WELSPUN PIPES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020 AND 2019

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Hudson Cisne & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Stockholders
Welspun Pipes, Inc. and Subsidiaries
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Welspun Pipes, Inc. and Subsidiaries, which are comprised of the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of income, changes in stockholders' 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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 principles 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.

audit
consulting
tax

11025 Anderson Drive, Suite 300
Little Rock, Arkansas 72212
p (501) 221-1000
f (501) 221-9236

221 West Chestnut Street
Rogers, Arkansas 72756
p (479) 636-3161
f (479) 636-1251

7300 Dollarway Rd., Suite 103
White Hall, Arkansas 71602
p (870) 267-1371
f (870) 267-1471

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Welspun Pipes, Inc. and Subsidiaries as of March 31, 2020 and 2019, 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.

Hudson, Cisne & Co. LLP

Little Rock, Arkansas
June 8, 2020

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets:		
Cash and cash equivalents	$ 43,103,143	$ 69,096,940
Certificate of deposit - restricted	2,293,269	2,610,587
Accounts receivable - trade, net of allowance	75,613,502	53,240,931
Interest receivable - related party	363,241	-
Inventories	116,506,499	277,738,721
Prepaid expenses, advances and other	1,738,903	7,640,822
Other governmental receivable	122,064	1,199,051
Advances - related party	3,566,853	9,307,595
Total current assets	243,307,474	420,834,647
Note receivable - related party	30,500,000	15,000,000
Other assets	586,336	297,371
Net property, plant and equipment	101,538,836	108,846,769
	$ 375,932,646	$ 544,978,787

LIABILITIES AND STOCKHOLDERS' EQUITY

	2020	2019
Current liabilities:		
Current portion of long-term debt, net of bond issuance costs	$ 24,861,383	$ 1,730,103
Current portion of capital leases	995,440	497,502
Line of credit	2,522,046	-
Accounts payable - trade	102,002,460	79,862,849
- related party	997,411	-
Income taxes payable	5,064,240	3,005,572
Accrued interest payable	530,272	1,614,578
Accrued expenses	2,776,592	2,569,289
Deferred revenue	22,479,928	197,636,720
Total current liabilities	162,229,772	286,916,613
Deferred income taxes	11,305,819	15,205,987
Long-term debt, less current maturities	14,831	76,240,880
Capital leases, less current maturities	2,228,592	1,939,814
Stockholders' equity:		
Common stock - $.0001 par value, 5,000 shares authorized, 1,000 shares issued and outstanding in 2020 and 2019	1	1
Additional paid in capital - common stock	10,000	10,000
Retained earnings	200,143,631	164,665,492
Total stockholders' equity	200,153,632	164,675,493
	$ 375,932,646	$ 544,978,787

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
Sales	$ 808,016,032	$ 675,907,186
Other revenue	-	2,227,529
Total operating revenue	808,016,032	678,134,715
Cost of goods sold	615,090,928	545,799,891
Gross profit	192,925,104	132,334,824
Selling, general and administrative expenses	89,825,074	71,529,742
Income from operations	103,100,030	60,805,082
Other income (expense):		
Interest income	1,791,906	844,930
Interest expense	(4,184,073)	(7,799,931)
Commission income	-	4,229
Government grant expense	(39,439)	-
Government grant income	-	3,541,549
Other income	744,238	2,756,261
Total other expense	(1,687,368)	(652,962)
Income before income taxes	101,412,662	60,152,120
Income tax expense	26,634,523	14,483,541
Net income	$ 74,778,139	$ 45,668,579

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2020 AND 2019

	Preferred Stock	Common Stock	Additional Paid-in Capital Preferred Stock
Balance at April 1, 2018	$ 1	$ 1	$ 8,570,265
Redemption of preferred stock - 47 shares	(1)	-	(8,570,265)
Net income	-	-	-
Balance at March 31, 2019	-	1	-
Net income	-	-	-
Dividends paid	-	-	-
Balance at March 31, 2020	$ -	$ 1	$ -

See accompanying notes.

Additional Paid-in Capital Common Stock	Retained Earnings	Total
$ 10,000	$ 130,426,647	$ 139,006,914
-	(11,429,734)	(20,000,000)
-	45,668,579	45,668,579
10,000	164,665,492	164,675,493
-	74,778,139	74,778,139
-	(39,300,000)	(39,300,000)
$ 10,000	$ 200,143,631	$ 200,153,632

WELSPUN PIPES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 74,778,139	$ 45,668,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,201,652	19,564,949
Amortization of bond issuance costs	720,944	649,090
Gain on sale of property and equipment	(8,950)	(8,113)
Changes in assets and liabilities:		
Accounts receivable - trade	(22,372,571)	(27,998,556)
- related party	-	3,717,126
Interest receivable - related party	(363,241)	-
Income taxes refundable	-	3,128,334
Inventories	161,232,222	(207,855,588)
Other governmental receivable	1,076,987	(1,199,051)
Prepaid expenses, advances and other	5,901,919	(2,086,610)
Advances - related party	5,740,742	(71,242)
Other assets	(288,965)	(297,371)
Accounts payable - trade	22,139,611	33,519,880
- related party	997,411	(383,333)
Income taxes payable	2,058,668	901,177
Accrued interest payable	(1,084,306)	1,614,576
Accrued expenses	207,303	(196,020)
Deferred revenue	(175,156,792)	197,628,307
Deferred income taxes	(3,900,168)	(565,092)
Net cash provided by operating activities	84,880,605	65,731,042
Cash flows from investing activities:		
Net increase in note receivable - related party	(15,500,000)	-
Proceeds from the sale of equipment	-	113,891
Proceeds (purchases) of certificate of deposit	317,318	(1,431,097)
Purchases of property, plant and equipment	(4,454,178)	(3,941,676)
Net cash used in investing activities	(19,636,860)	(5,258,882)
Cash flows from financing activities:		
Redemption of preferred stock - 47 shares in 2019	-	(20,000,000)
Net borrowings (repayments) on line of credit	2,522,046	(1,808,720)
Net repayments on capital leases	(643,875)	(180,590)
Dividends paid to shareholder	(39,300,000)	-
Repayments of long-term borrowings	(53,815,713)	(26,670,624)
Net cash used in financing activities	(91,237,542)	(48,659,934)
Net change in cash and restricted cash	(25,993,797)	11,812,226
Cash - beginning of year	69,096,940	57,284,714
Cash - end of year	$ 43,103,143	$ 69,096,940

See accompanying notes.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

Nature of operations

Welspun Pipes, Inc. ("WPI") and its wholly-owned subsidiaries (collectively, the "Company"), are organized and incorporated under the laws of the State of Delaware. WPI is a subsidiary of Welspun Corp Limited ("WCL" or the "Parent"), a limited liability company registered in India and listed on Indian Stock Exchanges, BSE and NSE. WPI was formed as a holding company and then formed two wholly-owned subsidiary companies, Welspun Tubular, LLC and Welspun Global Trade, LLC.

Welspun Tubular, LLC ("WTL") was formed to build a pipe manufacturing plant in Little Rock, Arkansas. The plant has a manufacturing capacity of 350,000 MT of pipes sized 24 - 60 inches in diameter and up to 1 inch in wall thickness. In addition to the pipe manufacturing plant, WTL also constructed a coating facility. The project was funded with $180 million of revenue bonds issued by the City of Little Rock, Arkansas and by financing from the Parent. In 2012, the Company constructed a small diameter, high frequency induction welded (HFIW) pipe plant in close proximity to the existing large diameter spiral plant. The HFIW plant began full commercial production by the end of March 2013. It has an annual capacity of 175,000 MT of pipes sized 6-20 inches in diameter and up to 0.6 inches in wall thickness.

Welspun Global Trade, LLC ("WGT") was formed to establish a marketing and sales presence in the United States. WGT is located in Houston, Texas.

Recently adopted accounting standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised 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 and services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which defers the effective date of this standard to annual and interim periods beginning after December 15, 2018; however, early adoption is permitted for annual and interim reporting periods beginning after December 15, 2017. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends certain aspects of the guidance in ASU 2014-09 on identifying performance obligations and licensing. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which amends certain aspects of the FASB's new revenue standard, ASU 2014-09. ASU 2016-12's effective date and transition provisions are aligned with the requirements in ASU 2014-09.

The guidance issued in ASU 2014-09, ASU 2015-14, ASU 2016-10 and ASU 2016-12 permit two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring a modified retrospective application of the new standard with the cumulative effect of initially applying the new standard recognized in retained earnings at the date of adoption. On January 1, 2019, the Company adopted the guidance using the modified retrospective approach and its adoption did not have a material impact on the financial position or financial statement disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU clarify and provide specific guidance on eight cash flow classification issues that are not currently addressed by current U.S. GAAP. This ASU was effective for the Company's year ended December 31, 2019 and had no impact on our financial statements.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Significant estimates include (1) the lives and methods used in computing depreciation expense and amortization of bond issuance costs, (2) the valuation of deferred tax assets and liabilities which are based on temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and their tax bases and (3) allowance for uncollectible accounts receivable. It is at least reasonably possible that a change in these estimates will occur in the near future.

Principles of consolidation

The consolidated financial statements include the accounts of WPI and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Accounts receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through the establishment of a valuation allowance based on its assessments of individual accounts. Uncollectible accounts are written off through the valuation allowance. The Company's valuation allowance as of March 31, 2020 and 2019, was $1,335,135 and $62,994, respectively.

Accounts receivable from a variety of customers potentially subjects the Company to concentrations of credit risk since the Company generally does not require collateral from its customers. Such credit risk is considered by management to be limited due to the Company's customer base and its customers' financial resources. At March 31, 2020, approximately 74% of accounts receivable was due from one customer and at March 31, 2019 approximately 88% of accounts receivable was due from two customers.

Inventories

Inventories consist of stores and spares, raw materials, work-in-process, and finished goods. Inventories are stated at the lower of cost (weighted average method) and net realizable value. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-down of inventories in the period in which such estimates have been changed.

During 2020, the price of steel significantly decreased which has affected the Company's raw materials, finished goods, and stores and spares inventories. Accordingly, at March 31, 2020, the Company has written down inventory to its estimated net realized value, and the results of operations for 2020 included a corresponding charge of $5,031,681.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method. Estimated useful lives by major asset classification are as follows:

Description	Estimated useful life
Buildings and land improvements	15 - 39 years
Machinery and equipment	10 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years
Computers and software	1 - 3 years
Yard equipment	10 years

Depreciation expense totaled $13,201,652 for 2020 and $19,564,949 for 2019.

Convertible Preferred Stock

On December 18, 2013 (the "Date of Issuance"), the Company issued 95 shares of Series A Convertible Preferred Stock, ("Convertible Shares") for $17,322,877. Upon conversion, the number of common shares received by the holders of the Convertible Shares depends on the length of time they held the Convertible Shares. If conversion took place prior to the first anniversary of the Date of Issuance, the conversion rate is 1.00, resulting in the issuance of 95 common shares. If conversion took place on or after the first anniversary but prior to the second anniversary, the conversion rate was 1.08421053, resulting in the issuance of 103 common shares. If conversion takes place on or after the second anniversary, the conversion rate is 1.16842105, resulting in the issuance of 111 common shares. The Company is required to reserve a minimum of 111 of its authorized but unissued common shares to satisfy the future conversion of these Convertible Shares.

On December 22, 2016, the Company issued a Call Option Tranche 1 letter requiring the holders to sell the Company 48 Series A Convertible Preferred Stock held by the holders ("Call Shares Tranche 1"), on or prior to, May 5, 2017 ("Call Option Tranche 1 Date"), at an aggregate price of $21,240,000 including call option premium ("Call Option Tranche 1 Price"). The Call Option Tranche 1 was exercised and paid by the Company on May 12, 2017.

On December 22, 2016, the Company issued a Call Option Tranche 2 letter requiring the Holders to sell the Company 47 Series A Convertible Preferred Stock held by the Holders ("Call Shares Tranche 2"), on or prior to, May 5, 2018 ("Call Option Tranche 2 Date"), at an aggregate price of $20,000,000 including call option premium ("Call Option Tranche 2 Price"). The Call Option Tranche 2 was exercised by the Company on May 4, 2018. Payment of the Call Option Tranche 2 Price was paid by the Company on May 4, 2018. The payment consisted of the $20,000,000 Call Option Tranche 2 Price. As of March 31, 2020 and 2019, the Company has no outstanding Preferred Stock issued and outstanding.

Note 1: Summary of significant accounting policies (continued)

Revenue recognition – sale of goods

The Company derives revenue principally from the sale of pipes based on customer contracts. The Company considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the Company expects to be entitled to in exchange for transferring of promised goods and services to the customer after deducting incentive programs, included but not limited to discounts and volume rebates. The Company recognizes revenue when it satisfies a performance obligation in accordance with the provisions of a contract with a customer. This is achieved when control of the product has been transferred to the customer, which is generally determined when title, ownership, risk of obsolescence and loss pass to the customer and the Company has the present right to payment, all of which occurs at a point in time upon shipment or delivery of the product. The Company usually considers freight activities as costs to fulfill the promise to transfer the related products and the customer payments for freight costs are recorded as a component of revenue. There are no assets or liabilities recorded in conjunction with revenue recognized, other than accounts receivable and deferred revenue.

At times bill and hold contracts are entered at the request of the customer. Revenue from bill and hold contracts is recognized at the agreed transaction price. The price for bill and hold contracts is determined at the time of entering into the transactions and the performance obligation is satisfied when the control of the pipes have been transferred to the customer.

Revenue recognition – sale of services

In certain customer contracts, the Company provides freight services to its customers and the Company recognizes revenue for such services when the performance obligation is completed. Revenue form providing freight services is recognized in the accounting period in which the services are rendered. The related freight costs incurred are included in freight expenses when the Company is acting as principal in the freight arrangement. The Company does not have any contracts with significant financing components where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds the credit period usually provided to customers in similar industry. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Deferred revenue primarily represents consideration received from customers in advance for unshipped orders. Deferred revenue totaled $22,479,928 and $197,636,720 at March 31, 2020 and 2019, respectively.

Pre-operation expenses

U.S. GAAP requires all expenses incurred prior to the start of operations to be expensed as incurred. However, interest costs incurred during a construction period is an example of an item that should be capitalized under existing U.S. GAAP. Accordingly, the Company expensed all other pre-operation expenses when incurred.

Sales taxes

Sales are reported net of taxes assessed by governmental authorities on revenue-producing transactions.

Shipping and handling costs

The Company's shipping and handling costs are included in selling, general and administrative expenses and totaled $56,916,387 for 2020 and $44,973,041 for 2019.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Advertising costs

Advertising costs are expensed when incurred and totaled $101,535 for 2020 and $103,157 for 2019.

Cash deposits in excess of insured limits

At various times during the years and at years end, the Company's deposits in Arkansas banks and international financial institutions exceeded federally insured limits. At March 31, 2020, the Company's uninsured cash balances totaled $27,606,697. However, the Company does not believe that it is subject to any unusual credit risk beyond the normal risk associated with commercial banking relationships.

Income taxes

The Company accounts for income taxes using an asset and liability approach. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial and income tax basis of assets and liabilities based on the tax law in effect at March 31, 2020 and 2019. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of their income tax provision. The previous three years of federal and state income tax returns are subject to potential examination by taxing authorities.

Statement of cash flows

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Cash payments for interest totaled $5,163,022 in 2020 and $6,304,980 in 2019. Cash payments for income tax totaled $24,786,000 in 2020 and $11,997,886 in 2019.

Certificates of deposit – restricted consists of amounts required to be deposited in a certificate of deposit, whose purpose is to serve as collateral for letters of credit issued with a financial institution. The certificates of deposits have maturity dates between six and twelve months.

Non-cash investing and financing transactions included financing of fixed asset equipment additions through capital lease obligations totaling $1,430,591 for 2020.

Non-cash investing and financing transactions included financing of fixed asset equipment additions through capital lease obligations totaling $2,617,906 for 2019.

Subsequent events

Accounting standards establish general guidelines of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated all subsequent events for potential recognition and disclosure through June 8, 2020, the date these financial statements were available to be issued.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Inventories

Inventories are composed of the following at March 31:

	2020	2019
Raw materials	$ 1,554,172	$ 85,631,081
Work-in-process	155,576	3,198,025
Finished goods	48,287,362	47,008,320
Raw materials in transit	2,002,200	127,057,676
Stores and spares	13,382,036	14,843,619
	$ 65,381,346	$ 277,738,721

Note 3: Other governmental receivable

The Company currently has a financial incentive agreement in place with the Arkansas Economic Development Commission ("AEDC"). The agreement is a ten year agreement dated January 5, 2012 which was initiated in conjunction with the Company's expansion and building of their small diameter pipe manufacturing plant. The AEDC provides the Company with a cash incentive based on the amount of new full-time permanent employees. The grant is specifically for capital expansion. The amount listed as "Other governmental receivable" on the consolidated balance sheet represents the Company's accrual for AEDC incentive benefits related to fiscal year ended March 31, 2020 and 2019, respectively. These benefits are expected to be received within the next fiscal year.

Note 4: Property, plant and equipment

The costs by major category of property, plant and equipment are as follows at March 31:

	2020	2019
Land	$ 4,781,981	$ 4,781,981
Land improvements	28,085,216	27,659,288
Buildings and improvements	63,737,636	63,528,556
Machinery and equipment	159,740,153	158,017,765
Furniture and fixtures	2,716,869	2,414,948
Vehicles	374,455	334,728
Capital work in process	1,999,281	946,830
Computers and software	731,533	705,323
Yard equipment	14,778,827	12,785,219
	276,945,951	271,174,638
Accumulated depreciation	(175,407,115)	(162,327,869)
Net property, plant and equipment	$ 101,538,836	$ 108,846,769

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Operating leases

During 2020, the Company had eleven operating leases for various equipment, copiers, and office space. The operating leases require monthly payments ranging from $212 to $18,086, maturing from March 2020 through June 2025.

Future minimum lease payments at March 31, 2020 are:

2021	$ 183,201
2022	56,210
2023	57,699
2024	59,188
2025	50,502
	$ 406,800

Rent expense totaled $2,005,583 for 2020 and $2,991,513 for 2019 and includes rent payments under operating leases, as well as other month to month equipment rentals.

Note 6: Available line of credit

The Company has a $50,000,000 line of credit agreement which allows for $50,000,000 in cash borrowings with an interest rate at 3.75% over the six month LIBOR rate (5.66% and 6.44% as of March 31, 2020 and 2019, respectively). The $50,000,000 line of credit includes $45,000,000 in letters of credit issuances and $5,000,000 in guarantees or standby letters of credit as sub-limits. The line of credit is subject to the borrowing base as defined in the borrowing agreement, matured in August 2019 and is secured by inventory and accounts receivable. The bank has extended the terms of the line of credit after maturity as it works with the Company on renewing the terms. At March 31, 2020 and 2019, the outstanding line of credit balance is $2,522,046 and $0, respectively.

Note 7: Long-term debt

Long-term debt, excluding capital leases, consists of the following at March 31:

	2020	2019
EXIM Import Bank of India long-term working capital loan (A)	$ -	$ 28,135,000
EXIM Import Bank of India loan, 2017 - ERW (B)	14,024,390	14,375,000
EXIM Import Bank of India loan, 2017 - HSAW (C)	10,975,610	11,250,000
City of Little Rock, Arkansas, Series 2015, revenue bonds (D)	-	3,806,780
EXIM Import Bank of India long-term preferred stock (E)	-	21,240,000
One Banc loan (F)	24,178	33,112
	25,024,178	78,839,892
Current maturities	(24,861,383)	(1,730,103)
Unamortized bond issuance costs	(147,964)	(868,909)
Long-term debt, net of bond issuance costs, less current maturities, excluding capital leases	$ 14,831	$ 76,240,880

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Long-term debt

(A) Note scheduled to mature on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.87% as of March 31, 2019), payable in four equal installments of $7,033,750, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment. The Company made a $25,000,000 prepayment on the working capital loan in the year ending March 31, 2019. The Company prepaid the remaining $28,135,000 balance in full in the year ending March 31, 2020.

(B) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.16% and 5.87% as of March 31, 2020 and 2019), payable in four equal installments of $3,593,750, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment. The Company made a $350,610 prepayment on the loan during the year ending March 31, 2020.

(C) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.16% and 5.87% as of March 31, 2020 and 2019), payable in four equal installments of $2,812,500, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment. The Company made a $274,390 prepayment on the loan during the year ending March 31, 2020.

(D) City of Little Rock, Arkansas Taxable Industrial Development Refunding Revenue Bond, Series 2015, due through May 2021; payable $152,250 monthly, including interest, at 3.50%, secured by the Company's property, plant and equipment. The Company repaid the remaining $3,806,780 balance in full in the year ending March 31, 2020.

(E) Note maturing on February 23, 2022. Interest accrues at 3.25% over the three-month LIBOR rate (5.16% and 5.87% as of March 31, 2020 and 2019), payable in four equal installments of $5,310,000, due every six months beginning August 31, 2020, secured by the Company's property, plant and equipment. The Company paid the $21,240,000 balance on the loan in full during the year ending March 31, 2020.

(F) 4.50% note payable to One Banc, secured by vehicle, $854 of principal and interest due monthly plus final payment equal to all unpaid principal and accrued interest on September 25, 2022.

Maturities of long-term debt, excluding capital leases, at March 31, 2020 are:

For the years ending in:	
2021	$ 24,861,383
2023	9,777
2023	5,054
	$ 24,876,214

The bank notes contain restrictive covenants including a minimum net worth requirement and a net earnings requirement. These covenants also include restrictions on borrowings from others and a restriction on prepayment of the subordinated debt. Under the note agreements, the Company has ninety days to recover from any noncompliance with covenants or restrictions that are not met.

Note 7: Long-term debt (continued)

The EXIM Import Bank of India long-term working capital loan, EXIM Import Bank of India loan, 2017 – ERW, the EXIM Import Bank of India loan, 2017 – HSAW, and the EXIM Import Bank of India loan long-term preferred stock are part of a loan agreement dated February 23, 2017 for $100,000,000 with the EXIM Import Bank of India. The issuance of this loan is in two different $50,000,000 issuances. On February 23, 2017, EXIM Bank of India issued the first issuance of $50,000,000 to the Company. On May 5, 2017, EXIM Bank of India issued the second issuance of $50,000,000 to the Company. As of March 31, 2020, $25,000,000 is outstanding related to this loan.

The long-term debt deferred issuance costs incurred in connection with the City of Little Rock, Arkansas Taxable Industrial Development Revenue Bonds (Welspun Tubular, LLC Project), Series 2015 totaled $162,861. The deferred long-term debt issuance costs are being amortized over five years to match the life of the related bonds in a method not materially different from the effective interest method. Amortization expense related to the Series 2015 bonds totaled $84,184 and $28,783 for the years ended March 31, 2020 and 2019, respectively. Included in amortization expenses at March 31, 2020 is $42,101 of accelerated amortization expense related to the early payment in full of the Series 2015 bond. The gross carrying value of the long-term debt issuance costs related to these loans was $162,861 as of March 31, 2020 and 2019. The accumulated amortization related to these bonds with issuance costs was $162,861 and $78,677 as of March 31, 2020 and 2019, respectively.

The long-term debt issuance costs incurred in connection with the EXIM Bank of India long-term working capital loan, 2017 ERW loan, 2017 HSAW loan, and the Preferred Stock loan totaled $1,789,421 at March 31, 2020 and 2019. The deferred long-term debt issuance costs are being amortized over five years to match the life of the related bonds in a method not materially different from the effective interest method. Amortization expense related to these bond issuance costs totaled $636,761 and $620,307 as of March 31, 2020 and 2019, respectively. Included in amortization expense at March 31, 2020 is $257,838 of accelerated amortization expense related to the $50,000,000 prepayment of the EXIM Bank of India long-term working capital loan. The accumulated amortization related to these bond issuance costs was $1,641,457 and $1,004,696 as of March 31, 2020 and 2019, respectively.

Future amortization expenses are as follows at March 31, 2020:

2021	$ 147,964

Note 8: Capital lease obligations

The Company leases certain equipment under several capital lease agreements which have terms ranging from 24 to 60 monthly installments. Interest rates contained in the capital leases range from 3.77% to 10.41%.

Scheduled maturities of payments on capital lease obligations at March 31, 2020, are as follows:

For the years ending in:	
2021	$ 1,084,007
2022	1,067,953
2023	940,321
2024	319,279
	3,411,560
Amount representing interest	(187,528)
Present value of future minimum lease payments	3,224,032
Current portion	(995,440)
Long-term portion	$ 2,228,592

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Capital lease obligations

The cost and related accumulated depreciation of assets under capital leases are included in net property, plant, and equipment at March 31, 2020 as follows:

Equipment	$ 4,059,216
Accumulated depreciation	(429,399)
	$ 3,629,817

Note 9: Income taxes

There are significant items such as depreciation expense and pre-operative costs that are computed differently for financial versus income tax reporting. Deferred income taxes are provided for on these items.

Income tax expense consists of the following for the fiscal year ended March 31:

	2020	2019
Current income tax provision	$ 30,678,908	$ 15,048,633
Deferred benefit	(4,044,385)	(565,092)
	$ 26,634,523	$ 14,483,541

The income tax expense varies from the statutory U.S. rate primarily due to state income taxes, federal tax credits, and certain non-deductible items.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Total net deferred tax liabilities as of March 31 are as follows:

	2020	2019
Deferred tax asset:		
Pre-operative costs	$ 1,018,009	$ 1,309,214
Provisions for bad debt	440,243	86,073
Other benefits	354,105	548,061
Provision for expense	1,109,803	-
Provision for litigation	134,410	-
Inventory write down	1,363,113	-
Deferred tax liability:		
Depreciation	(15,725,502)	(17,149,335)
Net deferred income tax liability	$ (11,305,819)	$ (15,205,987)

Note 10: Related party transactions

On January 5, 2015, the Company entered into a loan agreement with a related party for an amount not to exceed $20,000,000. The agreement has been amended to be a demand deposit agreement in which the maturity is not later than ninety days from the execution date. On May 8, 2019, Company entered into a second loan agreement with the same related party for an amount not to exceed $25,000,000. This note is due on demand beginning June 30, 2020. If no demand is made, the note is due on June 30, 2026. The interest for both notes is due annually at a rate of 4.75%. The related party has borrowed $30,500,000 and $15,000,000 from the loan agreements and is included as a note receivable – related party as of March 31, 2020 and 2019, respectively. Interest received totaled $1,533,590 for 2020 and $712,500 for 2019. As of March 31, 2020 and 2019, interest receivable related to the loan agreements totaled $363,241 and $0, respectively.

As of March 31, 2020, accounts payable – related party results from the corporate guarantee of long-term debt and certain expenses such as freight and supplies. The outstanding payable balance at March 31, 2020 and 2019 was $997,411 and $0, respectively. Total material purchases from WCL were $12,108,458 during 2020 and $435,363 during 2019. Total raw material purchases from WTsL were $0 and $20,225,167 during 2020 and 2019, respectively

The Company has remaining capital asset purchase commitments from WCL for $108,874 and $83,271 as of March 31, 2020 and 2019, respectively.

In 2020, the Company had no related party sales of goods and services. In 2020, the Company received reimbursements of expenses from WCL totaling $7,013. In 2019, the Company had related party sales of goods and services to WCL totaling $29,285. In 2019, the Company received reimbursements of expenses from WCL totaling $279,204.

In 2020, the Company had related party advances to WCL for material supplies totaling $3,206,453 and Welspun USA for travel expenses totaling $360,400. In 2019, the Company had related party advances to WCL for material supplies totaling $9,139,140 and Welspun USA for travel expenses totaling $168,455. The Company made payments for corporate guarantee fees to WCL related to long-term debt, totaling $1,533,332 during 2020 and 2019.

In 2019, WGT received $4,229 sales commission income from WTsL in accordance with a sales agreement related to a large diameter pipe contract.

During 2019, the Company conducted transactions with a local supplier whose owner is related to an officer and board member of the company. Payments for supplies to the affiliated entity totaled approximately $353,000 for the year ending March 31, 2019. The Company also received services from a local vendor whose owner is related to an officer and board member of the Company. Payments for these services totaled $15,417 for the year ending March 31, 2019. There were no transactions with the related supplier and vendor for the year ending March 31, 2020.

Since 2007, the City of Little Rock, Arkansas, has issued $311,494,167 in industrial revenue bonds to fund the construction of the Company's manufacturing facilities. During 2015, the City of Little Rock, Arkansas issued an additional $10,000,000 in industrial revenue bonds and loaned the proceeds to the Company. Welspun Tubular, LLC is the borrower of the bond proceeds. Welspun Pipes, Inc. purchased $299,994,167 of these bonds using proceeds from loans obtained from WCL, EXIM Import Bank of India, Bank of India, State Bank of India, Standard Chartered Bank, and Bank of Baroda. As disclosed in Note 6, these loans are secured by the City of Little Rock bonds and some have been guaranteed by WCL. Substantially all the indebtedness and related investment associated with these bonds are eliminated in consolidation.

WELSPUN PIPES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Concentrations

As disclosed in Note 1, the Company's operations are focused on large projects relating to supplying steel pipes for the transportation of oil and gas. These projects generally span a period of several months, and sometimes several years. While the Company has multiple clients and projects, approximately 70% of the revenues during 2020 were generated from one customer and approximately 71% of the revenues during 2019 were generated from three customers.

Note 12: Employee benefit plan

The Company has a 401(k) Retirement Savings Plan that covers substantially all employees after a 90-day service requirement. Participants may defer a portion of their salary and the Company may make discretionary matching contributions. In April 2019 the Plan Agreement was amended to change the employer matching contributions on employee contributions to 100% of employee deferrals up to 4%. These matching contributions vest 100% after one year of service. Total retirement plan contributions by the Company for 2020 and 2019 were $1,167,666 and $860,995, respectively.

Note 13: Fair value

Accounting standards define fair value as 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. They also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Following are the 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 in active markets; quoted prices for identical or similar assets or liabilities 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The Company's only financial asset, certificates of deposit – restricted, are measured as a Level 2 input and are reflected at their stated value, which approximates fair value. Fair value is based on amortized cost or original cost plus accrued interest. At March 31, 2020 and 2019, certificates of deposit – restricted reflected at its stated value totaled $2,279,000 and $2,610,587, respectively. The Company did not have any financial liabilities required to be reported at fair value at March 31, 2020 or 2019.

Note 14: Commitments & contingencies

In 2013, the Company received a $4,500,000 grant from the City of Little Rock (the "City") to help fund the acquisition of new equipment used in the HFIW plant. The ultimate purpose of the grant is to create employment opportunities for Arkansas residents. Under the terms of the grant, the Company will be tested by the City through December 31, 2016 to determine if the job creation required by the grant has taken place. If the Company fails to meet the grant's employment thresholds at any testing date, they will be required to repay the City $22,500 for each unfilled position on that date, with the repayment not to exceed the original $4,500,000 grant received. As of March 31, 2020 and 2019, the Company has met the grant's employment thresholds.

Note 14: Commitments & contingencies

The Company has a lawsuit brought as a wage and hour lawsuit alleging violations of the Fair Labor Standards Act (FLSA) and the Arkansas Minimum Wage Act. It was brought as both a collective and a class action. Under the Fair Labor Standards Act, the action is collective in nature, meaning that in order to participate in any class or potential class, the individual who may be eligible to participate in such a class action, must "opt-in" into the action itself. The Company did not contest the issuance of notices to go to all non-exempt employees in the class. Over 160 individuals joined the lawsuit. Following negotiations, a class-wide settlement has been reached that includes all plaintiffs. The total class payment agreed upon is $269,340. The Company has also agreed to an additional payment of $96,000 in attorney fees paid by the Company to plaintiff's counsel. By law, the Court must review and approve any settlement of back wages owed under the FSLA. The parties have jointly submitted motion to dismiss the lawsuit and approve the settlement agreement, but the judge has not yet approved the proposed settlement. The Company's counsel anticipates that the judge will require a reduction in attorney fees awarded to the plaintiff's counsel but does not have any indication of what the final amount will be. The Company has included a provision of $365,000 for this settlement in the accrued expenses balance at March 31, 2020.

Note 15: Subsequent events

As of the date of the independent auditors' report, the outbreak and spread of a novel coronavirus (COVID-19) has had an adverse impact on both domestic and global financial markets and operations. The World Health Organization declared this virus a pandemic. The operations of the Company were impacted due to shutdown of all plants and offices following social distancing guidelines announced by the State of Arkansas. At the date of this report, the Company has resumed operations in a phased manner as per directives from the State of Arkansas. The Company has evaluated impact of this pandemic on its business operations and financial position and based on its review of current indicators of future economic conditions, there is no significant impact on the Company's financial statements at March 31, 2020.

On April 20, 2020, the Board of the Company declared a dividend of $50,000,000, payable in cash to the Company's shareholder, WCL. The Company paid the dividend on April 21, 2020 and remitted $7,500,000 of taxes to the U.S. Treasury on WCL's behalf.