CP Industries Holdings, Inc.

Financial Statements

March 31, 2019 and 2018

CP Industries Holdings, Inc.

Contents

BDO

Tel: 412-281-2501
Fax: 412-471-1996
www.bdo.com

339 Sixth Avenue, 8th Floor
Pittsburgh, PA 15222

Independent Auditor's Report

To the Stockholder
CP Industries Holdings, Inc.
McKeesport, Pennsylvania

We have audited the accompanying financial statements of CP Industries Holdings, Inc., which comprise the balance sheets as of March 31, 2019 and 2018, and the related statements of operations and comprehensive income (loss), changes in accumulated other comprehensive income (loss) by component, changes in stockholder's equity (deficit) 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 CP Industries Holdings, Inc. as of March 31, 2019 and 2018, 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.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that CP Industries Holdings, Inc. will continue as a going concern. As described in Note 15 to the financial statements, CP Industries Holdings, Inc. has suffered a net loss, has an accumulated deficit and negative equity and is in violation of certain bank debt covenants at March 31, 2019. These items raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Adoption on New Accounting Standard

As discussed in Note 1 to the financial statements, the Company has elected to change its method of measuring goodwill impairment loss, if any, for the year ended March 31, 2019, due to the adoption of Accounting Standards Update 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* Our opinion is not modified with respect to this matter.

BDO USA, LLP

May 27, 2019

CP Industries Holdings, Inc.

Balance Sheets

March 31,	2019	2018
Assets		
Current Assets		
Cash	**$ 19,168**	$ 24,254
Accounts receivable - net	**2,376,726**	2,741,775
Receivable from related parties - Note 12	**413,547**	585,060
Inventories - net - Note 2	**17,335,210**	13,855,329
Prepaid expenses and other current assets	**1,424,153**	1,123,645
Other assets - Note 12	**1,200,000**	-
Total Current Assets	**22,768,804**	18,330,063
Property, Plant and Equipment - net of accumulated depreciation - Note 3	**11,757,704**	12,654,454
Other Assets		
Goodwill	**9,596,757**	9,596,757
Other assets - Note 12	**597,974**	1,995,950
Total Other Assets	**10,194,731**	11,592,707
Total Assets	**$ 44,721,239**	$ 42,577,224

CP Industries Holdings, Inc.

Balance Sheets

March 31,	**2019**	2018
Liabilities and Stockholder's Equity (Deficit)		
Current Liabilities		
Revolving line of credit - Note 4	**$ 4,398,345**	$ 3,514,641
Current portion of long-term debt - Note 4	**3,412,650**	1,053,978
Accounts payable	**3,485,019**	1,542,102
Accounts payable - related parties - Note 12	**280,117**	496,984
Customer deposits	**2,056,423**	888,345
Deferred revenue	**522,046**	-
Accrued pension - current portion - Note 7	**340,313**	246,609
Post-retirement obligation - current portion - Note 8	**19,579**	24,490
Accrued expenses and other current liabilities	**900,554**	713,858
Royalty expense payable - related party - current - Note 10	**-**	271,262
Total Current Liabilities	**15,415,046**	8,752,269
Long-term Liabilities		
Long-term debt - Note 4	**193,870**	3,262,104
Accrued pension - Note 7	**1,890,903**	2,050,029
Post-retirement obligation - Note 8	**139,703**	177,713
Deferred tax liability - Note 9	**407,000**	423,000
Royalty expense payable - related party - Note 10	**3,945,852**	3,221,251
Notes payable - related parties - Note 5	**21,142,400**	21,142,400
Accrued interest - related parties - Note 5	**3,295,810**	2,452,475
Total Long-term Liabilities	**31,015,538**	32,728,972
Total Liabilities	**46,430,584**	41,481,241
Stockholder's Equity (Deficit)		
Common stock, $.01 par value, 1,000 shares authorized, 100 shares issued and outstanding	**1**	1
Paid-in capital	**8,999,999**	8,999,999
Accumulated deficit	**(9,469,096)**	(6,635,840)
Accumulated other comprehensive loss	**(1,240,249)**	(1,268,177)
Total Stockholder's Equity (Deficit)	**(1,709,345)**	1,095,983
Total Liabilities and Stockholder's Equity (Deficit)	**$ 44,721,239**	$ 42,577,224

See accompanying notes to the financial statements.

CP Industries Holdings, Inc.

Statements of Operations and Comprehensive Income (Loss)

For the Years Ended March 31,	**2019**	2018
Net Sales	**$ 16,862,612**	$ 20,739,110
Cost of Goods Sold	**15,003,386**	17,039,487
Gross profit	**1,859,226**	3,699,623
Selling, General and Administrative Expenses	**2,543,266**	2,523,964
Royalty Expense - Note 10	**453,340**	585,136
Income (loss) from operations	**(1,137,380)**	590,523
Other Income (Expense)		
Other income (expense)	**(378,294)**	6,154
Interest expense	**(1,316,582)**	(933,059)
Total Other Expense	**(1,694,876)**	(926,905)
Loss Before Income Taxes	**(2,832,256)**	(336,382)
Provision for (Benefit From) Income Taxes - Note 9	**1,000**	(1,896,000)
Net Income (Loss)	**(2,833,256)**	1,559,618
Other Comprehensive Income (Loss)		
Pension adjustment	**44,052**	95,706
Post-retirement plan adjustment	**(16,124)**	(30,908)
Comprehensive Income (Loss)	**$ (2,805,328)**	$ 1,624,416

See accompanying notes to the financial statements.

CP Industries Holdings, Inc.

Statements of Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Years Ended March 31, 2019 and 2018	Pension	Other Post-retirement Benefits	Total
Balance - April 1, 2017	$ (1,986,705)	$ 653,730	$ (1,332,975)
Other comprehensive income (loss) before reclassifications	(56,017)	17,900	(38,117)
Amounts reclassified from accumulated other comprehensive income (loss) - Notes 7 and 8	151,723	(48,808)	102,915
Comprehensive income (loss)	95,706	(30,908)	64,798
Balance - March 31, 2018	(1,890,999)	622,822	(1,268,177)
Other comprehensive income (loss) before reclassifications	(105,087)	31,677	(73,410)
Amounts reclassified from accumulated other comprehensive income (loss) - Notes 7 and 8	149,139	(47,801)	101,338
Comprehensive income (loss)	44,052	(16,124)	27,928
Balance - March 31, 2019	$ (1,846,947)	$ 606,698	$ (1,240,249)

See accompanying notes to the financial statements.

CP Industries Holdings, Inc.

Statements of Changes in Stockholder's Equity (Deficit)

For the Years Ended March 31, 2019 and 2018	Common Stock	Paid-in Capital	Accumulated Equity (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholder's Equity (Deficit)
Balance - April 1, 2017	$ 1	$ 8,999,999	$ (8,195,458)	$ (1,332,975)	$ (528,433)
Net income	-	-	1,559,618	-	1,559,618
Pension adjustment	-	-	-	95,706	95,706
Post-retirement plan adjustment	-	-	-	(30,908)	(30,908)
Balance - March 31, 2018	1	8,999,999	(6,635,840)	(1,268,177)	1,095,983
Net loss	-	-	(2,833,256)	-	(2,833,256)
Pension adjustment	-	-	-	44,052	44,052
Post-retirement plan adjustment	-	-	-	(16,124)	(16,124)
Balance - March 31, 2019	$ 1	$ 8,999,999	$ (9,469,096)	$ (1,240,249)	$ (1,709,345)

See accompanying notes to the financial statements.

CP Industries Holdings, Inc.

Statements of Cash Flows

For the Years Ended March 31,	**2019**	2018
Cash Provided by (Used for) Operating Activities		
Net income (loss)	**$ (2,833,256)**	$ 1,559,618
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	**1,861,546**	2,360,351
Loss on disposal of building and equipment	**239,158**	-
Deferred income taxes	**(16,000)**	(1,880,000)
Changes in		
Accounts receivable	**365,049**	3,000,209
Inventories	**(3,479,881)**	(269,878)
Accounts payable	**1,612,934**	(2,542,333)
Accrued expenses	**1,030,031**	490,626
Customer deposits	**1,168,078**	(1,075,448)
Deferred revenue	**522,046**	-
Accrued pension and post retirement	**(80,415)**	9,999
Royalty expense payable	**453,339**	(643,602)
Other items	**68,981**	401,770
Net Cash Provided by Operating Activities	**911,610**	1,411,312
Cash Used for Investing Activities		
Acquisitions of property, plant and equipment	**(592,238)**	(714,049)
Net Cash Used for Investing Activities	**(592,238)**	(714,049)
Cash Provided by (Used for) Financing Activities		
Net borrowings (repayments) under revolving line of credit	**883,704**	(1,076,962)
Proceeds from long-term debt	**-**	1,250,000
Payments made on long-term debt	**(1,030,000)**	(863,333)
Payment of capital lease obligations and vendor notes payable	**(178,162)**	(16,173)
Net Cash Used for Financing Activities	**(324,458)**	(706,468)
Decrease in Cash	**(5,086)**	(9,205)
Cash - beginning of year	**24,254**	33,459
Cash - end of year	**$ 19,168**	$ 24,254

See accompanying notes to the financial statements.

CP Industries Holdings, Inc.

Statements of Cash Flows (Continued)

For the Years Ended March 31,		**2019**		2018
Supplemental Disclosure of Cash Flow Information				
Cash paid during the year for interest	**$**	**356,218**	$	416,277
Noncash Investing Activities				
Acquisitions of property, plant and equipment	**$**	**603,579**	$	77,460

See accompanying notes to the financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Business

CP Industries Holdings, Inc. (CPI) is a wholly owned subsidiary of EKC Hungary Korlátolt Felelösségü Társaság (EKC Hungary), which is a wholly owned subsidiary of Everest Kanto Cylinder Ltd. (EKCL). CPI is located in McKeesport, Pennsylvania and specializes in manufacturing various size and diameter seamless pressure vessels for above ground storage and transportation of various highly pressurized gases. CPI's products are sold to customers such as industrial gas producers and suppliers, the natural gas alternative fuel industry, chemical and petrochemical processing facilities, prime contractors to the U.S. Department of Defense, NASA, public utilities and gas transportation companies.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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.

Labor Concentration

Approximately 68% of the Company's employees are members of a union subject to a collective bargaining agreement. The union agreement was renewed during the year ended March 31, 2017 and is set to expire in October 2019. The Company expects the agreement will be renewed in the normal course of business.

Cash

Substantially all of the Company's cash is with one financial institution located in southwestern Pennsylvania.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for uncollectible accounts was approximately $114,000 at March 31, 2019 and $68,000 at March 31, 2018.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company uses the specific identification method of accounting for the cost of raw material pipe inventory, the first-in, first-out method of accounting for the cost of component parts, and average cost for composite raw material.

1. Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost including expenditures for additions and major improvements. Maintenance and repairs which are not considered to extend the useful life of assets are charged to operations as incurred. The cost of assets sold or retired and related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in other income (expense) for the year.

For financial reporting, depreciation of property, plant and equipment is computed on the straight-line method at rates calculated to amortize cost over the estimated useful lives of the assets.

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Management has determined that no impairment indicators existed at March 31, 2019 and 2018.

Intangible Assets

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more frequently if impairment indicators arise. In conducting its impairment testing, the Company determines if qualitative or quantitative factors are to be used to evaluate the potential impairment in the carrying value of the Company's goodwill.

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure the amount of impairment loss, if any, under the second step of the current goodwill impairment test. Under the update, the goodwill impairment loss would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for non-public companies for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company adopted this guidance for the year ended March 31, 2019 and performed its annual goodwill impairment test in accordance with ASU 2017-04.

Under the provisions of ASU 2017-04, companies with reporting units with zero or negative carrying value are required to disclose the amount of goodwill for those reporting units. CPI is a single reporting unit entity with negative carrying value at March 31, 2019 and, as such, all of the Company's goodwill is attributed to the single reporting unit. At March 31, 2019 and 2018, the Company had approximately $9,600,000 of goodwill recorded in the balance sheets.

Deferred financing costs are deducted directly from the carrying value of the associated debt and are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method (Note 4).

1. Summary of Significant Accounting Policies (Continued)

Research and Development

The Company expenses research and development costs as incurred. Total research and development expense was $214,000 for 2019 and $213,000 for 2018 included in selling, general and administrative expenses (Note 12).

Tax Status

The Company provides for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes are also provided for operating losses that are available to offset future taxable income and credits that are available to offset future federal income taxes. A valuation allowance is established for any deferred tax asset for which realization is not considered likely.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position will be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. There were no amounts recorded at March 31, 2019 and 2018 related to uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. There were no interest and penalties recognized in the statements of operations during 2019 or 2018.

Revenue Recognition and Customer Concentration

Sales are recognized when both risk of loss and title to products has passed to the customer, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, which generally occurs when products are shipped to customers. Shipping and other transportation costs billed to customers of approximately $326,000 in 2019 and $121,000 in 2018 are included in net sales, whereas shipping and handling costs incurred are recorded in cost of sales.

Revenues and cost of revenues on long-term contracts are recognized using the percentage-of-completion method of accounting. Under the percentage-of-completion method, income is recognized as work progresses on the contracts based on the relationship between total contract revenues and total estimated contract costs. The stage of completion is determined principally by comparing the accumulated costs incurred to date with management’s current estimate of total costs to be incurred at contract completion. Contract costs include all direct material costs and labor costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Customer Concentration (Continued)

Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. The Company generally does not require security for contract receivables. Contracts are considered complete upon completion of all essential contract work, including customer or third-party product inspection and customer acceptance.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenue recognized in excess of amounts billed to customers and are classified as current assets. These amounts are not yet billable under the terms of the contracts and are recoverable from customers upon various measures of performance. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings to customers in excess of earned revenue and advances on contracts and are classified under current liabilities. Contract retentions are included in accounts receivable.

Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets, because they will be liquidated in the normal course of contract completion, although such liquidation might require more than one year.

The Company has five customers that together comprise approximately 61% and 77% of the total accounts receivable balance at March 31, 2019 and 2018, respectively. One customer comprises approximately 31% of total accounts receivable at March 31, 2019 and a different customer comprises approximately 36% at March 31, 2018. The Company also has five customers that together comprise approximately 69% of its sales in 2019 and 61% of its sales in 2018. One customer comprises approximately 26% of 2019 sales and a different customer comprises approximately 36% of 2018 sales.

Defined Benefit and Post-retirement Benefit Plans

The Company records annual amounts relating to its pension and post-retirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The Company recognizes the over-funded and under-funded status of defined benefit pension and other post-retirement plans as assets or liabilities in its balance sheets. The Company uses a March 31 measurement date for its defined benefit pension and other post-retirement plans.

1. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring and non-recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Observable inputs such as quoted prices in active markets for identical investments that the Company has the ability to access.

- Level 2 - Inputs include:

    a. Quoted prices for similar assets or liabilities in active markets;
    b. Quoted prices for identical or similar assets or liabilities in inactive markets;
    c. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly;
    d. Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

- Level 3 - Unobservable inputs in which there is little or no market activity for the asset or liability, which require the reporting entity to develop its own estimates and assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The guidance was implemented to: remove inconsistencies and weaknesses in revenue recognition requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provide more useful information to users of financial statements through improved disclosure requirements, and simplify the preparation of financial statements.

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

The core principle of the guidance is 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 or services. To achieve that core principle, an entity should apply the following steps: 1) Identify the contracts with the customer; 2) Identify the performance obligations in the contract; 3) Determine the contract price; 4) Allocate the transaction price to the performance obligations in the contract; and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in this update are effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. Earlier adoption is permitted for nonpublic entities, subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application.

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers: Principal versus Agent Considerations”, which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing”, which clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether it recognizes revenue over time or at a point in time. The amendments also clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow entities to disregard items that are immaterial in the context of a contract. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients”, which amends the new revenue recognition guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The amendments also clarify how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria.

In February 2016, the FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In March 2017, the FASB issued ASU 2017-07, which requires the service cost component of net periodic pension and the post-retirement benefit cost to be presented in the same line item as other employee compensation costs, while the other components be presented separately as non-operating income (expense). The amendments in this update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

The Company is currently evaluating the timing and impact of these new standards on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 27, 2019, the day the financial statements were approved and authorized for issue.

2. Inventories

Inventories consist of the following at March 31:

	2019	2018
Raw materials	$ 6,156,723	$ 5,857,896
Work in process	11,664,884	8,317,561
	17,821,607	14,175,457
Less: Inventory obsolescence reserve	(486,397)	(320,128)
Inventories	**$ 17,335,210**	$ 13,855,329

3. Property, Plant and Equipment

Property, plant and equipment consists of the following at March 31:

	2019	2018
Land	$ 873,300	$ 873,300
Buildings and improvements	8,106,494	8,296,477
Machinery and equipment	26,007,211	25,067,425
Furniture and fixtures	486,799	472,311
Software	196,831	196,831
Construction in progress	1,370,191	1,253,256
	37,040,826	36,159,600
Less: Accumulated depreciation	(25,283,122)	(23,505,146)
Property, Plant and Equipment - Net of Accumulated Depreciation	$ 11,757,704	$ 12,654,454

Depreciation and amortization expense amounted to approximately $1,853,000 for 2019 and $2,352,000 for 2018.

The Company entered into capital lease agreements for machinery and equipment during 2018. Amortization of assets held under capital lease is included with depreciation expense. The total amount of machinery and equipment under capital lease was approximately $77,000 at March 31, 2019 and 2018 and accumulated depreciation on these assets was approximately $15,000 and $5,000 at March 31, 2019 and 2018.

4. Notes Payable and Borrowings - Third Parties

Revolving line of credit, term debt, notes payable, and capital lease obligations consist of the following at March 31:

	2019	2018
Revolving Line of Credit	**$ 4,398,345**	$ 3,514,641
Term loan	**$ 2,340,000**	$ 3,120,000
Delayed draw term loan	**916,667**	1,166,667
Note payable - vendor	**336,277**	-
Capital leases – collateralized by equipment with a net book value of approximately $62,000	**37,311**	61,287
	3,630,255	4,347,954
Less: Current portion	**(3,412,650)**	(1,053,978)
	217,605	3,293,976
Less: Unamortized deferred loan costs	**(23,735)**	(31,872)
Long-term Debt	**$ 193,870**	$ 3,262,104

The Company has a credit agreement (as amended) with Citizens Bank of Pennsylvania (Credit Agreement) that includes a revolving line of credit (Revolver), a Term Loan, and a Delayed Draw Term Loan. The borrowings under the Credit Agreement are collateralized by substantially all assets of the Company, as well as the shares of the Company, which were pledged by EKC Hungary.

Borrowings of $3,900,000 were issued under the amended Credit Agreement as a Term Loan Commitment (Term Loan). Payments on the Term Loan are due monthly in equal installments of $65,000 plus interest and maturing on March 1, 2022, at which point all remaining principal and interest are due in full.

Also as part of the amended Credit Agreement, the Company has a Delayed Draw Term Loan Commitment that was used to fund future accrued royalty payments to EKC Hungary. The commitment period ended on November 30, 2017 and monthly payments of approximately $21,000 plus interest commenced on December 1, 2017 and continue through the maturity of the Delayed Draw Term Loan. Terms of the loan expire on November 30, 2022.

The revolving line of credit under the amended Credit Agreement provides the Company with working capital and it is also used for general corporate and business expenses. The maturity date of the Revolver is February 28, 2021 with maximum borrowings of $5,000,000. Commitment fees are equal to 0.25% of the average daily value of the unused Revolver.

4. Notes Payable and Borrowings - Third Parties (Continued)

The Term Loan, Delayed Draw Term Loan and revolving line of credit bear interest at varying rates ranging from 2.25% - 3.0% based on quarterly leverage ratios plus the one-month LIBOR rate (approximately 2.49% at March 31, 2019). The effective interest rate on the revolving line of credit was 5.1% at March 31, 2019. The effective interest rate on the Term Loan and Delayed Draw Term Loan was 5.12% at March 31, 2019.

The Credit Agreement also contains a Letter of Credit Subfacility with a maximum outstanding amount of $1,000,000. There were no letters of credit outstanding as of March 31, 2019 or 2018.

The Credit Agreement limits (i) under certain circumstances the Company's ability to incur additional indebtedness and (ii) sell material assets or merge with another business. In addition, the Bank Credit Agreement requires the Company to maintain a specified maximum leverage ratio of 3.00 to 1.00 and a minimum fixed charge coverage ratio of less than 1.10 to 1.00. At March 31, 2019, the Company was in violation of the leverage and fixed charge coverage covenants and, as a result, is in technical default of the Credit Agreement. A waiver from the bank has not yet been received. Accordingly, the revolving line of credit, Term Loan and Delayed Draw Term Loan outstanding balances have all been classified as current liabilities in the March 31, 2019 balance sheet.

The Company has a $490,400 note payable arrangement with a vendor that was used to purchase equipment. Principal and interest payments on the vendor note payable are due monthly in equal installments of $14,863, which commenced in April 2018. The interest rate is stated at 5.75% and the note matures on February 1, 2021. The note is guaranteed by the underlying equipment.

The Company has capital leases with financial institutions for certain machinery and equipment. Interest rates range from 0% to 4.5% with various maturity dates between 2020 and 2022. The capital leases are either guaranteed by the Company or by the underlying machinery and equipment.

Approximate future aggregate maturities of term debt (including the revolving line of credit), notes payable and capital lease obligations are presented in the table below. The maturities are stated at the total cash the Company is obligated to pay and not stated net of deferred loan costs.

Year Ending March 31,		Amount
2020	$	7,835,000
2021		187,000
2022		7,000
Total	$	8,029,000

5. Notes Payable - Related Parties

The Company has a note payable agreement (as amended) with EKC International FZE, a wholly owned subsidiary of EKCL, which matures on March 31, 2022. The note payable is unsecured and bears interest at the three-month LIBOR rate (2.62% at March 31, 2019) plus 1%. The outstanding borrowings and accrued interest are due on maturity. This note is subordinated to the Citizens Bank Credit Agreement (Note 4). The effective interest rate on the related party note payable was 3.5% at March 31, 2019.

The Company has accrued interest payable on the notes payable - related parties outstanding of approximately $3,181,000 at March 31, 2019 and $2,439,000 at March 31, 2018 which are included in accrued interest - related parties in the accompanying balance sheets. The Company incurred interest expense of approximately $742,000 in 2019 and $508,000 in 2018 on the notes payable.

6. Contract in Progress

Information with respect to contract in progress is as follows at March 31:

	2019	2018
Costs incurred on uncompleted contract	**$ 5,171,097**	$ 3,759,136
Estimated earnings	**4,838,900**	3,800,242
Revenue earned on uncompleted contract	**10,005,997**	7,559,378
Less: Billings on uncompleted contract	**(9,997,154)**	(7,545,004)
	$ 8,843	$ 14,374

Included in the accompanying balance sheets under the following captions:

	2019	2018
Costs and estimated earnings in excess of billings on uncompleted contract	**$ 8,843**	$ 14,374
Billings in excess of costs and estimated earnings on uncompleted contract	**-**	-
	$ 8,843	$ 14,374

Costs and estimated earnings in excess of billings on uncompleted contract are recorded within prepaid expenses and other current assets on the balance sheets.

7. Retirement Plans

The Company has a noncontributory defined benefit pension plan covering all union employees hired prior to June 1, 2006. The benefits are based on years of service and the applicable compensation levels under the plan. The Company's funding policy is to fund pension cost as determined by actuarial valuation. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future. The Company uses a March 31 measurement date for its plan.

The following table sets forth the funded status as of March 31:

	2019	2018
Projected and accumulated benefit obligation	**$ (6,236,636)**	$ (6,261,639)
Fair value of pension plan assets	**4,005,420**	3,965,001
Under-funded Status at End of Year	**$ (2,231,216)**	$ (2,296,638)

The following are the weighted-average assumptions used to determine the benefit obligation and net periodic pension cost at March 31:

	2019	2018
Discount rate	**3.97%**	3.94%
Expected rate of return	**5.00%**	5.00%

Other required disclosures consisted of the following:

	2019	2018
Net periodic pension cost	**$ 301,768**	$ 290,863
Benefits paid	**$ 412,115**	$ 362,882
Contributions	**$ 323,138**	$ 217,562

The following table sets forth the reconciliation of items not yet reflected in net periodic pension cost and components of other changes recognized in other comprehensive income and accumulated other comprehensive income, which consist of actuarial gains:

	March 31, 2018	Amounts Arising During Fiscal Year	March 31, 2019
Comprehensive loss	$ (1,890,999)	$ 44,052	$ (1,846,947)

The Company is required to make contributions of approximately $340,000 to the plan in fiscal year 2020. Additional cash contributions may also be made at the discretion of the Company's management.

7. Retirement Plans (Continued)

The following tables set forth the fair value of the plan assets as of March 31:

2019		Level 1		Total
Cash and cash equivalents	$	56,349	$	56,349
Government and corporate bonds				
Fixed income		615,541		615,541
Mutual funds				
Fixed income		2,852,650		2,852,650
Equities		480,880		480,880
Total	$	4,005,420	$	4,005,420

2018		Level 1		Total
Cash and cash equivalents	$	137,126	$	137,126
Government and corporate bonds				
Fixed income		605,552		605,552
Mutual funds				
Fixed income		2,749,513		2,749,513
Equities		472,810		472,810
Total	$	3,965,001	$	3,965,001

Mutual funds, equity securities, government bonds, and corporate bonds are traded in active markets and valued based on their quoted fair value by independent pricing vendors (Level 1 inputs under the fair value hierarchy).

The Company's asset allocation by asset category is as follows at March 31:

	2019	2018
Cash and equivalents	**2%**	4%
Government and corporate bonds	**15%**	15%
Mutual funds	**71%**	69%
Equities	**12%**	12%

The overall investment policy for the plan assets is to produce a total return commensurate with the portfolio's risk, the constraints of funding on-going plan benefit and expense requirements and the current opportunities in the investment market.

7. Retirement Plans (Continued)

The Company's expected rate of return on plan assets is determined by the plan's historical returns and the targeted mix of investments.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year Ending March 31,		Amount
2020	$	410,000
2021	$	399,000
2022	$	392,000
2023	$	395,000
2024	$	400,000
2025 - 2029	$	1,948,000

The Company also has two 401(k) savings plans which cover substantially all union and non-union employees. For both plans, the Company matches a percentage of the employees' contributions up to a maximum level. The matching contributions to the plans were approximately $74,000 for 2019 and $59,000 for 2018. There were no discretionary contributions made to the non-union employees' plan in 2019 or 2018.

8. Other Post-retirement Benefit Plan

The Company has a post-retirement plan to provide certain post-retirement benefits for those employees identified in the current collective bargaining agreement. The Company uses a March 31 measurement date for its plan.

8. Other Post-retirement Benefit Plan (Continued)

The following table sets forth the reconciliation of items not yet reflected in net periodic post-retirement benefit cost and components of other changes recognized in other comprehensive income and accumulated other comprehensive loss:

	Net (Gain) Loss	Net Prior Service Cost	Total
Balance - April 1, 2017	$ 442,603	$ 211,127	$ 653,730
Actuarial gain	17,900	-	17,900
Amounts reclassified from accumulated other comprehensive loss			
Amortization of			
Actuarial loss	(39,172)	-	(39,172)
Prior service credit	-	(9,636)	(9,636)
	(39,172)	(9,636)	(48,808)
Balance - March 31, 2018	421,331	201,491	622,822
Actuarial gain	31,677	-	31,677
Amounts reclassified from accumulated other comprehensive loss			
Amortization of			
Actuarial loss	(38,165)	-	(38,165)
Prior service credit	-	(9,636)	(9,636)
	(38,165)	(9,636)	(47,801)
Balance - March 31, 2019	$ 414,843	$ 191,855	$ 606,698

The following is the weighted-average assumption used to determine benefit obligations and net periodic post-retirement benefit cost at March 31:

	2019	2018
Discount rate	**3.57%**	3.71%

8. Other Post-retirement Benefit Plan (Continued)

Other information concerning the plan is as follows at March 31:

		2019		2018
Benefit gain	**$**	**(40,601)**	$	(40,621)
Benefits paid	**$**	**18,444**	$	22,681
Employer contributions	**$**	**18,444**	$	22,681

The benefits are not salary based. In general, for measurement purposes, an 8% annual rate of increase in the per capita cost of covered health benefits was assumed as of the measurement date decreasing to 5% over the following eight-year period and remaining at that level until 2029.

The Company expects to contribute approximately $20,000 to the plan in fiscal year 2020, which approximates estimated benefits.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year Ending March 31,		Amount
2020	$	20,000
2021	$	16,000
2022	$	12,000
2023	$	12,000
2024	$	12,000
2025 - 2029	$	54,000

9. Income Taxes

The provision for (benefit from) income taxes consisted of the following at March 31:

		2019		2018
Currently (receivable) payable	$	17,000	$	(16,000)
Deferred income taxes				
Net operating losses		(84,000)		1,614,000
Temporary differences		(648,000)		(309,000)
Valuation allowance		716,000		(3,185,000)
Provision for (Benefit From) Income Taxes	$	1,000	$	(1,896,000)

At March 31, 2019 and 2018, the Company had the following deferred tax assets and liabilities:

		2019		2018
Non-current deferred tax assets (liabilities)				
Bad debt	$	33,000	$	20,000
Inventories		282,000		234,000
Non-deductible accruals		2,167,000		1,790,000
Property and equipment		(920,000)		(1,278,000)
Net operating losses		2,141,000		2,057,000
Pension and post-retirement benefits		691,000		654,000
Goodwill		(2,034,000)		(1,849,000)
Non-current asset		2,360,000		1,628,000
Less: Valuation allowance		(2,767,000)		(2,051,000)
Net Non-current Liability	$	(407,000)	$	(423,000)

At March 31, 2019, the Company has approximately $9,438,000 of federal and $2,029,000 of state net operating loss carryforwards. Approximately $9,020,000 of federal net operating loss carryforwards expire at various dates through 2035, while the remaining federal net operating loss carryforwards have no expiration. The state net operating loss carryforwards expire at various dates through 2038.

The Company's 2015 through 2017 tax years remain subject to examination by the Internal Revenue Service for federal tax purposes and the State of Pennsylvania.

9. Income Taxes (Continued)

Due to the uncertainty of future taxable earnings, the Company believes that it is more likely than not the deferred tax assets will be not be recognized and, therefore, a full valuation allowance is required to offset the deferred income tax assets.

At March 31, 2019, the difference between the Company's effective rate and the federal statutory rates is due to permanent differences and the valuation allowance.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the Tax Reform Act) was signed into law. The Tax Reform Act significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. As a result of the Tax Reform Act, the Company recorded a tax benefit of $2,136,000 for the year ended March 31, 2018 due to the recognition of a deferred tax liability. The deferred tax liability is related to goodwill, which is assigned an indefinite life for book purposes. The recognition relates to current and future net operating loss carryovers now also being indefinite.

10. Trade Name License Agreement

The Company maintains a trade name licensing agreement (the Agreement) with EKC Hungary, a related party, under which the Company obtained the non-exclusive rights to use certain trade names and custom computer software. Under the Agreement, the Company is required to pay in quarterly installments, royalties in the amount of 3% of net sales through April 18, 2020. The Company accrued for but did not make any royalty payments to EKC Hungary in 2019 and made royalty payments of approximately $1,229,000 to EKC Hungary in 2018. The Company does not expect to make any royalty payments during fiscal year 2020 and, accordingly, has recorded all accrued royalties as a long-term liability in the 2019 balance sheet.

11. Operating Lease Commitments

The Company leases certain manufacturing equipment and vehicles under operating lease agreements. Total rent expense was approximately $65,000 for 2019 and $92,000 for 2018. Future minimum operating lease payments are as follows:

Year Ending March 31,		Amount
2020	$	67,000
2021		57,000
2022		52,000
2023		12,000
	$	188,000

12. Related Party Transactions

EKC Europe GmbH, a related party and wholly owned subsidiary of EKC International FZE, provided engineering research and development services to the Company totaling approximately $189,000 in 2019 and $200,000 in 2018 which are included in selling, general and administrative expenses.

The Company previously prepaid EKCL for the purchase of certain raw material pipe which the Company has not received. The prepaid inventory has been classified within other assets in the accompanying balance sheets. Based on representation received from EKCL in May 2019, the Company anticipates $1,200,000 to be settled in cash prior to March 31, 2020 and has classified that amount as a current asset with the remaining balance classified as a non-current asset at March 31, 2019. Total prepaid inventory amounts to approximately $1,798,000 at March 31, 2019 and approximately $1,996,000 at March 31, 2018.

The Company also purchased other pipe from EKC International FZE totaling approximately $39,000 in 2019.

At March 31, 2019 and 2018, there are certain amounts included in receivables from related parties arising from transactions between the Company and EKC and its subsidiaries. These transactions and balances are in the normal course of business operations and are classified as a current asset at March 31, 2019 because they are anticipated to be paid within 12 months from the balance sheet date. The accounts payable - related parties is the result of the pipe purchases and services noted above.

13. Major Supplier

The Company purchased approximately 65% of its steel inventory from two suppliers in 2019 and 87% of its steel inventory from three suppliers in 2018. Company management believes there are adequate alternative suppliers available and that the loss of a major supplier would not materially interrupt business operations. At March 31, 2019 and 2018, accounts payable included in the accompanying balance sheets related to these suppliers were not material.

On March 23, 2018, a 25% tariff on steel imports from certain countries into the United States was imposed by the United States Department of Commerce. Purchases from two of the Company's three largest steel vendors are subject to this tariff. The Company has applied to the Department of Commerce to be exempted from the tariffs and has received exemptions on certain raw materials. Other applications are still pending decisions from the Department of Commerce. As of March 31, 2019, the Company has paid approximately $591,000 in tariffs to the Department of Commerce. In April 2019, the Company received its first refund of a tariff previously paid, which totaled approximately $52,000 including interest earned.

14. Commitments and Contingencies

Litigation, Claims and Assessments

In the normal course of business, the Company may be party to lawsuits and other legal matters arising in the normal course of business. Management is not aware of any legal proceedings that could have a material adverse effect on the Company's financial position, results of operations, or cash flows.

14. Commitments and Contingencies (Continued)

Environmental

Due to the nature of its industry, the Company is exposed to environmental risks. The Company has various policies and procedures to avoid environmental contamination and to mitigate the risks of environmental contamination. The Company conducts periodic reviews to identify changes in its environmental risk profile. Liabilities are accrued when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. The Company is not aware of any environmental claims existing at March 31, 2019. However, there can be no assurance that current regulatory requirements will not change or unknown past noncompliance with environmental laws will not be discovered on the Company's properties.

15. Operations and Liquidity (Unaudited)

The Company incurred a net loss of $2,833,000 during fiscal 2019, has an accumulated deficit of $9,469,000 and negative equity of $1,709,000 at March 31, 2019. Further, as disclosed in Note 4, the Company is in violation of its leverage and fixed charge coverage bank debt covenants at March 31, 2019 and a bank waiver has not yet been received.

Management believes the fiscal 2019 net loss resulted primarily from a significant decrease in net sales for the year and a decrease in gross profit. Management has attributed the decrease in sales mainly to a contraction in the industrial gas market and timing delays in government contract orders. These factors resulted in the Company experiencing certain cash flow difficulties and delayed payments to vendors throughout fiscal 2019. Additionally, the Company had drawn on approximately $4,400,000 of its $5,000,000 revolving line of credit at March 31, 2019.

Management has prepared a fiscal 2020 operating plan that forecasts an increase in sales to $28,400,000 and also forecasts increased gross profit, operating profits and positive cash flows while reducing the amount drawn on the revolving line of credit throughout fiscal 2020.

Management's fiscal 2020 forecasted increase in sales and profitability is based primarily on an increase in government contract work (Navy) that includes two significant orders already in production in fiscal 2020. The Company has invoiced over $2,000,000 of a $9,500,000 contract in fiscal 2020 with a payment of $985,000 already received and another $1,100,000 due to be received in June 2019 related to one of these significant customers. Other current contract negotiations driving the forecasted fiscal 2020 revenue increase amount to an additional $9,000,000 in potential sales.

The Company also has current orders in the CNG market and continues to pursue opportunities and grow relationships with numerous companies in that market space.

In the Industrial Gas transportation market segment, the Company continues to offer Department of Transportation certified trailers for lease or sale. In this effort, the Company has thus far in fiscal 2020 quoted several customers. The Company has also recently quoted one customer for the purchase of 8 helium trailers (total $1,600,000) and quotes for 3 more hydrogen trailers will be sent in fiscal 2020 Q1 as this market continues to open up for the Company.

15. Operations and Liquidity (Unaudited) (Continued)

Finally, the Company also has a growing Composite (Type IV) business. Management believes that Type IV composite CNG tanks for onboard fueling of new commercial and passenger vehicles continue to show promise. Revenue for Type IV cylinders increased to more than $100,000 per month in fiscal 2019 Q4 and is projected by management to not only stay above the $100,000 monthly level in fiscal 2020 but show steady growth as well.

In fiscal 2020, management's focus will be on increasing the Company's sales volume and improving gross profit. Through ongoing business development efforts, managing costs by applying lean manufacturing principles, and a focused emphasis on understanding customers' needs, management believes that the path to profitability for the Company is achievable.

Additionally, EKCL (the Company's ultimate parent company in India) has provided written representation that it has both the intent and ability to provide the Company with financial support necessary in fiscal 2020 and at least through May 31, 2020 to ensure that the Company has the financial means necessary to meet all outstanding liabilities due to third parties.

The ability of the Company to continue to meet its obligations is contingent upon its ability to increase sales, improve gross profit, return to profitability and generate cash flows from operations sufficient to support the Company's obligations as forecasted by management. To the extent management's plans are not achieved, EKCL could be called upon to provide the necessary financial support as disclosed above. Additionally, the Company will need to obtain the necessary bank waiver related to its covenant violations in order to cure the technical default on the Credit Agreement. The success of management's plans cannot be assured at this time.