inventory	(6,152,399)	(3,530,568)
Prepaid expenses and other assets	(238,323)	202,547
Deposits	(14,520)	24,557
Accounts payable	7,485,985	12,131,318
Accrued and other liabilities	1,207,949	(633,397)
Net cash (used in) provided by operating activities	(6,744,333)	7,509,737
Cash Flows Used in Investing Activities - Purchase of property and equipment	(333,618)	(203,292)
Cash Flows from Financing Activities		
Payments on long-term debt	-	(15,000,000)
Net proceeds from revolving credit facilities	8,859,657	7,356,864
Net cash provided by (used in) financing activities	8,859,657	(7,643,136)
Net Increase (Decrease) in Cash	1,781,706	(336,691)
Cash - Beginning of year	826,994	1,163,685
Cash - End of year	**$ 2,608,700**	**$ 826,994**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 889,107	$ 1,188,799
Income taxes	747,297	2,059,756

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 and $123,150 as of March 31, 2017 and 2016, respectively.

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 and 82 percent of receivables were not covered by insurance for the years ended March 31, 2017 and 2016, respectively. 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 $274,042 and $271,889 for the years ended March 31, 2017 and 2016, respectively, which is included in operating expenses.

Inventory

Inventory is stated at the lower of cost or market, 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 4 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 76 and 77 percent of accounts receivable and 64 and 69 percent of sales as of and for the years ended March 31, 2017 and 2016, 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 7 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 comprised 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.

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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 4, 2017, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

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 feels its main revenue stream will not be significantly impacted by the standard.

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.

Note 3 - Inventory

Inventory at March 31, 2017 and 2016 consists of the following:

	2017	2016
Trading goods	$ 43,150,493	$ 37,082,930
Packing materials	104,696	19,860
Total	$ 43,255,189	$ 37,102,790

As of March 31, 2017 and 2016, the Company recorded reserves for obsolescence and potential close-outs of inventory of $347,000 and $401,950, respectively. As of March 31, 2017 and 2016, the Company recorded in-transit inventory of $8,979,089 and $8,887,022, respectively.

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2017	2016	Depreciable Life - Years
Furniture and fixtures	$ 501,792	$ 493,697	7
Leasehold improvements	612,241	585,163	10-15
Office equipment	226,208	226,208	7
Machinery and equipment	455,447	340,699	7
Computer hardware	1,203,181	1,019,484	5
Computer software	393,531	393,531	3
Total cost	3,392,400	3,058,782	
Accumulated depreciation	2,811,121	2,666,887	
Net property and equipment	$ 581,279	$ 391,895	

Depreciation expense for 2017 and 2016 was $144,234 and $133,205, respectively.

Note 5 - Line of Credit

In November 2015, the Company paid off existing lines of credit and opened a new line of credit with Citibank. Under the new 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 (an effective rate of 2.39 percent at March 31, 2017 and an average interest rate of 2.75 percent for the year ended March 31, 2017). Outstanding borrowings are $32,301,262 and $23,441,605 as of March 31, 2017 and 2016, respectively. The line of credit is collateralized by inventory, receivables, and other current assets of the Company.

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 6 - Capital Stock

Common stock consists of 3,000,000 authorized shares of $0.10 par value stock. As of March 31, 2017 and 2016, there were 2,168,706 shares issued and outstanding.

Note 7 - 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:

	2017	2016
Current tax - Federal	$ 788,145	$ 1,944,382
Current tax - State and foreign	58,007	213,235
Deferred (recovery) tax - Federal	(129,120)	1,897
Deferred recovery - State and foreign	(6,212)	-
Total income tax expense	$ 710,820	$ 2,159,514

Note 7 - Income Taxes (Continued)

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	2017	2016
Income tax expense, computed at 34 percent of pretax income	$ 678,853	$ 1,695,938
Effect of nondeductible expenses	3,032	29,119
Effect of state and foreign taxes	32,084	140,735
Adjustments of prior year estimates and other	(3,149)	293,722
Total provision for income taxes	$ 710,820	$ 2,159,514

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

	2017	2016
Net deferred tax assets:		
Deferred rent	$ 220,630	$ 119,474
Inventory	796,005	670,034
Depreciation and amortization	(31,627)	(7,250)
Deferred finance charges	51,180	73,434
Allowance for bad debts	-	45,164
Net deferred tax asset	$ 1,036,188	$ 900,856

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.

The Company files income tax returns in U.S. federal and various state 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 March 2012.

Note 8 - Operating Leases

The Company is obligated under operating leases primarily for equipment, office, and warehouse space, expiring at various dates through 2022. 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 $601,734 and $500,932 as of March 31, 2017 and 2016, respectively. The current portion of deferred rent is included in accounts payable. Total rent expense under these leases was $2,397,916 and $2,283,033 for 2017 and 2016, respectively.

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

Years Ending March 31	Amount
2018	$ 1,386,651
2019	868,114
2020	803,655
2021	814,387
2022	408,591
Total	$ 4,281,398

Note 9 - 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 $3,600,000 and $4,056,750 as of March 31, 2017 and 2016, respectively. Minimum royalties, image fund fees, and merchandise coordinator fees were paid under these agreements.

Royalty expenses were $671,477 and $641,513 for the years ended March 31, 2017 and 2016, respectively.

Note 10 - 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 $224,050 and $185,563 for the years ended March 31, 2017 and 2016, respectively.

Note 11 - 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 2017 and 2016:

	2017	2016
Sales and services to related parties	$ 4,363,820	$ 4,157,299
Due from related parties	3,124,791	275,035
Purchases from related parties	183,529,733	150,038,568
Due to related parties	40,124,974	32,016,719
Claims and rebates granted	16,796,204	2,563,834

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 $3,420,787 and $3,443,805 for the years ended March 31, 2017 and 2016, respectively. These amounts are included in the sales to related parties in the above table.