

FINANCIAL STATEMENTS

REPORT ON

ATUL AMERICAS, INC.
MARCH 31, 2010



MILLER SHERRILL BLAKE EAGLE CPA PA
Certified Public Accountants

**REPORT ON
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INDEPENDENT AUDITORS' REPORT

April 30, 2010


To the Board of Directors
Atul Americas, Inc
11121 Carmel Commons Blvd., Suite 160
Charlotte, North Carolina 28226

We have audited the accompanying balance sheets of Atul Americas, Inc. as of March 31, 2010 and 2009, and the related statements of operations, shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

MILLER SHERRILL BLAKE EAGLE CPA PA



Phyllis A. Chitwood, CPA
For the Firm

ATUL AMERICAS, INC.
BALANCE SHEETS
AS AT MARCH 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<u>Current Assets</u>		
Cash	\$ 25,352	\$ 210,449
Accounts receivable	1,848,360	2,083,192
Accounts receivable - affiliate	59,399	660,163
Inventories	905,682	1,474,175
Note receivable - affiliate	66,244	66,244
Prepaid expenses	-	72,900
Employee advances	250	1,500
Total Current Assets	<u>2,905,287</u>	<u>4,568,623</u>
<u>Fixed Assets</u>		
Computers and office equipment	16,874	15,983
Automobile	2,880	2,880
	<u>19,754</u>	<u>18,863</u>
Less accumulated depreciation	17,927	17,019
	<u>1,827</u>	<u>1,844</u>
<u>Other Assets</u>		
Deferred income taxes	3,211	1,726
Prepaid / refundable income taxes	1,539	11,828
Deposit	1,550	1,550
Total Other Assets	<u>6,300</u>	<u>15,104</u>
 TOTAL ASSETS	 <u>\$ 2,913,414</u>	 <u>\$ 4,585,571</u>
 <u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 15,888	\$ 8,709
Accounts payable - affiliate	582,639	2,261,727
Total Current Liabilities	<u>598,527</u>	<u>2,270,436</u>
<u>Shareholder's Equity</u>		
Common stock	2,000,000	2,000,000
Retained earnings	314,887	315,135
Total Shareholder's Equity	<u>2,314,887</u>	<u>2,315,135</u>
 TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	 <u>\$ 2,913,414</u>	 <u>\$ 4,585,571</u>

See accompanying notes and accountants' report.

ATUL AMERICAS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

	2010		2009	
	<u>Amount</u>	<u>% To Net Sales</u>	<u>Amount</u>	<u>% To Net Sales</u>
Net Sales	\$13,512,538	100.00	\$19,163,732	100.00
Cost of goods sold	<u>13,313,260</u>	<u>98.53</u>	<u>18,963,591</u>	<u>98.96</u>
Gross Profit	<u>199,278</u>	<u>1.47</u>	<u>200,141</u>	<u>1.04</u>
<u>Operating Expenses</u>				
Selling, general, and administrative	<u>198,710</u>	<u>1.47</u>	<u>213,268</u>	<u>1.11</u>
Operating Income (Loss)	<u>568</u>	<u>-</u>	<u>(13,127)</u>	<u>(0.07)</u>
Financial expense, interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before taxes based on income (loss)	<u>568</u>	<u>-</u>	<u>(13,127)</u>	<u>(0.07)</u>
(Credit) provision for income taxes				
Current tax (refund) expense	2,581		(3,475)	
Deferred tax benefit	(1,485)		4,934	
Prior year over (under) accrual	<u>(280)</u>		<u>135</u>	
	<u>816</u>		<u>1,594</u>	
Net (Loss)	<u>\$ (248)</u>		<u>\$ (14,721)</u>	

See accompanying notes and accountants' report.

ATUL AMERICAS, INC.
STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at March 31, 2008	\$ 2,000,000	\$ 329,856	\$ 2,329,856
Net (loss)	<u> </u>	<u>(14,721)</u>	<u>(14,721)</u>
Balance at March 31, 2009	2,000,000	315,135	2,315,135
Net (loss)	<u> </u>	<u>(248)</u>	<u>(248)</u>
Balance at March 31, 2010	<u>\$ 2,000,000</u>	<u>\$ 314,887</u>	<u>\$ 2,314,887</u>

See accompanying notes and accountants' report.

ATUL AMERICAS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

	2010	2009
<u>Cash Flows from Operating Activities</u>		
Net (Loss)	\$ (248)	\$ (14,721)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation	908	1,286
Deferred income taxes	(1,485)	4,934
Changes in noncash operating assets and liabilities:		
Decrease in accounts receivable	234,832	2,118,109
Decrease (increase) in accounts receivable - affiliate	600,764	(120,286)
Decrease in inventories	568,493	137,866
Decrease (increase) in prepaid expenses	72,900	(72,900)
Decrease (increase) in prepaid / refundable income taxes	10,289	(11,828)
Decrease (increase) in employee advances	1,250	(1,500)
(Decrease) in accounts payable	7,179	(205,693)
(Decrease) in accounts payable affiliate	(1,679,088)	(1,656,035)
(Decrease) in income taxes payable	-	(6,046)
Total Adjustments	(183,958)	187,907
Net cash (used by) provided by operating activities	(184,206)	173,186
<u>Cash Flows from Investing Activities</u>		
Acquisitions of property and equipment	(891)	-
Net cash (used in) investing activities	(891)	-
Net (decrease) increase in cash	(185,097)	173,186
Cash at beginning of year	210,449	37,263
Cash at End of Year	\$ 25,352	\$ 210,449
Payment of income taxes	\$ 44	\$ 17,909

See accompanying notes and accountants' report.

ATUL AMERICAS, INC.
NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 2010

Nature of Operations

Atul Americas, Inc. (the "Company"), which is a wholly-owned U.S. subsidiary of Atul Products Ltd. (a corporation of the country of India), is engaged primarily in the distribution of chemical dyes used mainly in the textile industry. Sales are made primarily in the Southeastern United States.

Note A – Summary of Significant Accounting Policies

Accounts Receivable

Accounts receivable are recognized at their sales price less any purchase discounts extended at the time of sale. Accounts receivable are past due or delinquent when payment is not received within the credit term extended to the customer, ranging from 30 days to 270 days. The Company does not charge customers late fees or interest on delinquent accounts receivable. The Company's domestic accounts receivable are insured through a provider at a rate of 100%, provided certain conditions are met.

The Company uses the allowance method to account for uncollectible trade receivable balances. Under the allowance method, if needed, an estimate of uncollectible balances is made upon specific account balances that are considered uncollectible. At March 31, 2010 and 2009, there was no allowance balance required. Trade receivables had a balance of \$1,907,759 (2010) and \$2,743,355 (2009).

Inventories

Inventories are stated at the lower of cost (average cost) or market.

Automobile and Computers and Office Equipment

Automobile and computers and office equipment are recorded at cost. Depreciation is computed using an accelerated depreciation method over five years. Depreciation amounted to \$908 (2010) and \$1,286 (2009).

Income Taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of change in tax laws and rates on the date of enactment.

ATUL AMERICAS, INC.
NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 2010

Note A – Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Concentration of Credit Risk

The Company maintains demand deposits with a financial institution, the balance of which at time throughout the year exceed the federally insured amount.

Revenue Recognition

Revenues are recognized when the goods are delivered and upon title passing to the customer.

Note B – Income Taxes

Deferred tax assets consist of the following components as of March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Uniform capitalization	\$2,230	\$3,000
Equipment	(190)	(310)
Net operating losses	1,171	(964)
Total	<u>\$3,211</u>	<u>\$1,726</u>

Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carry forwards are expected to be available to reduce taxable income. Management believes the Company will utilize the entire amount of deferred tax assets and no valuation allowance is necessary.

Note C – Commitments

Lease

The company is obligated under a lease agreement for office space located at 11121 Carmel Commons Boulevard, Charlotte, North Carolina. The lease is for a term of 60 months, which began January 5, 2008 and is scheduled to expire December 31, 2012. The lease calls for monthly rental payments of \$1,272 with a 3% escalation beginning January 1, 2009 and annually thereafter.

ATUL AMERICAS, INC.
NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 2010

Note C – Commitments (continued)

Future minimum lease payments are as follows:

2011	\$16,308
2012	12,501
Total	<u>\$28,809</u>

Total rental expense for the year ended March 31, 2010 and 2009 was \$15,840 and \$15,506, respectively.

Contracted Services

The Company has an agreement for warehouse and distribution services from a bonded warehouse for storage, receiving and shipment for the company's inventory. These services are provided on a month to month basis and can be terminated at any time by providing sixty days notice.

Total warehousing expense included in cost of goods sold for the years ended March 31, 2010 and 2009 was \$37,998 and \$46,998 respectively.

Note D – Related Parties

The Company purchases a significant portion of its inventory from its parent company (Atul Products Ltd.) and from an affiliate Atul International Trading (Shanghai) Co., Inc. Purchases from its parent company for the years ended March 31, 2010 and 2009 were \$10,655,613 and \$15,412,596, respectively, and accounts payable as of March 31, 2010 and 2009 were \$537,756 and \$2,261,727, respectively. Purchases from Atul International Trading (Shanghai) Co., Inc. for the years ended March 31, 2010 and 2009 were \$850,614 and \$2,059,150, respectively and accounts payable as of March 31, 2010 and 2009 were \$21,530 and \$0 respectively.

The Company sells inventory to its parent company, for items purchased from vendors in the United States, with sales for the years ended March 31, 2010 and 2009 of \$417,988 and \$576,257, respectively and accounts receivable as of March 31, 2010 and 2009 were \$59,399 and \$383,516, respectively.

The Company sells inventory to an affiliate, Atul Europe Ltd with sales for the years ended March 31, 2010 and 2009 were \$0 and \$276,647 respectively, and accounts receivable as of March 31, 2010 and 2009 were \$0 and \$276,647 respectively. Purchases for the years ended March 31, 2010 and 2009 were \$4,458 and \$0, respectively and accounts payable as of March 31, 2010 and 2009 were \$23,353 and \$0, respectively.

The Company also has a note receivable for \$66,244 due from an affiliate at March 31, 2010 and 2009. The note is non-interest bearing and is due on demand.

Note E – Concentrations in Sales

Sales to the company's largest six customers amounted to approximately \$7,282,657 (53.89%) in 2010 and the largest seven customers of \$10,663,582 (55.24%) in 2009.

SUPPLEMENTARY INFORMATION

MILLER SHERRILL BLAKE EAGLE CPA PA



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY FINANCIAL INFORMATION**

April 30, 2010

To the Board of Directors
Atul Americas, Inc.
Charlotte, North Carolina

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Part II is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MILLER SHERRILL BLAKE EAGLE CPA PA

Phyllis A. Chitwood, CPA
For the Firm

ATUL AMERICAS, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

	2010	2009
<u>Selling, General and Administrative Expenses</u>		
Salaries and wages	\$ 89,500	\$ 89,500
Payroll taxes and employee benefits	29,663	28,638
Travel and entertainment	9,386	14,946
Professional fees	18,174	17,289
Repairs and maintenance	860	515
Office supplies and postage	7,168	9,929
Insurance	2,199	2,544
Telephone	6,464	7,539
Depreciation	908	1,286
Auto	3,183	6,423
Licenses and fees	11,767	14,273
Dues and subscriptions	1,010	1,120
Rent	15,840	15,506
Bank charges	2,531	3,893
Contributions	-	400
Miscellaneous	57	(533)
	<u>\$ 198,710</u>	<u>\$ 213,268</u>
Total Selling ,General, and Administrative Expenses	<u>\$ 198,710</u>	<u>\$ 213,268</u>

See accountants' report.