Welspun USA, Inc.

Financial Report
March 31, 2016

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, 2016 and 2015 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 opinions.

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, 2016 and 2015 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 6, 2016

Balance Sheet

March 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash	$ 826,994	$ 1,163,685
Accounts receivable:		
Trade	39,492,278	35,414,144
Affiliates (Note 12)	275,035	468,334
Inventory (Note 3)	37,102,790	33,572,222
Prepaid expenses and other current assets:		
Prepaid expenses	311,526	514,073
Deferred tax assets (Note 7)	834,672	812,687
Total current assets	78,843,295	71,945,145
Property and Equipment - Net (Note 4)	391,895	321,808
Other Assets		
Deposits	217,684	242,241
Deferred tax assets (Note 7)	66,184	90,065
Total assets	**$ 79,519,058**	**$ 72,599,259**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable		
Trade accounts payable	$ 760,249	$ 2,453,230
Trade payables to related parties (Note 12)	32,016,719	18,192,420
Bank line of credit (Note 5)	23,441,605	16,084,741
Current portion of long-term debt (Note 8)	-	3,000,000
Accrued customer incentives	7,024,434	6,588,881
Discontinued operations (Note 13)	-	20,763
Accrued and other current liabilities	2,679,828	3,728,014
Total current liabilities	65,922,835	50,068,049
Long-term Debt - Net of current portion (Note 8)	-	12,000,000
Other Long-term Liabilities - Deferred rent	325,782	63,682
Stockholders' Equity	13,270,441	10,467,528
Total liabilities and stockholders' equity	**$ 79,519,058**	**$ 72,599,259**

See notes to financial statements.

Statement of Operations

Years Ended March 31, 2016 and 2015

	2016	2015
Net Sales		
Product	$ 189,884,571	$ 176,101,419
Commission income - Related parties	3,443,805	2,973,242
Total revenue	193,328,376	179,074,661
Cost of Sales	168,973,921	156,960,856
Gross Profit	24,354,455	22,113,805
Operating Expenses	18,205,885	17,008,769
Operating Income	6,148,570	5,105,036
Nonoperating Income (Expense)		
Other income	2,656	1,160
Interest expense	(1,188,799)	(1,524,395)
Total nonoperating expense	(1,186,143)	(1,523,235)
Income - Before income taxes	4,962,427	3,581,801
Income Tax Expense (Note 7)	2,159,514	1,343,145
Income from Continuing Operations	2,802,913	2,238,656
Discontinued Operations - Net of tax (Note 13)	-	(438)
Net Income	**$ 2,802,913**	**$ 2,238,218**

See notes to financial statements.

Statement of Stockholders' Equity

Years Ended March 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total
Balance - April 1, 2014	$ 216,871	$ 8,683,129	$ (670,690)	$ 8,229,310
Net income	-	-	2,238,218	2,238,218
Balance - March 31, 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**

See notes to financial statements.

Statement of Cash Flows

Years Ended March 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 2,802,913	$ 2,238,218
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	133,205	202,478
Bad debt expense	(123,150)	(49,956)
Deferred income taxes	1,897	447,681
Deferred rent	262,100	(66,390)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(3,761,685)	(1,127,028)
Inventory	(3,530,568)	(5,322,600)
Prepaid expenses and other assets	202,547	144,500
Deposits	24,557	(3,975)
Accounts payable	12,131,318	(1,875,399)
Accrued and other liabilities	(633,397)	3,024,528
Net cash provided by (used in) operating activities	7,509,737	(2,387,943)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(203,292)	(96,157)
Cash Flows from Financing Activities		
Payments on long-term debt	(15,000,000)	-
Net proceeds from revolving credit facilities	7,356,864	936,998
Net cash (used in) provided by financing activities	(7,643,136)	936,998
Net Decrease in Cash	(336,691)	(1,547,102)
Cash - Beginning of year	1,163,685	2,710,787
Cash - End of year	**$ 826,994**	**$ 1,163,685**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 1,188,799	$ 1,524,395
Income taxes	2,059,756	803,548

See notes to financial statements.

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 $123,150 and $49,956 as of March 31, 2016 and 2015, 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 82 percent and 86 percent of receivables were not covered by insurance for the years ended March 31, 2016 and 2015, 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 $271,889 and $197,114 for the years ended March 31, 2016 and 2015, 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, Major Customers, and Suppliers

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 77 percent and 80 percent of accounts receivable and 69 percent and 78 percent of sales as of and for the years ended March 31, 2016 and 2015, 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. Total shipping and handling costs for the years ended March 31, 2016 and 2015 were $117,900 and $107,585, respectively.

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.

Research and Development

Research and development expenditures of approximately $417,600 were charged to operating expense as incurred for the year ended March 31, 2015. There were no such charges for the year ended March 31, 2016.

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 6, 2016, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncement

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.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory*, which applies to all inventory except inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is covered by the new guidance and should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments will be applied prospectively for fiscal years beginning after December 15, 2016. The Company is currently assessing the impact this new standard will have on its financial statements.

In November 2015, the FASB issued 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 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 footnote 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. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Note 3 - Inventory

Inventory at March 31, 2016 and 2015 consists of the following:

	2016	2015
Trading goods	$ 37,082,930	$ 33,559,342
Packing materials	19,860	12,880
Total inventory	$ 37,102,790	$ 33,572,222

As of March 31, 2016 and 2015, the Company recorded reserves for obsolescence and potential close-outs of inventory of $401,950 and $537,835, respectively. As of March 31, 2016 and 2015, the Company recorded in-transit inventory of $8,887,022 and $8,883,026, respectively.

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2016	2015	Depreciable Life - Years
Furniture and fixtures	$ 493,697	$ 506,720	7
Leasehold improvements	585,163	585,163	10-15
Office equipment	226,208	150,136	7
Machinery and equipment	340,699	340,699	7
Computer hardware	1,019,484	924,293	5
Computer software	393,531	348,479	3
Total cost	3,058,782	2,855,490	
Accumulated depreciation	2,666,887	2,533,682	
Net property and equipment	$ 391,895	$ 321,808	

Depreciation expense for 2016 and 2015 was $133,205 and $202,478, 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 2.04 percent at March 31, 2016 and an average interest rate of 2.71 percent for the year ended March 31, 2016). Outstanding borrowings are $23,441,605 and $16,084,741 as of March 31, 2016 and 2015, 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 or Welspun USA 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, 2016 and 2015, 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:

	2016	2015
Current tax - Federal	$ 1,944,382	$ 778,782
Current tax - State and foreign	213,235	116,682
Deferred tax - Federal	1,897	423,207
Deferred tax - State and foreign	-	24,474
Total income tax expense	$ 2,159,514	$ 1,343,145

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:

	2016	2015
Income tax expense, computed at 34 percent of pretax income	$ 1,695,938	$ 1,217,663
Effect of nondeductible expenses	29,119	21,776
Effect of state and foreign taxes	140,735	93,163
Effect of tax credits	-	(70,464)
Adjustments of prior year estimates and other	293,722	81,007
Total income tax expense on continuing operations	$ 2,159,514	$ 1,343,145

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

	2016	2015
Net deferred tax assets:		
Deferred rent	$ 119,474	$ 25,262
Inventory	670,034	768,417
Depreciation and amortization	(7,250)	27,260
Deferred finance charges	73,434	62,805
Allowance for bad debts	45,164	19,008
Net deferred tax assets	$ 900,856	$ 902,752

Deferred tax assets result from recognition of expenses for financial reporting purposes that are not deductible for tax purposes until paid and net operating loss carryforwards. As of March 31, 2016, the Company has no operating loss carryforwards. 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 - Long-term Debt

Long-term debt at March 31, 2015 is as follows:

Note payable to Exim Bank in quarterly installments beginning April 15, 2015 of $750,000, including interest at 5.5 percent above the one-month Eurodollar Deposit Rate (an effective rate of 5.69 percent at March 31, 2015). The note was collateralized by mortgages, asset security and pledge documents, and all property and equipment of Welspun India Limited and was due on March 28, 2020. In the current year, this amount was paid off as the Company obtained new debt through Citibank as explained in Note 5	$	15,000,000
Less current portion		3,000,000
Long-term portion	$	12,000,000

Note 9 - Operating Leases

The Company is obligated under operating leases primarily for vehicles, 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 $500,932 and $220,625 as of March 31, 2016 and 2015, respectively. The current portion of deferred rent is included in accounts payable. Total rent expense under these leases was $2,283,033 and $2,279,036 for 2016 and 2015, respectively.

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

Years Ending		Amount
2017	$	1,035,906
2018		1,312,650
2019		862,073
2020		797,613
2021		808,346
Thereafter		406,577
Total	$	5,223,165

Note 10 - 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 $4,056,750 and $4,489,000 as of March 31, 2016 and 2015, respectively. Minimum royalties, image fund fees, and merchandise coordinator fees were paid under these agreements.

Royalty expenses were $641,513 and $506,395 for the years ended March 31, 2016 and 2015, respectively.

Note 11 - 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 $185,563 and $136,481 for the years ended March 31, 2016 and 2015, respectively.

Note 12 - 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 2016 and 2015:

	2016	2015
Sales and services to related parties	$ 4,157,299	$ 3,387,953
Due from related parties	275,035	468,334
Purchases from related parties	150,038,568	141,900,475
Due to related parties	32,016,719	18,192,420
Claims and rebates granted	2,563,834	1,673,880

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 $3,443,805 and $2,973,242 for the years ended March 31, 2016 and 2015, respectively. These amounts are included in the sales to related parties in the above table.

Note 13 - Discontinued Operations

On May 31, 2012, the Company ceased operations within its Welspun Decorative Hospitality, LLC (WDH), KOJO Canada, Inc., and Koni Corporation, Inc. divisions. The result of operations of the divisions for the years ended March 31, 2016 and 2015 are disclosed separately on the statement of operations. During the year ended March 31, 2015, WDH was the only discontinued operation with any activity. During the year ended March 31, 2016, there were no discontinued operations with any activity. Total net loss from operations before tax was $0 and $438 in 2016 and 2015, respectively. The balance of total assets and total liabilities held for sale at March 31, 2015 is $0 and $20,763, respectively. There were no balances of total assets and total liabilities held for sale at March 31, 2016.