

# **Suprajit USA, Inc.**

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2021 and 2020

**Suprajit USA, Inc.**  
**March 31, 2021 and 2020**

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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, 2021 and 2020, and the related consolidated statements of operations and comprehensive 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, 2021 and 2020, 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 consolidated 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 25, 2021

**Suprajit USA, Inc.**  
**Consolidated Balance Sheets**  
**March 31, 2021 and 2020**

**Assets**

	<b>2021</b>	<b>2020</b>
<b>Current Assets</b>		
Cash	\$ 1,605,570	\$ 1,813,130
Accounts receivable, net of allowance; 2021 - \$83,587; 2020 - \$22,188	4,521,619	3,265,172
Inventories, net	7,343,144	7,119,152
Prepaid expenses and other	259,929	305,027
Refundable income taxes	192,826	314,163
Total current assets	13,923,088	12,816,644
 <b>Property and Equipment, at Cost</b>		
Land and land improvements	579,766	579,766
Buildings and leasehold improvements	4,373,066	2,932,930
Machinery and equipment	6,302,095	6,248,418
Office equipment	1,219,332	1,232,721
Transportation equipment	44,097	44,097
Construction in progress	-	8,838
	12,518,356	11,046,770
Less accumulated depreciation and amortization	(5,501,476)	(4,269,544)
	7,016,880	6,777,226
 <b>Other Assets</b>		
Goodwill, net	9,207,257	10,900,978
Indefinite-lived intangible assets	1,420,000	1,420,000
Definite-lived intangible assets, net	10,830,669	12,114,515
	21,457,926	24,435,493
Total assets	\$ 42,397,894	\$ 44,029,363

## Liabilities and Stockholder's Equity

	<u>2021</u>	<u>2020</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 5,424,792	\$ 6,250,000
Line of credit	8,000,000	7,000,000
Accounts payable	4,203,821	3,481,202
Accrued interest	42,885	42,025
Accrued salaries, wages and commissions	161,533	354,643
Accrued vacation	338,696	393,552
Operating lease liability	348,178	262,338
Accrued other	133,149	216,892
	<u>18,653,054</u>	<u>18,000,652</u>
<b>Long-term Liabilities</b>		
Long-term debt, less current maturities	474,577	2,459,408
Interest rate swap agreement	19,460	113,850
Deferred income taxes	3,522,800	3,920,622
Other long-term liabilities	185,853	221,222
Operating lease liability, less current maturities	1,305,666	-
	<u>5,508,356</u>	<u>6,715,102</u>
<b>Stockholder's Equity</b>		
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 deficit	(2,748,142)	(1,596,449)
Accumulated other comprehensive loss	(15,374)	(89,942)
	<u>18,236,484</u>	<u>19,313,609</u>
Total stockholder's equity	<u>18,236,484</u>	<u>19,313,609</u>
Total liabilities and stockholder's equity	<u>\$ 42,397,894</u>	<u>\$ 44,029,363</u>

**Suprajit USA, Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**Years Ended March 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Net Sales</b>	\$ 38,201,314	\$ 37,432,345
<b>Cost of Goods Sold</b>	<u>32,361,943</u>	<u>32,788,944</u>
<b>Gross Profit</b>	5,839,371	4,643,401
<b>Selling, General and Administrative Expenses</b>	<u>6,953,040</u>	<u>7,241,583</u>
<b>Operating Loss</b>	<u>(1,113,669)</u>	<u>(2,598,182)</u>
<b>Other Income (Expense)</b>		
Interest expense	(482,850)	(795,595)
Other	<u>23,020</u>	<u>(35,891)</u>
	<u>(459,830)</u>	<u>(831,486)</u>
<b>Loss Before Income Taxes</b>	(1,573,499)	(3,429,668)
<b>Benefit for Income Taxes</b>	<u>(421,806)</u>	<u>(768,308)</u>
<b>Net Loss</b>	(1,151,693)	(2,661,360)
<b>Other Comprehensive Income (Loss)</b>		
Change in fair value of rate swap agreement, net of taxes of \$19,822 in 2021 and \$(22,978) in 2020	<u>74,568</u>	<u>(86,443)</u>
<b>Comprehensive Loss</b>	<u>\$ (1,077,125)</u>	<u>\$ (2,747,803)</u>

**Suprajit USA, Inc.**  
**Consolidated Statements of Stockholder's Equity**  
**Years Ended March 31, 2021 and 2020**

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, April 1, 2019</b>	\$ 1,000	\$ 20,999,000	\$ 1,064,911	\$ (3,499)	\$ 22,061,412
Net loss	-	-	(2,661,360)	-	(2,661,360)
Other comprehensive loss, net	-	-	-	(86,443)	(86,443)
<b>Balance, March 31, 2020</b>	1,000	20,999,000	(1,596,449)	(89,942)	19,313,609
Net loss	-	-	(1,151,693)	-	(1,151,693)
Other comprehensive income, net	-	-	-	74,568	74,568
<b>Balance, March 31, 2021</b>	<u>\$ 1,000</u>	<u>\$ 20,999,000</u>	<u>\$ (2,748,142)</u>	<u>\$ (15,374)</u>	<u>\$ 18,236,484</u>

**Suprajit USA, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Net loss	\$ (1,151,693)	\$ (2,661,360)
Items not requiring (providing) cash		
Depreciation and amortization	4,578,258	4,607,452
Amortization of debt issuance costs	27,061	27,061
Loss on sale of property and equipment	803	25,342
Deferred income taxes	(417,644)	(669,800)
Changes in		
Accounts receivable	(1,256,447)	722,376
Inventories	(223,992)	3,414,124
Related party receivables/payables	19,934	(6,075)
Prepaid expenses and other	45,098	65,509
Income taxes refundable	121,337	(88,617)
Accounts payable	722,619	(1,503,373)
Operating lease liability	(349,382)	(349,784)
Accrued liabilities	(386,152)	(112,684)
Net cash provided by operating activities	1,729,800	3,470,171
<b>Investing Activities</b>		
Purchase of property and equipment	(101,363)	(217,340)
Proceeds on sale of property and equipment	1,103	-
Net cash used in investing activities	(100,260)	(217,340)
<b>Financing Activities</b>		
Borrowings under line-of-credit agreement	8,905,000	9,479,000
Payments under line-of-credit agreement	(7,905,000)	(7,299,000)
Principal payments on long-term debt	(5,000,000)	(5,000,000)
Proceeds from Paycheck Protection Program loan	2,162,900	-
Net cash used in financing activities	(1,837,100)	(2,820,000)
<b>Increase (Decrease) in Cash</b>	(207,560)	432,831
<b>Cash, Beginning of Year</b>	1,813,130	1,380,299
<b>Cash, End of Year</b>	\$ 1,605,570	\$ 1,813,130
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 454,929	\$ 814,445
Income taxes paid, net of refunds	\$ (90,571)	\$ (9,891)
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,740,888	\$ 612,122

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**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 the consolidated 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 consolidated 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 of consideration due from customers, the majority of which are original equipment manufacturers, of which the Company has an unconditional right to receive plus any accrued and unpaid interest. 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.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

Accounts receivable are ordinarily due 30 days after the issuance of the invoice for the majority of customers and up to 120 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.

***Inventories***

Inventories consist of raw materials, work in process and finished goods. Inventories are stated at the lower of standard cost or 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. Leasehold improvements and ROU assets under operating leases 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 \$1,600,691 and \$1,629,885 for the years ended March 31, 2021 and 2020, 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.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

***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 2021 and 2020, 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 2021 or 2020.

***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, 2021 and 2020, and is included in interest expense. Total accumulated amortization at March 31, 2021 and 2020, was \$121,775 and \$94,714, respectively.

The net deferred financing cost of \$13,531 related to long-term debt is offsetting debt in the long-term liabilities section on the consolidated balance sheet.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

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 when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. See *Note 8* for additional information about the Company's revenue.

***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.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Paycheck Protection Program (PPP) Loan**

The Company received a PPP loan established by the *CARES Act* and has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized. See additional discussion in *Note 5*.

**Comprehensive Income (Loss)**

Comprehensive income consists of net income (loss) and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) 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 25, 2021, which is the date the financial statements were available to be issued.

**Note 2: Inventories**

Inventory consisted of the following at March 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Manufacturing inventories		
Raw materials	\$ 6,061,096	\$ 5,881,010
Work-in-process and finished goods	2,168,707	2,151,914
	<u>8,229,803</u>	<u>8,032,924</u>
Reserve for obsolescence	(886,659)	(913,772)
	<u>\$ 7,343,144</u>	<u>\$ 7,119,152</u>

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Note 3: Acquired Intangible Assets and Goodwill**

The carrying basis and accumulated amortization of recognized intangible assets at March 31, 2021 and 2020, were:

	Weighted Average Amortization Period	2021		2020	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets					
Customer relationships	13 years	\$ 16,850,000	\$ 6,019,331	\$ 16,850,000	\$ 4,735,485
Goodwill	10 years	16,937,212	7,729,955	16,937,212	6,036,234
		<u>\$ 33,787,212</u>	<u>\$ 13,749,286</u>	<u>\$ 33,787,212</u>	<u>\$ 10,771,719</u>
Indefinite-lived intangible assets					
Tradename		<u>\$ 1,420,000</u>		<u>\$ 1,420,000</u>	

Amortization expense for the years ended March 31, 2021 and 2020, was \$2,977,567 for both years. Estimated amortization expense for each of the following five years is:

2022	\$ 2,977,567
2023	2,977,567
2024	2,977,567
2025	2,977,567
2026	2,977,567

**Note 4: Line of Credit**

The Company has a \$12,500,000 revolving line of credit expiring in May 2021. Effective May 25, 2021, the Company renewed the line of credit through May 2022. At March 31, 2021 and 2020, there was \$8,000,000 and \$7,000,000 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 2.86% and 3.75% on March 31, 2021 and 2020, respectively.

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.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Note 5: Long-term Debt**

	<b>2021</b>	<b>2020</b>
Note payable, bank (A)	\$ 3,750,000	\$ 8,750,000
Note payable, bank (B)	2,162,900	-
	5,912,900	8,750,000
Less current maturities	(5,424,792)	(6,250,000)
Less deferred financing costs	(13,531)	(40,592)
	\$ 474,577	\$ 2,459,408

(A) 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 \$13,531 and \$40,952 at March 31, 2021 and 2020, respectively. The effective interest rate was 2.50% and 3.75% for the years ended March 31, 2021 and 2020, respectively. The line is collateralized by substantially all of the Company's assets and is guaranteed by the Parent, Suprajit Engineering Limited.

(B) Due May 1, 2022; payable \$115,267 monthly, including interest at 1.00%, beginning in September 2021; fully guaranteed by the U.S. Small Business Administration (SB) through the Paycheck Protection Program (PPP) under the *CARES Act*. The Company expects the loan to be forgiven in a subsequent period once required criteria are met. Such forgiveness will be recognized as a gain in the financial statements in the period the debt is legally released.

Aggregate annual maturities of long-term debt payments at March 31, 2021, are:

2022	\$ 5,424,792
2023	488,108
	\$ 5,912,900

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**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 \$2,500,000 at March 31, 2021. 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, 2021 and 2020, which were not designated as hedging instruments.

		<b>2021</b>	<b>2020</b>
	Balance sheet location of fair value amount		
Fair value of interest rate swap	Long-term liabilities	\$ (19,460)	\$ (113,850)
	Income statement location		
Loss reclassified from accumulated other comprehensive income into income (monthly settlement)	Interest expense	\$ 100,536	\$ 15,768

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Note 7: Leases**

***Accounting Policies***

The Company determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines lease classification as operating or finance at the lease commencement date.

The Company combines lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its manufacturing and warehouse space.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. As the leases did not provide an implicit rate, the Company used its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the Company is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Company has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

***Nature of Leases***

The Company has entered into the following lease arrangements:

***Operating Leases***

The Company leases two facilities for manufacturing and warehouse space that expire on January 1, 2026. There are no remaining lease renewal options under the agreement. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

***All Leases***

The Company has no material related-party leases.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Quantitative Disclosures**

The ROU assets obtained in exchange for operating lease liabilities are classified within buildings and leasehold improvements in the consolidated balance sheets.

	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 349,382	\$ 349,784
Other information:		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 362,752	\$ 362,752
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,740,888	\$ 612,122
Remaining operating lease term	4.75 years	.75 years
Operating lease discount rate	3.0%	5.0%

Future minimum lease payments and reconciliation to the consolidated balance sheet at March 31, 2021, are as follows:

	<u>Operating Leases</u>
2022	\$ 364,299
2023	370,518
2024	376,861
2025	383,331
2026	<u>291,192</u>
Total future undiscovered lease payments	1,786,201
Less interest	<u>(132,357)</u>
Lease liabilities	<u>\$ 1,653,844</u>

**Note 8: Revenue from Contracts with Customers**

**Performance Obligations**

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring distinct goods or providing services to customers.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
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The Company's revenue consists substantially of mechanical controls sales and is reported net of sales discounts, rebates, incentives, returns and other allowances offered to customers. The Company recognizes revenue when performance obligations under the terms of contracts with its customers are satisfied, which occurs when control passes to a customer to enable them to direct the use of and obtain benefit from a product. This typically occurs when a customer obtains legal title, obtains the risks and rewards of ownership, has received the goods according to the contractual shipping terms either at the shipping point or destination and is obligated to pay for the product. All of the Company's revenue is recognized at a point in time. Customary terms require payment within 30 days, and for certain customers, deposits may be required in advance of shipment.

***Accounting Policies and Practical Expedients Elected***

For shipping and handling activities, the Company is applying an accounting policy election, which allows an entity to account for shipping and handling activities as fulfillment activities rather than a promised good or service when the activities are performed, even if those activities are performed after the control of the good has been transferred to the customer. Therefore, the Company expenses shipping and handling costs at the time revenue is recognized. The Company classifies shipping and handling expenses in cost of goods sold in the consolidated statements of operations and comprehensive loss.

The Company is also applying an accounting policy election, which allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes the Company collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

For incremental costs of obtaining a contract, the Company elected a practical expedient, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period is less than one year. This election had an immaterial effect on the Company's consolidated financial statements.

**Note 9: Income Taxes**

The benefit for income taxes includes these components:

	<u>2021</u>	<u>2020</u>
Taxes currently payable	\$ (4,162)	\$ (98,508)
Deferred income taxes	<u>(417,644)</u>	<u>(669,800)</u>
Income tax benefit	<u>\$ (421,806)</u>	<u>\$ (768,308)</u>

**Suprajit USA, Inc.**  
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A reconciliation of income tax benefit at the statutory rate to the Company's actual income tax benefit is shown below:

	<u>2021</u>	<u>2020</u>
Computed at the statutory rate - 21%	\$ (330,435)	\$ (720,230)
Increase (decrease) resulting from		
Goodwill amortization	74,863	74,863
Nondeductible expenses	193	3,859
State income taxes	(61,088)	(105,405)
Rate differential on net operating loss carryback	(100,721)	-
Return to provision	12,124	(76,794)
Other	(16,742)	55,399
Actual tax benefit	<u>\$ (421,806)</u>	<u>\$ (768,308)</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets		
Allowance for doubtful accounts	\$ 22,600	\$ 6,000
Inventory overhead costs capitalized for tax purposes	262,600	254,200
Obsolete inventory reserve	227,300	242,200
Accrued expenses	108,100	106,300
Amortization	31,700	24,200
Deferred compensation	4,800	4,800
Interest expense limitation	-	191,200
Other	-	23,278
Deferred tax liabilities		
Depreciation	(1,093,500)	(1,326,600)
Prepays	(52,800)	(49,400)
Goodwill and other intangibles	(3,033,600)	(3,396,800)
Net deferred tax liability	<u>\$ (3,522,800)</u>	<u>\$ (3,920,622)</u>

**Note 10: 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 \$367,000 and \$386,000 for the years ended March 31, 2021 and 2020, respectively.

**Suprajit USA, Inc.**  
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**Note 11: 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 consolidated 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, 2021 and 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2021</b>				
<b>Liabilities</b>				
Interest rate swap	\$ (19,460)	\$ -	\$ (19,460)	\$ -
<b>March 31, 2020</b>				
<b>Liabilities</b>				
Interest rate swap	\$ (113,850)	\$ -	\$ (113,850)	\$ -

***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.

**Suprajit USA, Inc.**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**

**Note 12: 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 47% and 48% of the Company's total revenue during the years ended March 31, 2021 and 2020, respectively. At March 31, 2021 and 2020, credit extended to these customers was approximately 38% and 30% 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 13: COVID-19**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. As a result of the increased spread of COVID-19, economic uncertainties have arisen which may negatively affect financial results of operations and cash flows of the Company. Certain industries were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses. The Company operates in an industry deemed to be essential and therefore continued operations throughout imposed limitations.

The extent of the COVID-19 pandemic's adverse effect on the Company's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Company's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions and other government-imposed or recommended suspensions.

Because of these and other uncertainties, the Company cannot estimate the length or severity of the effect of the pandemic on the Company's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates.

## **Supplementary Information**

**Suprajit USA, Inc.**  
**Consolidating Schedule - Balance Sheet Information**  
**March 31, 2021**

**Assets**

	<b>Suprajit USA, Inc.</b>	<b>Wescon Controls, LLC</b>	<b>Total</b>	<b>Eliminating Entries</b>	<b>Consolidated</b>
<b>Current Assets</b>					
Cash	\$ 1,273,257	\$ 332,313	\$ 1,605,570	\$ -	\$ 1,605,570
Accounts receivable, net	79,116	4,521,619	4,600,735	(79,116)	4,521,619
Inventories, net	-	7,343,144	7,343,144	-	7,343,144
Prepaid expenses and other	65,175	194,754	259,929	-	259,929
Refundable income taxes	8,156	184,670	192,826	-	192,826
	<u>1,425,704</u>	<u>12,576,500</u>	<u>14,002,204</u>	<u>(79,116)</u>	<u>13,923,088</u>
<b>Property and Equipment, at Cost</b>					
Land and land improvements	-	579,766	579,766	-	579,766
Buildings and leasehold improvements	-	4,373,066	4,373,066	-	4,373,066
Machinery and equipment	-	6,302,095	6,302,095	-	6,302,095
Office equipment	-	1,219,332	1,219,332	-	1,219,332
Transportation equipment	-	44,097	44,097	-	44,097
Construction in progress	-	-	-	-	-
	<u>-</u>	<u>12,518,356</u>	<u>12,518,356</u>	<u>-</u>	<u>12,518,356</u>
Less accumulated depreciation and amortization	<u>-</u>	<u>(5,501,476)</u>	<u>(5,501,476)</u>	<u>-</u>	<u>(5,501,476)</u>
	<u>-</u>	<u>7,016,880</u>	<u>7,016,880</u>	<u>-</u>	<u>7,016,880</u>
<b>Other Assets</b>					
Investment in subsidiary	28,571,491	-	28,571,491	(28,571,491)	-
Goodwill, net	-	9,207,257	9,207,257	-	9,207,257
Indefinite-lived intangible assets	-	1,420,000	1,420,000	-	1,420,000
Definite-lived intangible assets, net	-	10,830,669	10,830,669	-	10,830,669
	<u>28,571,491</u>	<u>21,457,926</u>	<u>50,029,417</u>	<u>(28,571,491)</u>	<u>21,457,926</u>
Total assets	<u>\$ 29,997,195</u>	<u>\$ 41,051,306</u>	<u>\$ 71,048,501</u>	<u>\$ (28,650,607)</u>	<u>\$ 42,397,894</u>

## Liabilities and Stockholder's Equity

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 3,750,000	1,674,792	\$ 5,424,792	\$ -	\$ 5,424,792
Line of credit	8,000,000	-	8,000,000	-	8,000,000
Accounts payable	-	4,203,821	4,203,821	-	4,203,821
Payable to parent	-	79,116	79,116	(79,116)	-
Accrued interest	22,951	19,934	42,885	-	42,885
Accrued salaries, wages and commissions	-	161,533	161,533	-	161,533
Accrued vacation	-	338,696	338,696	-	338,696
Operating lease liability	-	348,178	348,178	-	348,178
Accrued other	-	133,149	133,149	-	133,149
Total current liabilities	<u>11,772,951</u>	<u>6,959,219</u>	<u>18,732,170</u>	<u>(79,116)</u>	<u>18,653,054</u>
<b>Long-term Liabilities</b>					
Long-term debt, less current maturities	-	474,577	474,577	-	474,577
Interest rate swap agreement	19,460	-	19,460	-	19,460
Deferred income taxes	(31,700)	3,554,500	3,522,800	-	3,522,800
Other long-term liabilities	-	185,853	185,853	-	185,853
Operating lease liability, less current maturities	-	1,305,666	1,305,666	-	1,305,666
Total long-term liabilities	<u>(12,240)</u>	<u>5,520,596</u>	<u>5,508,356</u>	<u>-</u>	<u>5,508,356</u>
<b>Stockholder's Equity</b>					
Preferred stock	-	-	-	-	-
Common stock	1,000	-	1,000	-	1,000
Additional paid-in capital	20,999,000	31,100,584	52,099,584	(31,100,584)	20,999,000
Retained earnings	(2,748,142)	(2,529,093)	(5,277,235)	2,529,093	(2,748,142)
Accumulated other comprehensive loss	(15,374)	-	(15,374)	-	(15,374)
Total stockholder's equity	<u>18,236,484</u>	<u>28,571,491</u>	<u>46,807,975</u>	<u>(28,571,491)</u>	<u>18,236,484</u>
Total liabilities and stockholder's equity	<u>\$ 29,997,195</u>	<u>\$ 41,051,306</u>	<u>\$ 71,048,501</u>	<u>\$ (28,650,607)</u>	<u>\$ 42,397,894</u>

**Suprajit USA, Inc.**  
**Consolidating Schedule - Statement of Operations and Comprehensive Loss**  
**Year Ended March 31, 2021**

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
Net Sales	\$ -	\$ 38,201,314	\$ 38,201,314	\$ -	\$ 38,201,314
Cost of Goods Sold	-	32,361,943	32,361,943	-	32,361,943
Gross Profit	-	5,839,371	5,839,371	-	5,839,371
Selling, General and Administrative Expenses	54,801	6,898,239	6,953,040	-	6,953,040
Operating Loss	(54,801)	(1,058,868)	(1,113,669)	-	(1,113,669)
Other Income (Expense)					
Interest expense	-	(482,850)	(482,850)	-	(482,850)
Other	-	23,020	23,020	-	23,020
	-	(459,830)	(459,830)	-	(459,830)
Loss Before Income Taxes	(54,801)	(1,518,698)	(1,573,499)	-	(1,573,499)
Benefit for Income Taxes	(5,885)	(415,921)	(421,806)	-	(421,806)
Net Loss From Subsidiary	(1,102,777)	-	(1,102,777)	1,102,777	-
Net Loss	(1,151,693)	(1,102,777)	(2,254,470)	1,102,777	(1,151,693)
Other Comprehensive Income					
Change in fair value of rate swap agreement, net of taxes of \$19,822	74,568	-	74,568	-	74,568
Comprehensive Loss	\$ (1,077,125)	\$ (1,102,777)	\$ (2,179,902)	\$ 1,102,777	\$ (1,077,125)

**Suprajit USA, Inc.**  
**Consolidating Schedule - Statement of Cash Flows**  
**Year Ended March 31, 2021**

	Suprajit USA, Inc.	Wescon Controls, LLC	Total	Eliminating Entries	Consolidated
<b>Operating Activities</b>					
Net loss	\$ (1,151,693)	\$ (1,102,777)	\$ (2,254,470)	\$ 1,102,777	\$ (1,151,693)
Items not requiring (providing) cash					
Depreciation and amortization	-	4,578,258	4,578,258	-	4,578,258
Amortization of debt issuance costs	-	27,061	27,061	-	27,061
Loss on sale of property and equipment	-	803	803	-	803
Deferred income taxes	(4,344)	(413,300)	(417,644)	-	(417,644)
Equity in loss of subsidiary	1,102,777	-	1,102,777	(1,102,777)	-
Changes in					
Accounts receivable	3,500	(1,256,447)	(1,252,947)	(3,500)	(1,256,447)
Inventories	-	(223,992)	(223,992)	-	(223,992)
Related party receivables/payables	-	16,434	16,434	3,500	19,934
Prepaid expenses and other	45,209	(111)	45,098	-	45,098
Income tax refundable	(1,541)	122,878	121,337	-	121,337
Accounts payable	-	722,619	722,619	-	722,619
Operating lease liability	-	(349,382)	(349,382)	-	(349,382)
Accrued liabilities	(19,074)	(367,078)	(386,152)	-	(386,152)
	<u>(25,166)</u>	<u>1,754,966</u>	<u>1,729,800</u>	<u>-</u>	<u>1,729,800</u>
Net cash provided by (used in) operating activities					
<b>Investing Activities</b>					
Purchase of property and equipment	-	(101,363)	(101,363)	-	(101,363)
Proceeds on sale of property and equipment	-	1,103	1,103	-	1,103
	<u>-</u>	<u>1,103</u>	<u>1,103</u>	<u>-</u>	<u>1,103</u>
Net cash used in investing activities	<u>-</u>	<u>(100,260)</u>	<u>(100,260)</u>	<u>-</u>	<u>(100,260)</u>
<b>Financing Activities</b>					
Borrowings under line-of-credit agreement	8,905,000	-	8,905,000	-	8,905,000
Payments under line-of-credit agreement	(7,905,000)	-	(7,905,000)	-	(7,905,000)
Principal payments on long-term debt	(5,000,000)	-	(5,000,000)	-	(5,000,000)
Return of capital (paid) received from subsidiary	4,006,000	(4,006,000)	-	-	-
Proceeds from Paycheck Protection Program loan	-	2,162,900	2,162,900	-	2,162,900
	<u>6,000</u>	<u>(1,843,100)</u>	<u>(1,837,100)</u>	<u>-</u>	<u>(1,837,100)</u>
Net cash provided by (used in) financing activities					
<b>Decrease in Cash</b>	(19,166)	(188,394)	(207,560)	-	(207,560)
<b>Cash, Beginning of Year</b>	<u>1,292,423</u>	<u>520,707</u>	<u>1,813,130</u>	<u>-</u>	<u>1,813,130</u>
<b>Cash, End of Year</b>	<u>\$ 1,273,257</u>	<u>\$ 332,313</u>	<u>\$ 1,605,570</u>	<u>\$ -</u>	<u>\$ 1,605,570</u>