Suprajit USA, Inc.

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2019 and 2018

BKD

CPAs & Advisors

Suprajit USA, Inc.

March 31, 2019 and 2018

Contents

Independent Auditor's Report **1**

Consolidated Financial Statements

Balance Sheets 3

Statements of Operations and Comprehensive Income (Loss) 4

Statements of Stockholder's Equity 5

Statements of Cash Flows 6

Notes to Financial Statements 7

Supplementary Information

Consolidating Schedule - Balance Sheet Information 19

Consolidating Schedule - Statement of Operations and Comprehensive Loss 20

Consolidating Schedule - Statement of Cash Flows 21

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Independent Auditor's Report

Board of Directors
Suprajit USA, Inc.

We have audited the accompanying consolidated financial statements of Suprajit USA, Inc. (a 100% wholly-owned subsidiary of Suprajit Engineering Limited) and its subsidiary, which comprise the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income (loss), stockholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Suprajit USA, Inc. and its subsidiary as of March 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Wichita, Kansas
May 24, 2019

Suprajit USA, Inc.
Consolidated Balance Sheets
March 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	$ 1,380,299	$ 1,384,521
Accounts receivable, net of allowance; 2019 - $32,942, 2018 - $4,097	3,987,548	7,085,864
Inventories	10,533,276	8,558,012
Prepaid expenses and other	370,536	421,295
Refundable income taxes	225,546	11,487
Total current assets	16,497,205	17,461,179
Property and Equipment, at Cost		
Land and land improvements	579,766	579,766
Buildings and leasehold improvements	2,601,102	1,988,696
Machinery and equipment	6,150,497	5,770,765
Office equipment	1,177,429	1,012,964
Transportation equipment	44,097	44,097
Construction in progress	65,415	13,433
	10,618,306	9,409,721
Less accumulated depreciation and amortization	(3,015,315)	(1,751,824)
	7,602,991	7,657,897
Other Assets		
Goodwill	12,594,699	14,288,420
Indefinite-lived intangible assets	1,420,000	1,420,000
Definite-lived intangible assets	13,398,361	14,682,207
Interest rate swap agreement	-	39,794
	27,413,060	30,430,421
Total assets	$ 51,513,256	$ 55,549,497

Liabilities and Stockholder's Equity

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 6,250,000	$ 6,250,000
Line of credit	4,820,000	2,410,000
Accounts payable	4,984,575	3,542,250
Payable to parent	-	45,296
Accrued interest	87,936	87,578
Accrued salaries, wages and commissions	291,450	708,933
Accrued vacation	437,018	452,551
Accrued other	208,758	483,349
Income tax payable	-	471,370
Total current liabilities	17,079,737	14,451,327
Long-Term Liabilities		
Long-term debt, less current maturities	7,432,347	12,405,286
Interest rate swap agreement	4,429	-
Deferred income taxes	4,613,400	5,032,557
Other long-term liabilities	321,931	375,621
Total long-term liabilities	12,372,107	17,813,464
Stockholder's Equity		
Preferred stock, $10.00 par value; authorized 1,000,000 shares, issued - none	-	-
Common stock, $1.00 par value; 10,000 shares authorized, 1,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	20,999,000	20,999,000
Retained earnings	1,064,911	2,253,269
Accumulated other comprehensive income (loss)	(3,499)	31,437
Total stockholder's equity	22,061,412	23,284,706
Total liabilities and stockholder's equity	$ 51,513,256	$ 55,549,497

Suprajit USA, Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years Ended March 31, 2019 and 2018

	2019	2018
Net Sales	$ 40,960,674	$ 39,761,304
Cost of Goods Sold	33,275,713	29,632,275
Gross Profit	7,684,961	10,129,029
Selling, General and Administrative Expenses	8,235,840	8,837,381
Operating Income (Loss)	(550,879)	1,291,648
Other Income (Expense)		
Interest expense	(970,664)	(1,133,633)
Other	(50,914)	(11,962)
	(1,021,578)	(1,145,595)
Income (Loss) Before Income Taxes	(1,572,457)	146,053
Benefit for Income Taxes	(384,099)	(1,807,000)
Net Income (Loss)	(1,188,358)	1,953,053
Other Comprehensive Income (Loss)		
Change in fair value of rate swap agreement, net of taxes of $(9,287) in 2019 and $8,357 in 2018	(34,936)	31,437
Comprehensive Income (Loss)	$ (1,223,294)	$ 1,984,490

Suprajit USA, Inc.

Consolidated Statements of Stockholder's Equity

Years Ended March 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, April 1, 2017	$ 1,000	$ 20,999,000	$ 300,216	$ -	$ 21,300,216
Net income	-	-	1,953,053	-	1,953,053
Other comprehensive income	-	-	-	31,437	31,437
Balance, March 31, 2018	1,000	20,999,000	2,253,269	31,437	23,284,706
Net loss	-	-	(1,188,358)	-	(1,188,358)
Other comprehensive loss	-	-	-	(34,936)	(34,936)
Balance, March 31, 2019	$ 1,000	$ 20,999,000	$ 1,064,911	$ (3,499)	$ 22,061,412

Suprajit USA, Inc.

Consolidated Statements of Cash Flows

Years Ended March 31, 2019 and 2018

	2019	2018
Operating Activities		
Net income (loss)	$ (1,188,358)	$ 1,953,053
Items not requiring (providing) cash		
Depreciation and amortization	4,269,041	4,237,075
Amortization of debt issuance costs	27,061	27,061
Loss on sale of property and equipment	30,267	86,666
Deferred income taxes	(409,870)	(2,846,586)
Changes in		
Accounts receivable	3,098,316	1,020,783
Inventories	(1,975,264)	(51,186)
Related party receivables/payables	(39,221)	(1,294,152)
Prepaid expenses and other	50,759	89,823
Income tax refundable or payable	(685,429)	934,350
Accounts payable	1,442,325	(217,659)
Accrued liabilities	(767,014)	553,421
Net cash provided by operating activities	3,852,613	4,492,649
Investing Activities		
Purchase of property and equipment	(1,266,835)	(398,705)
Proceeds from sales of property and equipment	-	11,896
Net cash used in investing activities	(1,266,835)	(386,809)
Financing Activities		
Borrowings under line-of-credit agreement	19,040,000	21,121,967
Payments under line-of-credit agreement	(16,630,000)	(18,711,967)
Principal payments on long-term debt	(5,000,000)	(6,250,000)
Net cash used in financing activities	(2,590,000)	(3,840,000)
Increase (Decrease) in Cash	(4,222)	265,840
Cash, Beginning of Year	1,384,521	1,118,681
Cash, End of Year	$ 1,380,299	$ 1,384,521
Supplemental Cash Flows Information		
Interest paid	$ 970,306	$ 1,134,874
Income taxes paid	$ 711,225	$ 417,025

Suprajit USA, Inc.

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Suprajit USA, Inc. ("Company"), through its wholly-owned subsidiary, earns revenues predominately from the manufacturing of high performance mechanical controls for the outdoor power equipment, recreational vehicle, agricultural and construction equipment markets. Products are sold primarily to manufacturers in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Wescon Controls LLC ("Wescon"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash

The Company maintains cash balances at financial institutions which from time to time may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers, the majority of which are original equipment manufacturers. Credit is extended based on an evaluation of a customer's financial condition; generally, collateral is not required. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, the customer's current ability to pay its obligations to the Company and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice for the majority of customers and up to 90 days for certain customers. Accounts outstanding longer than the agreed payment terms are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory Pricing

Inventories consist of raw materials, work in process and finished goods. Inventories are stated at the lower of standard cost and net realizable value using the FIFO (first-in, first-out) method.

Property and Equipment

Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Buildings and leasehold improvements	10 - 20 years
Machinery and equipment	2 - 10 years
Office equipment	3 - 10 years
Transportation equipment	3 - 5 years

Depreciation and amortization expense totaled $1,291,474 and $1,189,730 for the years ended March 31, 2019 and 2018, respectively.

Goodwill

The Company has elected the private company accounting alternative for the subsequent measurement of goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from 1 to 13 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Indefinite-lived intangibles include trade names. Trade names are not subject to amortization, but are tested for impairment on an annual basis or whenever an impairment indicator is identified. The Company performs its annual impairment testing in the fourth quarter for all indefinite-lived intangibles.

Interest Rate Swaps

The Company has elected the private company accounting alternative for certain interest rate swaps. The election to use the alternative accounting for interest rate swaps is made on a swap-by-swap basis. During 2019 and 2018, the Company had one interest rate swap in effect for which it elected to apply the alternative accounting and use the simplified hedge accounting approach.

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during 2019 or 2018.

Deferred Financing Costs

Deferred financing costs comprise the direct costs associated with obtaining financing and are amortized over the life of the debt using a method that approximates the effective interest method. Amortization expense of deferred financing costs was $27,061 for both years ending March 31, 2019 and 2018, and is included in interest expense. Total accumulated amortization at March 31, 2019 and 2018, was $67,653 and $40,592, respectively.

The net deferred financing cost of $67,653 related to long-term debt is offsetting debt in the long-term liabilities section on the consolidated balance sheet.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiary.

Revenue Recognition

Revenue is recognized by the Company upon transfer of title to the customer, generally at the time the product is shipped, and when collectability is reasonably assured. Costs and related expenses to manufacture the Company's products are recorded as costs of goods sold when the related revenue is recognized. Revenue is reduced by estimated expenses relating to sales returns and discounts.

Shipping and Handling Costs

Shipping and handling fees charged to customers are included in net sales. Shipping and handling costs are included in cost of goods sold.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized and realized gains and losses for the interest rate swap that qualifies for hedge accounting.

Subsequent Events

Subsequent events have been evaluated through May 24, 2019, which is the date the financial statements were available to be issued.

Note 2: Inventories

Inventory consisted of the following at March 31, 2019 and 2018:

	2019	2018
Manufacturing inventories		
Raw materials	$ 7,222,571	$ 6,976,063
Work-in-process and finished goods	4,005,426	1,927,554
	11,227,997	8,903,617
Reserve for obsolescence	(694,721)	(345,605)
	$ 10,533,276	$ 8,558,012

During 2019, the Company changed its estimate on its reserve for obsolescence. As part of this change, the Company increased from 50% to 100% its reserve over certain inventory items that are slow moving or reflected no activity in the most recent year. The impact of this change increased its reserve by $347,361 in the current year.

Note 3: Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets at March 31, 2019 and 2018, were:

		2019		2018	
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets					
Customer relationships	13 years	$ 16,690,000	$ 3,291,639	$ 16,690,000	$ 2,007,793
Non-compete agreements	1 year	160,000	160,000	160,000	160,000
Goodwill	10 years	16,937,212	4,342,513	16,937,212	2,648,792
		$ 33,787,212	$ 7,794,152	$ 33,787,212	$ 4,816,585
Indefinite-lived intangible assets					
Tradename		$ 1,420,000		$ 1,420,000	

Amortization expense for the years ended March 31, 2019 and 2018, was $2,977,567 and $3,047,345, respectively. Estimated amortization expense for each of the following five years is:

2020	$ 2,977,567
2021	2,977,567
2022	2,977,567
2023	2,977,567
2024	2,977,567

Note 4: Line of Credit

The Company has a $5,000,000 revolving line of credit expiring in September 2019. At March 31, 2019 and 2018, there was $4,820,000 and $2,410,000 borrowed against this line, respectively. The line is collateralized by substantially all of the Company's assets and is guaranteed by the Parent, Suprajit Engineering Limited. Interest varies with the LIBOR rate plus 2.75%, which was 5.25% and 4.86% on March 31, 2019 and 2018, respectively. This line of credit was increased to $8,750,000 in April 2019.

In connection with this line of credit and term loan (see *Note 5*), the Company's Parent, Suprajit Engineering Limited, is required, among other things, to maintain certain financial conditions, including maintaining a consolidated debt service coverage, and a consolidated leverage ratio.

While the line of credit has a due date within one year of the issuance of these financial statements, the Company utilizes the financing for long-term operating purposes and does not have liquid funds available to repay the balance at maturity. Management intends to renew the line of credit on comparable terms at or near the maturity date and believes it is probable such renewal will be successful.

Note 5: Long-Term Debt

The Company has a term loan with a bank expiring in September 2021; principal payments are due in quarterly installments of $1,250,000, including interest at the LIBOR rate plus 2.30%. Unamortized debt issuance costs were $67,653 and $94,714 at March 31, 2019 and 2018, respectively. The effective interest rate was 4.82% and 3.92% for the years ended March 31, 2019 and 2018, respectively. At March 31, 2019 and 2018, the outstanding balance of the loan was $13,750,000 and $18,750,000, respectively. The line is collateralized by substantially all of the Company's assets and is guaranteed by the Parent, Suprajit Engineering Limited.

Annual maturities of long-term debt payments at March 31, 2019 are:

2020	$ 6,250,000
2021	5,000,000
2022	2,500,000
	$ 13,750,000

Note 6: Derivative Financial Instruments

Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement during 2018 for a portion of its floating rate debt. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 2.42% on amortizing notional amounts of $13,750,000 at March 31, 2019. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The agreement ends on September 8, 2021.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

With the adoption of Accounting Standards Update 2014-03, Derivatives and Hedging (Topic 815): *Accounting for Certain Receive – Variable, Pay Fix Interest Rate Swaps – Simplified Hedge Accounting Approach*, the Company can assume no ineffectiveness for qualifying swaps when applying hedge accounting under Topic 815.

The table below presents certain information regarding the Company's interest rate swap agreement designated as a cash flow hedge. The Company did not have any derivative instruments at March 31, 2019 and 2018, which were not designated as hedging instruments.

		2019	2018
	Balance sheet location of fair value amount		
Fair value of interest rate swap agreement	Other assets / (Other liabilities)	$ (4,429)	$ 39,794
	Income statement location		
Gain (loss) reclassified from accumulated other comprehensive income into income (monthly settlement)	Interest expense	$ 3,092	$ (187,624)

Note 7: Income Taxes

The benefit for income taxes includes these components:

	2019	2018
Taxes currently payable	$ 25,771	$ 1,039,600
Deferred income taxes	(409,870)	(863,000)
Adjustment of deferred taxes for enacted changes in tax laws	-	(1,983,600)
Income tax benefit	$ (384,099)	$ (1,807,000)

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2019	2018
Computed at the statutory rate		
2019 - 21%, 2018 - 31%	$ (330,200)	$ 45,000
Increase (decrease) resulting from		
Goodwill amortization	74,800	109,800
Nondeductible expenses	4,700	(68,000)
State income taxes	(56,600)	11,000
Adjustment of deferred taxes for enacted changes in tax laws	-	(1,983,600)
Other	(76,799)	78,800
Actual tax benefit	$ (384,099)	$ (1,807,000)

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2019	2018
Deferred tax assets		
Allowance for doubtful accounts	$ 8,900	$ 1,100
Inventory overhead costs capitalized for tax purposes	361,400	286,500
Obsolete inventory reserve	187,600	93,300
Accrued expenses	118,000	122,200
Amortization	16,800	9,300
Warranty reserve	-	135,000
Deferred compensation	4,800	4,800
Interest rate swap agreement	930	-
Other	170	-
Deferred tax liabilities		
Depreciation	(1,500,700)	(1,505,300)
Prepaids	(52,500)	(50,200)
Goodwill and other intangibles	(3,758,800)	(4,120,900)
Interest rate swap agreement	-	(8,357)
Net deferred tax liability	$ (4,613,400)	$ (5,032,557)

On December 22, 2017, the United States enacted tax reform legislation through the *Tax Cuts and Jobs Act*, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, as well as other changes. As a result of enactment of the legislation, the Company incurred additional one-time income tax benefit of approximately $1,983,600 during the first quarter of fiscal year 2018, primarily related to the remeasurement of certain deferred tax assets and liabilities.

Note 8: Employee Benefit Plans

The Company's wholly-owned subsidiary sponsors a defined contribution 401(k) plan that covers substantially all employees. The subsidiary contributes a specified percentage of each participant's annual compensation up to certain limits defined in the 401(k) plan. The subsidiary's charge to expense amounted to approximately $438,000 and $409,000 for the years ended March 31, 2019 and 2018, respectively.

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2019				
Liabilities				
Interest rate swap	$ (4,429)	$ -	$ (4,429)	$ -
March 31, 2018				
Assets				
Interest rate swap	$ 39,794	$ -	$ 39,794	$ -

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 10: Related Party Transactions

The payable to Parent in the accompanying consolidated balance sheet represents amounts due to the Parent related to reimbursed expenses for which the Parent paid on the Company's behalf.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Major Customers

Three customers made up approximately 44% and 46% of the Company's total revenue during the years ended March 31, 2019 and 2018, respectively. At March 31, 2019 and 2018, credit extended to these customers was approximately 24% and 53% of accounts receivable, respectively.

Major Supplier

The Company purchases most of its contract labor and rents the facility used for manufacturing at its Juarez, Mexico location from one supplier.

Note 12: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment 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 those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Company is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Company is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is not expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Suprajit USA, Inc.
Consolidating Balance Sheet
March 31, 2019

Assets

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
Current Assets					
Cash	$ 1,336,519	$ 43,780	$ 1,380,299	$ -	$ 1,380,299
Accounts receivable	87,936	3,981,473	4,069,409	(81,861)	3,987,548
Inventories	-	10,533,276	10,533,276	-	10,533,276
Prepaid expenses and other	155,592	214,944	370,536	-	370,536
Refundable income taxes	14,015	211,531	225,546	-	225,546
Total current assets	1,594,062	14,985,004	16,579,066	(81,861)	16,497,205
Property and Equipment, at Cost					
Land and land improvements	-	579,766	579,766	-	579,766
Buildings and leasehold improvements	-	2,601,102	2,601,102	-	2,601,102
Machinery and equipment	-	6,150,497	6,150,497	-	6,150,497
Office equipment	-	1,177,429	1,177,429	-	1,177,429
Transportation equipment	-	44,097	44,097	-	44,097
Construction in progress	-	65,415	65,415	-	65,415
	-	10,618,306	10,618,306	-	10,618,306
Less accumulated depreciation and amortization	-	(3,015,315)	(3,015,315)	-	(3,015,315)
	-	7,602,991	7,602,991	-	7,602,991
Other Assets					
Investment in subsidiary	39,106,840	-	39,106,840	(39,106,840)	-
Goodwill	-	12,594,699	12,594,699	-	12,594,699
Indefinite-lived intangible assets	-	1,420,000	1,420,000	-	1,420,000
Definite-lived intangible assets	-	13,398,361	13,398,361	-	13,398,361
	39,106,840	27,413,060	66,519,900	(39,106,840)	27,413,060
Total assets	$ 40,700,902	$ 50,001,055	$ 90,701,957	$ (39,188,701)	$ 51,513,256

Liabilities and Stockholder's Equity

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
Current Liabilities					
Current maturities of long-term debt	$ 6,250,000	$ -	$ 6,250,000	$ -	$ 6,250,000
Line of credit	4,820,000	-	4,820,000	-	4,820,000
Accounts payable	-	4,984,575	4,984,575	-	4,984,575
Payable to parent	-	81,861	81,861	(81,861)	-
Accrued interest	81,861	6,075	87,936	-	87,936
Accrued salaries, wages and commissions	-	291,450	291,450	-	291,450
Accrued vacation	-	437,018	437,018	-	437,018
Accrued other	-	208,758	208,758	-	208,758
Total current liabilities	11,151,861	6,009,737	17,161,598	(81,861)	17,079,737
Long-Term Liabilities					
Long-term debt, less current maturities	7,500,000	(67,653)	7,432,347	-	7,432,347
Interest rate swap agreement	4,429	-	4,429	-	4,429
Deferred income taxes	(16,800)	4,630,200	4,613,400	-	4,613,400
Other long-term liabilities	-	321,931	321,931	-	321,931
Total long-term liabilities	7,487,629	4,884,478	12,372,107	-	12,372,107
Stockholder's Equity					
Preferred stock	-	-	-	-	-
Common stock	1,000	-	1,000	-	1,000
Additional paid-in capital	20,999,000	37,926,578	58,925,578	(37,926,578)	20,999,000
Retained earnings	1,064,911	1,180,262	2,245,173	(1,180,262)	1,064,911
Accumulated other comprehensive loss	(3,499)	-	(3,499)	-	(3,499)
Total stockholder's equity	22,061,412	39,106,840	61,168,252	(39,106,840)	22,061,412
Total liabilities and stockholder's equity	$ 40,700,902	$ 50,001,055	$ 90,701,957	$ (39,188,701)	$ 51,513,256

Suprajit USA, Inc.
Consolidating Statement of Operations and Comprehensive Loss
Year Ended March 31, 2019

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
Net Sales	$ -	$ 40,960,674	$ 40,960,674	$ -	$ 40,960,674
Cost of Goods Sold	-	33,275,713	33,275,713	-	33,275,713
Gross Profit	-	7,684,961	7,684,961	-	7,684,961
Selling, General and Administrative Expenses	54,446	8,181,394	8,235,840	-	8,235,840
Operating Loss	(54,446)	(496,433)	(550,879)	-	(550,879)
Other Income (Expense)					
Interest expense	-	(970,664)	(970,664)	-	(970,664)
Other	130	(51,044)	(50,914)	-	(50,914)
	130	(1,021,708)	(1,021,578)	-	(1,021,578)
Loss Before Income Taxes	(54,316)	(1,518,141)	(1,572,457)	-	(1,572,457)
Credit for Income Taxes	(9,098)	(375,001)	(384,099)	-	(384,099)
Net Loss From Subsidiary	(1,143,140)	-	(1,143,140)	1,143,140	-
Net Loss	(1,188,358)	(1,143,140)	(2,331,498)	1,143,140	(1,188,358)
Other Comprehensive Loss					
Change in fair value of rate swap agreement, net of taxes of $(9,287)	(34,936)	-	(34,936)	-	(34,936)
Comprehensive Loss	$ (1,223,294)	$ (1,143,140)	$ (2,366,434)	$ 1,143,140	$ (1,223,294)

Suprajit USA, Inc.
Consolidating Statement of Cash Flows
Year Ended March 31, 2019

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
Operating Activities					
Net loss	$ (1,188,358)	$ (1,143,140)	$ (2,331,498)	$ 1,143,140	$ (1,188,358)
Items not requiring (providing) cash					
Depreciation and amortization	-	4,269,041	4,269,041	-	4,269,041
Amortization of debt issuance costs	-	27,061	27,061	-	27,061
Loss on sale of property and equipment	-	30,267	30,267	-	30,267
Deferred income taxes	(6,570)	(403,300)	(409,870)	-	(409,870)
Equity in loss of subsidiary	1,143,140	-	1,143,140	(1,143,140)	-
Changes in					
Accounts receivable	(359)	3,104,391	3,104,032	(5,716)	3,098,316
Inventories	-	(1,975,264)	(1,975,264)	-	(1,975,264)
Related party receivables/payables	-	(44,937)	(44,937)	5,716	(39,221)
Prepaid expenses and other	45,208	5,551	50,759	-	50,759
Income tax refundable or payable	(2,528)	(682,901)	(685,429)	-	(685,429)
Accounts payable	-	1,442,325	1,442,325	-	1,442,325
Accrued liabilities	(5,717)	(761,297)	(767,014)	-	(767,014)
Net cash provided by (used in) operating activities	(15,184)	3,867,797	3,852,613	-	3,852,613
Investing Activities					
Purchase of property and equipment	-	(1,266,835)	(1,266,835)	-	(1,266,835)
Net cash used in investing activities	-	(1,266,835)	(1,266,835)	-	(1,266,835)
Financing Activities					
Borrowings under line-of-credit agreement	19,040,000	-	19,040,000	-	19,040,000
Payments under line-of-credit agreement	(16,630,000)	-	(16,630,000)	-	(16,630,000)
Principal payments on long-term debt	(5,000,000)	-	(5,000,000)	-	(5,000,000)
Return of capital (paid) received from subsidiary	2,590,000	(2,590,000)	-	-	-
Net cash used in financing activities	-	(2,590,000)	(2,590,000)	-	(2,590,000)
Increase (Decrease) in Cash	(15,184)	10,962	(4,222)	-	(4,222)
Cash, Beginning of Year	1,351,703	32,818	1,384,521	-	1,384,521
Cash, End of Year	$ 1,336,519	$ 43,780	$ 1,380,299	$ -	$ 1,380,299