# AMTEC Precision Products, Inc. and Subsidiaries

**Consolidated Financial Report**

**March 31, 2018**

# Contents

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# Independent Auditor's Report

To the Stockholders and Board of Directors
AMTEC Precision Products, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of AMTEC Precision Products, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2018 and 2017 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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 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 AMTEC Precision Products, Inc. and Subsidiaries as of March 31, 2018 and 2017 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.

Plante & Moran, PLLC

May 15, 2018

# Consolidated Balance Sheet

**March 31, 2018 and 2017**

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | $ | 40,697 | $ | 161,167 |
| Accounts receivable | | 5,477,122 | | 4,714,989 |
| Inventory | | 5,094,731 | | 4,563,855 |
| Prepaid expenses | | 433,108 | | 14,673 |
| Total current assets | | 11,045,658 | | 9,454,684 |
| **Property and Equipment** - Net | | 10,958,559 | | 10,720,437 |
| **Other Assets** - Other noncurrent assets | | 244,356 | | 244,356 |
| Total assets | **$** | **22,248,573** | **$** | **20,419,477** |
| **Liabilities and Stockholders' Equity (Deficit)** | | | | |
| **Current Liabilities** | | | | |
| Checks issued in excess of bank balance | $ | 315,338 | $ | 216,599 |
| Accounts payable | | 2,369,382 | | 1,684,577 |
| Bank line of credit | | 2,692,542 | | 2,929,231 |
| Current portion of long-term debt | | 922,284 | | 704,967 |
| Current portion of capital lease obligation | | 199,831 | | 197,092 |
| Accrued and other current liabilities: | | | | |
| Accrued compensation | | 363,517 | | 359,358 |
| Deferred rent - Current portion | | 82,503 | | 59,473 |
| Customer deposits and advances | | 360,126 | | 112,935 |
| Other accrued liabilities | | 386,466 | | 304,395 |
| Total current liabilities | | 7,691,989 | | 6,568,627 |
| **Long-term Debt** - Bank notes payable - Net of current portion | | 4,192,029 | | 3,760,579 |
| **Capital Lease Obligation** - Net of current portion | | 227,380 | | 336,276 |
| **Deferred Rent** - Net of current portion | | 273,744 | | 362,129 |
| **Other Long-term Liabilities** | | | | |
| Due to parent company - Accounts payable | | - | | 4,464,532 |
| Due to parent company | | - | | 23,372,097 |
| Total liabilities | | 12,385,142 | | 38,864,240 |
| **Stockholders' Equity (Deficit)** | | | | |
| Common stock | | 10 | | 10 |
| Additional paid-in capital | | 43,105,621 | | 43,105,621 |
| Accumulated deficit | | (33,242,200) | | (61,550,394) |
| Total stockholders' equity (deficit) | | 9,863,431 | | (18,444,763) |
| Total liabilities and stockholders' equity (deficit) | **$** | **22,248,573** | **$** | **20,419,477** |

# Consolidated Statement of Operations

**Years Ended March 31, 2018 and 2017**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | Percent of Net Sales | Amount | Percent of Net Sales |
| **Net Sales** | $ 36,844,311 | 100.0 | $ 33,759,213 | 100.0 |
| **Cost of Goods Sold** | 33,928,399 | 92.1 | 30,968,725 | 91.7 |
| **Gross Profit** | 2,915,912 | 7.9 | 2,790,488 | 8.3 |
| **Operating Expenses** | 1,950,913 | 5.3 | 1,861,304 | 5.5 |
| **Operating Income** | 964,999 | 2.6 | 929,184 | 2.8 |
| **Nonoperating (Expense) Income** | | | | |
| Interest expense | (412,548) | (1.1) | (485,282) | (1.4) |
| Other income (expense) | 24,420 | 0.1 | (777) | - |
| Total nonoperating expense | (388,128) | (1.0) | (486,059) | (1.4) |
| **Income** - Before income taxes | 576,871 | 1.6 | 443,125 | 1.4 |
| **Income Tax Expense** | 105,306 | 0.3 | 12,500 | - |
| **Consolidated Net Income** | **$ 471,565** | **1.3** | **$ 430,625** | **1.4** |

## AMTEC Precision Products, Inc. and Subsidiaries

# Consolidated Statement of Stockholders' Equity (Deficit)

**Years Ended March 31, 2018 and 2017**

| | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|
| **Balance** - April 1, 2016 | $ 10 | $ 35,105,621 | $ (61,981,019) | $ (26,875,388) |
| Consolidated net income | - | - | 430,625 | 430,625 |
| Contributions - Additional paid-in capital | - | 8,000,000 | - | 8,000,000 |
| **Balance** - March 31, 2017 | 10 | 43,105,621 | (61,550,394) | (18,444,763) |
| Consolidated net income | - | - | 471,565 | 471,565 |
| Forgiveness of amounts due to parent company | - | - | 27,836,629 | 27,836,629 |
| **Balance** - March 31, 2018 | **$ 10** | **$ 43,105,621** | **$ (33,242,200)** | **$ 9,863,431** |

## AMTEC Precision Products, Inc. and Subsidiaries

# Consolidated Statement of Cash Flows

**Years Ended March 31, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Consolidated net income | $ 471,565 | $ 430,625 |
| Adjustments to reconcile consolidated net income to net cash from operating activities: | | |
| Depreciation and amortization | 1,407,886 | 1,394,380 |
| Deferred rent | (65,355) | (38,396) |
| Changes in operating assets and liabilities that (used) provided cash: | | |
| Accounts receivable | (762,133) | (68,066) |
| Inventory | (530,876) | 507,802 |
| Other noncurrent assets | - | (7,377) |
| Prepaid expenses | (418,435) | 80,021 |
| Accounts payable | 684,805 | (1,026,826) |
| Accrued and other current liabilities | 86,230 | 59,927 |
| Customer deposits and advances | 247,191 | (162,083) |
| Net cash provided by operating activities | 1,120,878 | 1,170,007 |
| **Cash Flows Used in Investing Activities** - Purchase of property and equipment | (1,535,441) | (123,174) |
| **Cash Flows from Financing Activities** | | |
| Net change in checks in excess of bank balance | 98,739 | (226,412) |
| Proceeds from debt | 1,456,000 | 5,000,000 |
| Payments on debt | (807,233) | (13,382,514) |
| Proceeds from revolving credit facilities | 37,734,725 | 24,750,705 |
| Payments on revolving credit facilities | (37,971,414) | (24,859,393) |
| Payments on capital lease obligations | (216,724) | (189,615) |
| Contributions of additional paid-in capital | - | 8,000,000 |
| Net cash provided by (used in) financing activities | 294,093 | (907,229) |
| **Net (Decrease) Increase in Cash** | (120,470) | 139,604 |
| **Cash** - Beginning of year | 161,167 | 21,563 |
| **Cash** - End of year | **$ 40,697** | **$ 161,167** |
| **Supplemental Cash Flow Information** | | |
| Cash paid for interest | $ 327,280 | $ 469,820 |
| Cash paid for income taxes | 55,306 | - |
| **Significant Noncash Transactions** | | |
| Financed equipment | $ 110,567 | $ 67,184 |
| Forgiveness of amounts due to parent company | 27,836,629 | - |

See notes to consolidated financial statements.

## Note 1 - Nature of Business

AMTEC Precision Products, Inc. (AMTEC or the "Company"), a Delaware corporation, is a wholly owned subsidiary of UCAL Fuel Systems Ltd (UCAL), a company incorporated in India. The accompanying consolidated financial statements include the consolidated results of AMTEC and its wholly owned subsidiaries, North American Acquisition Corporation (NAAC) and AMTEC Molded Products, Inc. (AMPI) as of March 31, 2018 and 2017 and for the years then ended. The Company's subsidiaries are manufacturers of precision metal and plastic products and assemblies, primarily serving the automotive, truck, and capital goods industries in the United States of America. Significant intercompany accounts and transactions have been eliminated in consolidation.

NAAC, a manufacturer of precision-machined components, and AMPI, a plastic injection molding company, operate out of two separate facilities located in Elgin, Illinois.

## Note 2 - Significant Accounting Policies

***Use of Estimates***

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

***Revenue Recognition***

Revenue is recognized by the Company when the customer or its representatives take ownership and assume the risk of loss (generally when shipped), collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sale price is fixed and determinable. Provisions for sales returns and other adjustments are provided in the same period the related sales are recorded.

***Cash***

The Company maintains cash balances in financial institutions that at times 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 net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. A receivable is considered past due if any portion of the receivable balance is outstanding more than 30 days after the due date. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was $170,922 and $169,355 as of March 31, 2018 and 2017, respectively. Recoveries of receivables previously written off are offset against bad debt expense when payments are received.

***Inventory***

Inventory is stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out (FIFO) method. Work in progress and finished goods include the cost of materials, labor, and manufacturing overhead. Perishable tooling is recorded in inventory when purchased and charged to cost of goods sold when consumed in the manufacturing of the Company's products.

## Note 2 - Significant Accounting Policies (Continued)

***Property and Equipment***

Property and equipment are recorded at cost. Additions, major renewals, replacements, and betterments are capitalized; maintenance and repairs are charged to expense when incurred. Depreciation is computed primarily by using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the term of the respective lease or useful life, whichever is less. Amortization of the assets under capital lease is computed using the straight-line method over the estimated useful lives and is included in depreciation and amortization expense.

***Debt Issuance Costs***

Debt issuance costs were incurred by the Company in connection with obtaining the debt to finance the purchase of capital assets. These costs are recorded as a reduction in the recorded balance of the outstanding debt. The costs are amortized over the term of the related debt and reported as a component of interest expense.

***Impairment of Long-lived Assets***

The Company reviews the recoverability of long-lived assets, including buildings, equipment, internal use software, and other intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

***Checks Issued in Excess of Bank Balance***

By arrangement with its financial institution, collected funds are adjusted daily between the Company's checking account and the available line of credit. As a result of the Company's cash management system, checks issued but not presented for payment may create a negative book balance even though the bank balance remains positive. Such negative cash balances are classified in current liabilities.

***Credit Risk, Major Customers and Suppliers, and Concentration***

Sales are predominately to companies in the automobile industry located principally in the midwestern United States. The Company extends trade credit to its customers on terms that are generally practiced in the industry. Two major customers accounted for approximately 76 percent of accounts receivable and 79 percent of sales as of and for the year ended March 31, 2018. Two major customers accounted for approximately 75 percent of accounts receivable and 71 percent of sales as of and for the year ended March 31, 2017.

***Shipping and Handling Costs***

Shipping and handling costs charged to customers is included in net sales. Shipping and handling costs incurred by the Company are included in cost of goods sold.

## Note 2 - Significant Accounting Policies (Continued)

***Income Taxes***

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for the tax effect of temporary differences between the basis of certain assets and liabilities for financial and income tax reporting purposes and for net operating loss carryforwards. Deferred taxes are primarily due to the differences in the basis of fixed assets resulting from the use of accelerated depreciation for income tax purposes, loss carryforwards, and certain reserves (inventory and receivables). The deferred tax assets and liabilities represent the future tax return consequences of those temporary differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when the probability of not being able to realize these assets is more likely than not.

***Change in Accounting Policy***

As of April 1, 2017, the Company adopted new guidance related to the measurement of inventories. Under the new guidance, inventories are measured at the lower of cost or net realizable value (NRV), with NRV based on selling prices in the ordinary course of business, less costs of completion, disposal, and transportation. In 2017 and previous years, inventories were measured at lower of cost or market, with market value generally based on replacement costs, adjusted for other factors. The adoption of this guidance did not have any significant impact on the Company's financial statements as of and for the years ended March 31, 2018 and 2017.

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has begun to analyze the new standard and has decided to adopt the modified retrospective method; however, management has not yet determined the impact on the timing or amount of revenue.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending March 31, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Company’s consolidated financial statements as a result of the leases for operating facilities described in Note 8, which are classified as operating leases. The leases are expected to increase long-term assets and liabilities upon adoption, and the effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

## Note 3 - Inventory

Inventory as of March 31, 2018 and 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Raw materials | $ 1,253,377 | $ 894,322 |
| Work in progress | 1,473,908 | 1,227,475 |
| Finished goods | 273,721 | 334,635 |
| Production supplies and replacement parts | 1,954,986 | 2,004,102 |
| Perishable tooling | 646,169 | 577,329 |
| Obsolescence reserve | (507,430) | (474,008) |
| Total inventory | $ 5,094,731 | $ 4,563,855 |

## Note 4 - Property and Equipment

Property and equipment as of March 31, 2018 and 2017 are summarized as follows:

| | 2018 | 2017 | Depreciable Life - Years |
|---|---|---|---|
| Plant machinery and equipment | $ 33,815,501 | $ 32,523,165 | 5-20 |
| Leasehold improvements | 1,604,632 | 1,477,661 | 10 |
| Vehicles | 81,248 | 81,248 | 3-5 |
| Office computers and software | 870,568 | 673,472 | 3 |
| Office furniture and fixtures | 93,252 | 93,252 | 5 |
| Construction in process | - | 5,528 | - |
| Total cost | 36,465,201 | 34,854,326 | |
| Accumulated depreciation and amortization | 25,506,642 | 24,133,889 | |
| Net property and equipment | $ 10,958,559 | $ 10,720,437 | |

Depreciation and amortization expense for the years ended March 31, 2018 and 2017 was $1,407,886 and $1,394,380, respectively.

## Note 5 - Line of Credit

At March 31, 2018 and 2017, the Company had a revolving line of credit agreement with a bank that allows for borrowings of up to $10,000,000, which expires in July 2019. At March 31, 2018 and 2017, the Company had outstanding borrowings of $2,692,542 and $2,929,231, respectively. Maximum borrowings under this agreement are limited to the lesser of $10,000,000 less outstanding letters of credit or a borrowing base, subject to certain limitations, as defined in the agreement. Borrowings under these facilities are collateralized by substantially all of the Company's assets. The Company must meet a monthly minimum fixed-charge coverage ratio, as defined in the agreement, and maintain excess availability of not less than $500,000 at all times. Interest on the line of credit will be charged at the bank's prime rate plus 1.0 percent or daily three-month LIBOR plus 2.0 percent (an effective rate of 4.32 percent and 3.15 percent as of March 31, 2018 and 2017, respectively). As of March 31, 2018 and 2017, the Company was in compliance with the financial covenants.

## Note 6 - Long-term Debt

Long-term debt at March 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Machinery and equipment term loan not to exceed the lesser of $6,456,000 or either 85 percent of the hard cost of the eligible new CapEx equipment or 85 percent of the net orderly liquidation value of the Company's eligible new equipment, as defined in the bank credit agreement. Payable in monthly installments of $59,524 to $76,857, plus interest at 2.75 percent above three-month LIBOR (an effective rate of 4.81 percent and 3.90 percent at March 31, 2018 and 2017, respectively). The machinery and equipment term loan is collateralized with a security interest in the subject property, and the Company is required to meet the financial covenants, as detailed in Note 5 | $ 5,144,189 | $ 4,523,808 |
| Unamortized debt issuance costs | (29,876) | (58,262) |
| Long-term debt less unamortized debt issuance costs | 5,114,313 | 4,465,546 |
| Less current portion | 922,284 | 704,967 |
| Long-term portion | $ 4,192,029 | $ 3,760,579 |

As of March 31, 2018 and 2017, the Company also had a machinery and equipment term loan in an amount not to exceed the lesser of (a) $750,000, (b) 85 percent of the hard costs, or (c) 65 percent of net orderly liquidation value of the Company's eligible new equipment, as defined in the loan agreement. The loan is available for a 24-month period, due in August 2018, including certain restrictions as defined in the agreement, and amortized over a 60-month period to begin in the month following the first advance to the Company. Interest on the loan bears interest based on daily three-month LIBOR plus 2.75 percent. At March 31, 2018 and 2017, the Company had no borrowings on this loan outstanding.

The future principal requirements on the balance of the debts described above are as follows:

| Years Ending | Amount |
|---|---|
| 2019 | $ 922,284 |
| 2020 | 922,284 |
| 2021 | 922,284 |
| 2022 | 922,284 |
| 2023 | 1,425,177 |
| Total | $ 5,114,313 |

## Note 7 - Capital Leases

The Company entered into long-term lease arrangements that are classified as capital leases. For consolidated financial statement purposes, the present values of the net minimum lease payments have been capitalized. Under the terms of the lease agreements, payments ranging from $380 to $4,091 are due monthly through April 1, 2022. The leases have been imputed with interest at annual rates ranging from 1.90 percent to 9.47 percent.

At March 31, 2018 and 2017, property under capital leases consists of machinery and equipment with a gross cost of $1,235,064 and $1,105,166, respectively. At March 31, 2018 and 2017, accumulated depreciation on property under capital leases was $240,766 and $157,477, respectively.

## Note 7 - Capital Leases (Continued)

The future minimum lease payments under capital leases are as follows:

| Years Ending March 31 | | Amount |
|---|---|---|
| 2019 | $ | 218,123 |
| 2020 | | 171,194 |
| 2021 | | 42,136 |
| 2022 | | 25,184 |
| 2023 | | 1,781 |
| Total | | 458,418 |
| Less amount representing interest | | 31,207 |
| Present value of net minimum lease payments | | 427,211 |
| Less current obligations | | 199,831 |
| Long-term obligations under capital leases | $ | 227,380 |

## Note 8 - Operating Leases

The Company is obligated under operating leases for its office and manufacturing facilities, expiring at various dates through February 2025. Total rent expense under these leases was $804,600 and $821,998 for the years ended March 31, 2018 and 2017, respectively.

The Company records rental payments as expense on the straight-line method over the term of the leases. The deferred rent liability represents the difference between the rent expense recorded on the straight-line method and amounts paid in accordance with the lease agreement.

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

| Years Ending March 31 | | Amount |
|---|---|---|
| 2019 | $ | 882,766 |
| 2020 | | 614,944 |
| 2021 | | 222,176 |
| 2022 | | 226,620 |
| 2023 | | 231,152 |
| Thereafter | | 496,340 |
| Total | $ | 2,673,998 |

## Note 9 - Retirement Plans

The Company sponsors a 401(k) plan for eligible employees, as defined in the AMTEC Precision Products, Inc. and Subsidiaries Employee Savings Plan and the AMTEC Precision Products, Inc. and Subsidiaries Employee Savings Trust. The plan provides for the Company to make a discretionary matching contribution, after the approval of the board of directors of the Company. There were no contributions for the years ended March 31, 2018 and 2017.

## Note 10 - Due to Parent Company

***Due to Parent Company***

As of March 31, 2017, the Company had amounts payable to parent company totaling $23,372,097. The amounts due to the parent company were noninterest bearing and had no fixed repayment terms. On July 6, 2016, the amounts payable to the parent company were subordinated to Wells Fargo Bank. Per the provisions in the bank Subordination Agreement, no payments can be made to the parent company during the term of the bank credit facilities without the prior approval from the bank. Accordingly, the amounts payable to the parent company were classified as other long-term liabilities.

***Due to Parent Company - Accounts Payable***

As of March 31, 2017, the Company had amounts due to parent company - accounts payable totaling $4,464,532. Per the provisions in the bank Subordination Agreement, no payments can be made to the parent company during the term of the bank credit facilities without the prior approval from the bank. Accordingly, the amounts due to parent company - accounts payable were classified as other long-term liabilities.

On March 31, 2018, the board of directors of the parent company passed a resolution to forgive the amounts due from the Company and relinquish all unpaid principal, accrued interest, and accounts payable due to parent company. The forgiveness of amounts due to the parent company was recorded as a reduction to accumulated deficit.

## Note 11 - Income Taxes

The components of the income tax provision included in the consolidated statement of operations are all attributable to continuing operations and are detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred income tax expense | $ 13,489,168 | $ 141,000 |
| AMT tax expense | 99,000 | - |
| Change in valuation allowance | (13,489,168) | (141,000) |
| Other | 6,306 | 12,500 |
| Total income tax expense | $ 105,306 | $ 12,500 |

The income tax provision differs from the expense that would result from applying statutory rates to income before income taxes as a result of travel and entertainment and other expenses that are not deductible for tax purposes, and the change in the valuation allowance.

## Note 11 - Income Taxes (Continued)

The Company files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before March 31, 2015.

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

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | $ 44,000 | $ 65,000 |
| Inventories | 166,000 | 239,000 |
| State net operating loss carryforward | 1,577,000 | 3,652,000 |
| AMT tax credit | 1,345,832 | 2,057,000 |
| Net operating loss and tax credit carryforward | 10,952,000 | 24,531,000 |
| Accrued expenses | 18,000 | 34,000 |
| Reserve for note receivable | 126,000 | 190,000 |
| Deferred rent | 91,000 | 163,000 |
| Gross deferred tax assets | 14,319,832 | 30,931,000 |
| Valuation allowance recognized for deferred tax assets | (12,903,832) | (28,085,000) |
| Net deferred tax assets | 1,416,000 | 2,846,000 |
| Deferred tax liabilities - Depreciation | (1,416,000) | (2,846,000) |
| Net deferred tax asset | $ - | $ - |

As of March 31, 2018, the Company has federal and state net operating loss carryforwards of approximately $43,900,000 and $23,900,000, respectively, available to reduce future income taxes, expiring in 2018 through 2036.

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. Due to uncertainty as to the realization of the net operating loss carryforwards, a valuation allowance has been recorded against the related deferred tax asset.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act changes existing U.S. tax law and includes provisions that impact the Company. Specifically, effective January 1, 2018, the U.S. federal tax rate will decrease from 34 percent to 21 percent. The reduction of corporate tax rates decreased the valuation of deferred tax assets and deferred tax liabilities by $1,861,578 and $184,080, respectively. The change is included in income tax expense for the year ended March 31, 2018.

## Note 12 - Capital Stock

Common stock consists of 1,000 authorized shares of $0.01 par value stock. As of March 31, 2018 and 2017, there were 1,000 shares issued and outstanding.

## Note 13 - Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including May 15, 2018, which is the date the consolidated financial statements were available to be issued.