

**CUMI AMERICA, INC.**  
**(A SUBSIDIARY)**

**FINANCIAL STATEMENTS**

For the Years Ended March 31, 2015 and 2014

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# Anneken, Huey & Moser<sup>PLC</sup>

Certified Public Accountants

*Engaged. Responsive. Future-focused.*

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors and Stockholders of CUMI America, Inc.

We have audited the accompanying financial statements of CUMI America, Inc. (a Subsidiary, a Kentucky corporation), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of operations and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

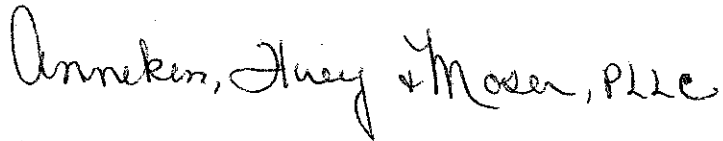
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CUMI America, Inc. (a Subsidiary) as of March 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Anneken, Huey & Moser, PLLC

A handwritten signature in cursive script that reads "Anneken, Huey & Moser, PLLC". The signature is written in dark ink and is positioned below the typed name of the firm.

Fort Wright, Kentucky

April 7, 2015

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**BALANCE SHEETS**  
 March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 213,049	\$ 15,873
Trade accounts receivable, less allowance for doubtful accounts of \$0 in 2015 and \$0 in 2014	943,983	608,521
Inventory	4,606,348	4,471,220
Prepaid expenses	13,740	17,907
Other current assets	9,138	6,716
<b>TOTAL CURRENT ASSETS</b>	<u>5,786,258</u>	<u>5,120,237</u>
<b>PROPERTY AND EQUIPMENT</b>		
Automobile	88,789	54,121
Furniture and fixtures	99,286	99,286
Equipment	195,195	177,510
	<u>383,270</u>	<u>330,917</u>
Less: accumulated depreciation	83,016	46,872
<b>TOTAL PROPERTY &amp; EQUIPMENT</b>	<u>300,254</u>	<u>284,045</u>
<b>OTHER</b>		
Deferred tax asset	584,000	405,000
<b>TOTAL OTHER ASSETS</b>	<u>584,000</u>	<u>405,000</u>
	<u>\$6,670,512</u>	<u>\$ 5,809,282</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$2,016,184	\$ 1,465,006
Line of credit	4,170,000	3,250,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,186,184</u>	<u>4,715,006</u>
 <b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock	1,850,000	1,850,000
Retained earnings (deficit)	(1,365,672)	(755,724)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>484,328</u>	<u>1,094,276</u>
	<u>\$6,670,512</u>	<u>\$ 5,809,282</u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
 March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>SALES</b>		
Bonded abrasives	\$ 2,492,920	\$ 1,645,707
Industrial ceramics	1,965,891	1,854,345
Freight	96,946	123,543
Sales discounts	(5,849)	(7,805)
<b>TOTAL SALES</b>	<u>4,549,908</u>	<u>3,615,790</u>
<b>COST OF SALES</b>		
Bonded abrasives	1,788,584	1,195,398
Industrial ceramics	1,555,760	1,593,837
Freight, import and duties	185,790	184,918
Warehouse	133,234	121,772
<b>TOTAL COST OF SALES</b>	<u>3,663,368</u>	<u>3,095,925</u>
<b>GROSS PROFIT</b>	886,540	519,865
<b>OPERATING EXPENSES</b>		
Advertising	3,527	1,653
Bank charges	21,549	11,638
Commission and fees	152,083	124,719
Depreciation expenses	36,144	13,042
Employee benefits	49,647	35,887
Exhibition expenses	22,436	22,694
Office expenses	4,931	521
Outward freight	230,878	174,896
Payroll and payroll taxes	506,377	390,148
Postage, courier, communication	30,288	38,391
Professional expenses	65,391	11,669
Rent	227,295	140,264
Repairs	6,839	1,143
Travel	128,457	125,477
Utilities	26,190	18,443
<b>TOTAL OPERATING EXPENSE</b>	<u>1,512,032</u>	<u>1,110,585</u>
<b>OTHER INCOME (EXPENSE)</b>		
Other income (expenses)	(92,785)	(63,464)
Interest expense	(70,671)	(45,547)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(163,456)</u>	<u>(109,011)</u>
<b>NET LOSS BEFORE TAXES</b>	(788,948)	(699,731)
<b>INCOME TAX (BENEFIT)</b>		
Federal	(145,100)	(175,700)
State	(33,900)	(28,300)
<b>TOTAL INCOME TAX (BENEFIT)</b>	<u>(179,000)</u>	<u>(204,000)</u>
<b>NET LOSS</b>	(609,948)	(495,731)
RETAINED EARNINGS, beginning of the year	(755,724)	(259,993)
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ (1,365,672)</u>	<u>\$ (755,724)</u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
 March 31, 2015 and 2014

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance March 31, 2013	\$ 50,000	\$ (259,993)	\$ (209,993)
Stock Issued	1,800,000	-	1,800,000
Net Loss	-	(495,731)	(495,731)
Balance March 31, 2014	1,850,000	(755,724)	1,094,276
Net Loss	-	(609,948)	(609,948)
Balance at March 31, 2015	<u>\$ 1,850,000</u>	<u>\$ (1,365,672)</u>	<u>\$ 484,328</u>

See accompanying notes to financial statements.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**STATEMENTS OF CASH FLOWS**  
 March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET LOSS	\$ (609,948)	\$ (495,731)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(179,000)	(204,000)
Depreciation	36,144	13,042
(Increase) Decrease in:		
Trade accounts receivable	(335,462)	(76,378)
Inventory	(135,128)	(1,813,268)
Prepaid expenses	4,167	7,860
Other current assets	(2,422)	(6,716)
Increase (Decrease) in:		
Accounts payable	551,178	198,502
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(670,471)</u>	<u>(2,376,689)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuing common stock	-	1,800,000
Net borrowings (payments) on line of credit	920,000	825,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>920,000</u>	<u>2,625,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(52,353)	(241,945)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(52,353)</u>	<u>(241,945)</u>
<b>INCREASE IN CASH</b>	197,176	6,366
<b>CASH AT BEGINNING OF PERIOD</b>	<u>15,873</u>	<u>9,507</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 213,049</u>	<u>\$ 15,873</u>
<b>Supplemental Cash Flow Disclosure:</b>		
Cash paid for interest during the year	\$ 70,671	\$ 45,547

See accompanying notes to financial statements.



**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2015 and 2014

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

CUMI America, Inc. (a Subsidiary) was incorporated May 4, 1998, in the Commonwealth of Kentucky. The Company is an import and sales firm wholly owned by CUMI International Ltd., Limassol Cyprus which is a 100% owned subsidiary of Carborundum Universal Ltd., Chennai, India. The Company is a wholesaler, and primarily sells abrasive grinding wheels and industrial ceramics marketed in the Americas.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business. Trade accounts receivable is recorded net of an allowance for possible losses. Management estimates these possible losses based on a review of the financial condition and payment history of specific customers having significant accounts receivable balance. Trade accounts receivable and the allowance for doubtful accounts as of March 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Trade accounts receivable	\$ 943,983	\$ 608,521
Allowance for doubtful accounts	-	-
Trade accounts receivable, net	<u>\$ 943,983</u>	<u>\$ 608,521</u>

Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using accelerated methods over the estimated useful lives of the assets. The income statement reflects depreciation expense of \$36,144 and \$13,042 in 2015 and 2014, respectively. Expenditures for maintenance, repairs, renewals and betterments, which do not materially extend the useful lives of the assets, are expensed as incurred.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2015 and 2014

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Use of Estimates

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

Fair Value

The Company has a number of financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at March 31, 2015 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due or refundable, overpayments to be applied in subsequent tax returns, and deferred tax assets or liabilities related to temporary differences.

The Company is not aware of any tax positions that require recording of unrecognized tax benefits along with related interest or penalties as of March 31, 2015. The Company policy with regard to interest or penalties on such items is to record them as part of tax expense. Tax returns for 2010-2014 remain subject to Federal examination as of March 31, 2015. The tax returns for 2009-2014 remain subject to examination by the State of Kentucky as of March 31, 2015.

Major Customers

For the year ended March 31, 2015, one customer had sales in excess of ten percent of sales and accounted for 11% of the total revenue. At March 31, 2015 accounts receivable included \$64,199 due from this customer. No allowance was recorded relative to their account.

For the year ended March 31, 2014, one customer had sales in excess of ten percent of sales and accounted for 12% of the total revenue. At March 31, 2014 there were no accounts receivable due from this customer and no allowance was recorded relative to their accounts.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2015 and 2014

**NOTE B – LINES OF CREDIT**

The Company maintains a line of credit for \$4,500,000 with Bank of America. The line was obtained December 23, 2009 and renews September 30, 2015 with written notice from the financial institution. The interest rate is the BBA LIBOR daily floating rate plus 1.75%. The interest rate at March 31, 2015 was 1.93%. The line is guaranteed by Carborundum Universal Ltd. The Company had \$330,000 available for borrowing against the line at March 31, 2015. The Company expects the credit line to be renewed.

**NOTE C – OPERATING LEASES**

The Company has three operating leases. A warehouse lease entered into in February of 2012 has a term of three years; the expense for this was \$71,042 and \$85,250 for 2015 and 2014 respectively. In December 2013 the Company entered into a three year lease for warehouse space; rent expense recorded for this location was \$79,560 and \$26,128 for 2015 and 2014 respectively. In February 2015, the Company entered into a one year rental agreement for a cushion gas truck at the Oakdale, PA location with the option to purchase after one year. The following is a schedule of non-cancellable minimum lease payments:

**For Year Ended**

March 31, 2016	\$	92,070
March 31, 2017		56,940
	\$	<u>149,010</u>

**NOTE D – RELATED PARTY TRANSACTIONS**

Purchases

The Company purchases 100% of its inventory from members of the Carborundum Universal Ltd. Group. Accounts payable due to the members of the group, as of March 31, 2015 and 2014, were \$1,922,366 and \$1,370,305, respectively.

Receivables

The Company was owed \$1,231 and \$12,231 by members of the Carborundum Universal Ltd. Group at March 31, 2015 and 2014.

Reimbursements

Carborundum Universal Ltd. reimburses the Company for 100% of insurance costs.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
 March 31, 2015 and 2014

**NOTE D – RELATED PARTY TRANSACTIONS (continued)**

CUMI (Australia) Pty Ltd.

Beginning October 1, 2014, CUMI Australia Pty Ltd. took over the accounting responsibilities for the Industrial Ceramics division of the Company. Expenses related to this take over included consultancy and travel in the amount of \$20,601 and \$28,850 respectively. Industrial Ceramics was still a division of the Company at March 31, 2015.

**NOTE E – COMMON STOCK**

Common stock consists of 19,000 authorized shares with a \$100 par value per share. There were 18,500 and 500 shares issued and outstanding respectively at March 31, 2015 and 2014.

**NOTE F – INCOME TAXES**

The Company incurred federal and state income tax benefit of \$179,000 for 2015 and benefit of \$204,000 for 2014. Income taxes are provided for the tax effects of transactions reported in the financial statements as follows:

	<u>2015</u>	<u>2014</u>
Deferred		
Federal	\$ (145,100)	\$ (175,700)
State	(33,900)	(28,300)
	<u>(179,000)</u>	<u>(204,000)</u>
	<u>\$ (179,000)</u>	<u>\$ (204,000)</u>

The tax provision does bear the usual relationship to the pre-tax loss due to the use of tax rates applicable to taxable income under \$100,000 in computing deferred tax benefits of net operating loss carryforward.

Deferred taxes are provided for the tax benefits expected to be realized from net operating loss carry forward:

	<u>2015</u>	<u>2014</u>
Deferred Tax Asset	<u>\$ 584,000</u>	<u>\$ 405,000</u>

The Company's deferred tax assets arise from net operating loss carryforwards approximating \$1,900,000 expiring from 2032-2035. The company does not believe any allowance is needed.

**CUMI AMERICA, INC. (A SUBSIDIARY)**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2015 and 2014

**NOTE G – MANAGEMENT REVIEW**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 7, 2015, the date the financial statements were available to be issued.

**NOTE H – ACQUISITION**

During 2014 the Company purchased the fixed assets and inventory of CUMI Canada, also a subsidiary of CUMI International Ltd., Limassol Cyprus. Fixed assets acquired were valued at \$217,000 and inventory was valued at \$1,583,000. Funding for this acquisition was from additional investment from the parent company.

**NOTE I – RECLASSIFICATIONS**

Amounts shown for 2014 Statement of Operations and Retained Earnings have been reclassified to conform to classifications used in 2015.

**NOTE J – SUBSEQUENT EVENTS**

In April 2015 the Company entered into a new lease agreement for the Oakdale, PA warehouse. The total amount of the lease is \$412,800. The lease term begins June 1, 2015 and ends May 31, 2020.