

Hönigsberg & Düvel Corporation

Financial Statements

For the years ended December 31, 2018 and 2017

(With Independent Accountant's Review Report Thereon)



Hönigsberg & Düvel Corporation

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Independent Accountant's Review Report

To the Stockholder
Hönigsberg & Düvel Corporation
Chattanooga, Tennessee

We have reviewed the accompanying financial statements of Hönigsberg & Düvel Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Market Street Partners, PLLC

Chattanooga, Tennessee

February 11, 2019

Hönigsberg & Düvel Corporation

Balance Sheets

As of December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 127,167	\$ 508,513
Accounts receivable, net	495,822	479,830
Accounts receivable from related parties	-	70,653
Employee advances	200	-
Prepaid expenses and other current assets	16,713	13,964
Income taxes receivable	12,000	47,789
Total current assets	<u>651,902</u>	<u>1,120,749</u>
Property and equipment, net	28,446	41,892
Deferred income taxes	89,300	29,100
Total assets	<u>\$ 769,648</u>	<u>\$ 1,191,741</u>
Liabilities and Stockholder's Equity (Deficit)		
Current liabilities		
Line of credit	\$ 250,000	\$ 465,025
Accounts payable	17,367	38,552
Accrued expenses	2,263	7,590
Accrued payroll and benefits	20,951	47,976
Notes payable to parent company	489,862	489,862
Total current liabilities	<u>780,443</u>	<u>1,049,005</u>
Stockholder's equity (deficit)		
Common stock, no par value, 1,000 shares authorized, 1,000 issued and outstanding	100,000	100,000
Retained earnings (accumulated deficit)	<u>(110,795)</u>	<u>42,736</u>
Total stockholder's equity (deficit)	<u>(10,795)</u>	<u>142,736</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ 769,648</u>	<u>\$ 1,191,741</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Operations

For the years ended December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Revenues	\$ 2,909,092	\$ 3,390,989
Operating expenses		
Advertising and promotion	863	6,170
Automobile	2,079	12,712
Bad debt expense	2,263	20,170
Business taxes and licenses	7,963	478
Continuing education	300	878
Cost of product sold	116,460	126,579
Depreciation	13,446	13,336
Dues and subscriptions	8,050	3,546
Equipment rentals	8,878	9,253
Facility rents	51,600	50,905
Insurance	29,477	32,097
Miscellaneous	2,812	4,371
Office expenses	45,625	75,562
Professional fees	99,841	67,646
Salaries, employee benefits, and related payroll taxes	2,679,092	2,859,667
Travel and entertainment	10,868	107,921
Total operating expenses	<u>3,079,617</u>	<u>3,391,291</u>
Operating income (loss)	(170,525)	(302)
Other expenses		
Interest expense	(52,475)	(47,260)
Foreign currency exchange gain (loss)	9,269	(7,387)
Total other expenses	<u>(43,206)</u>	<u>(54,647)</u>
Loss before taxes	(213,731)	(54,949)
Income tax benefit	<u>(60,200)</u>	<u>(11,734)</u>
Net loss	<u>\$ (153,531)</u>	<u>\$ (43,215)</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Changes in Stockholder's Equity (Deficit)

For the years ended December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	Common Stock Shares	Common Stock Amount	Retained Earnings (Accumulated Deficit)	Total Stockholder's Equity (Deficit)
Balance, December 31, 2016	100	\$ 100,000	\$ 85,951	\$ 185,951
Net loss	-	-	(43,215)	(43,215)
Balance, December 31, 2017	100	100,000	42,736	142,736
Net loss	-	-	(153,531)	(153,531)
Balance, December 31, 2018	100	\$ 100,000	\$ (110,795)	\$ (10,795)

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Net loss	\$ (153,531)	\$ (43,215)
Adjustments to reconcile net loss to cash flows used by operating activities:		
Deferred tax provision	(60,200)	(2,400)
Depreciation	13,446	13,336
Bad debt expense	2,263	20,170
Changes in operating assets:		
Accounts receivable	(18,255)	(148,067)
Accounts receivable from related parties	70,653	(58,822)
Employee advances	(200)	-
Prepaid expenses and other current assets	(2,749)	5,930
Income taxes receivable	35,789	(35,771)
Change in operating liabilities:		
Accounts payable	(21,185)	18,157
Accrued expenses	(5,327)	(957)
Accrued payroll and benefits	(27,025)	18,514
Income taxes payable	-	(1,250)
Net cash used by operating activities	<u>(166,321)</u>	<u>(214,375)</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(6,508)
Net cash used by investing activities	<u>-</u>	<u>(6,508)</u>
Cash flows from financing activities		
Net proceeds (payments) from line of credit	(215,025)	465,025
Net change in cash	<u>(381,346)</u>	<u>244,142</u>
Cash, beginning of year	<u>508,513</u>	<u>264,371</u>
Cash, end of year	<u>\$ 127,167</u>	<u>\$ 508,513</u>
Cash paid for:		
Interest	<u>\$ 52,475</u>	<u>\$ 47,260</u>
Income taxes	<u>\$ -</u>	<u>\$ 24,386</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 1. Nature of Business and Significant Accounting Policies

Hönigsberg & Düvel Corporation, (the "Company") provides customized and comprehensive information technology services and solutions to businesses in the United States and Canada. The Company is a wholly-owned subsidiary of Hönigsberg & Düvel Datentechnik GmbH (the "Parent"), headquartered in Wolfsburg, Germany. The Company was incorporated under the laws of Tennessee in 2010.

Basis of accounting:

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) has established the Accounting Standards Codification (ASC) as the sole source of authoritative GAAP.

Receivables and credit policies:

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment under normal trade terms. The Company reports trade receivables at gross amounts due from customers. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected. The allowance is estimated based on management's knowledge of its customers, historical loss experience, and existing economic conditions.

As of December 31, 2018 and 2017, the allowance for doubtful accounts was \$20,170 and \$20,170, respectively. There were no unbilled amounts in accounts receivable as of December 31, 2018 or 2017.

Property and equipment:

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon the sale or other retirement of depreciable property, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets.

The estimated service lives of property and equipment are principally as follows:

Furniture and fixtures	5–10 years
Leasehold Improvements	Shorter of estimated life or respective lease term
Computer equipment	5 years

Cash:

The Company maintains at various financial institutions cash accounts which may exceed federally insured amounts at times and which may at times significantly exceed balance sheet amounts due to outstanding checks.

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 1. Nature of Business and Significant Accounting Policies, continued

Income taxes:

Income taxes are provided for the tax effects of transactions reported in the financial statements. Deferred tax assets and liabilities, if significant, are recognized for the estimated future tax effects attributed to temporary differences between the book and tax basis of assets and liabilities and for carryforward items. The measurement of current and deferred tax assets and liabilities is based on enacted law.

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the positions will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2018 and 2017, the Company has not recognized liabilities for uncertain tax positions or associated interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction, Canadian jurisdiction, and various state jurisdictions. The Company is no longer subject to tax examinations before 2015.

Revenue recognition:

Substantially all revenues of the Company are derived from information technology-related service contracts. Revenues are recognized as services are provided or upon shipment of product.

Advertising and promotion:

Advertising costs are charged to operations when incurred. Advertising expense totaled \$863 for 2018 and \$6,170 for 2017.

Estimates and uncertainties:

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign currency translation:

Certain international transactions were entered into using the Parent's functional currency, the Euro. The Company measures and records such transactions in US dollars using the exchange rate in effect at the date of the transaction. Related obligations reflected in the accompanying balance sheets have been adjusted to reflect the respective December 31, 2018 and 2017, exchange rates, with the related foreign currency translation gain and losses reflected in the statements of operations.

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 1. Nature of Business and Significant Accounting Policies, continued

Reclassifications:

Certain reclassifications have been made to the prior year financial statements to conform to the current period presentation.

Subsequent events:

The Company has evaluated subsequent events for potential recognition and disclosure through February 11, 2019, the date the financial statements were available to be issued.

Note 2. Recent Accounting Pronouncements Not Yet Adopted

Lease Accounting:

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For nonpublic entities, the new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of ASU 2016-02 on the financial statements.

Updated Revenue Accounting:

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date for nonpublic entities to annual reporting periods beginning after December 15, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact of ASU 2014-09 on the financial statements.

Hönigsberg & Düvel Corporation
Notes to Financial Statements
December 31, 2018 and 2017
(See Independent Accountant's Review Report)

Note 3. Credit Risk and Other Concentrations

	<u>2018</u>	<u>2017</u>
Sales from major customers (customers that account for 10% or more of sales)	\$ 2,736,799	\$ 2,505,012
Percent of sales	94%	74%
Number of customers	2	2
Receivables from major customers (customers that account for 10% or more of receivables)	\$ 508,790	\$ 545,650
Percent of receivables	99%	99%
Number of customers	2	3

Note 4. Property and Equipment

Property and equipment consist of the following major classifications:

	<u>2018</u>	<u>2017</u>
Transportation equipment	\$ 48,046	\$ 48,046
Furniture and fixtures	<u>35,000</u>	<u>35,000</u>
	83,046	83,046
Less accumulated depreciation	<u>(54,600)</u>	<u>(41,154)</u>
	<u>\$ 28,446</u>	<u>\$ 41,892</u>

Note 5. Notes Payable to Stockholder

The Company has notes payable with its stockholder at December 31, 2018 and 2017. The notes payable bear interest of 6.5% and are unsecured. The notes state that the holder may give notice to the Company that the notes are immediately due and payable. Accordingly, the notes are classified as a current liability in the accompanying balance sheets. Interest is accrued and is payable annually on January 31 for the preceding year.

Note 6. Line Of Credit

The Company has a line of credit with Synovus Bank. The limit on the line of credit was \$350,000 and \$500,000 as of December 31, 2018 and 2017, respectively. The line of credit expires April 10, 2019 and is secured by substantially all assets of the Company. Interest is payable monthly at a variable rate of 0.75% above Lender's Prime rate, 6.50% and 5.25% as of December 31, 2018 and 2017, respectively. The balance outstanding under the line of credit totaled \$250,000 and \$465,025 as of December 31, 2018 and 2017, respectively.

Note 7. 401k Plan

The Company sponsors a 401k plan. The Company made contributions of \$12,369 and \$16,654 to the plan in 2018 and 2017, respectively.

Hönigsberg & Düvel Corporation
Notes to Financial Statements
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(See Independent Accountant's Review Report)

Note 8. Income Taxes

The income tax provision in the statement of operations includes the following:

	<u>2018</u>	<u>2017</u>
Current tax provision (benefit)	\$ -	\$ (9,334)
Deferred income taxes related to:		
Financial reporting/tax differences in:		
Allowance for doubtful account	(5,500)	-
Depreciation and amortization	(2,000)	(1,000)
Net operating loss carryforwards	<u>(52,700)</u>	<u>(1,400)</u>
Deferred tax provision	<u>(60,200)</u>	<u>(2,400)</u>
Income tax expense (benefit)	<u>\$ (60,200)</u>	<u>\$ (11,734)</u>

The current provision relates to certain federal and state taxes where the net operating loss could not be utilized. Based on operating losses generated from operations during 2018 and 2017, as well as anticipated results of operations for and thereafter, the Company considers realization of remaining federal and state net operating loss carryforwards totaling approximately \$200,986 and \$593,314, respectively, as of December 31, 2018 and state net operating loss carryforward of \$431,766 as of December 31, 2017 to be more likely than not. Net operating losses for state taxes begin to expire in 2025, and federal operating losses carry forward indefinitely.

The deferred tax asset relates to temporary differences between the financial reporting basis and tax basis of depreciation and amortization, as well as the net operating loss carryforward.

Note 9. Commitments and Contingencies

Operating leases:

The Company utilizes facilities, computers, and equipment under operating leases. Future minimum lease payments required under noncancellable leases as of December 31, 2018 are as follows:

2019	\$ 25,032
2020	24,300
2021	24,000
2022	24,000
2023	<u>22,000</u>
	<u>\$ 119,332</u>

Rent expense under operating leases totaled \$54,878 and \$51,253 for the years ended December 31, 2018 and 2017, respectively.

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 9. Commitments and Contingencies, continued

Litigation:

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. The Company is currently the defendant of a claim by a former employee. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect of the financial condition or results of the operations of the Company.

Note 10. Related Party Transactions

Sales to a related party amounted to \$- and \$171,335 in 2018 and 2017, respectively. The Company was owed trade receivables from this related party amounting to \$- and \$70,653 at December 31, 2018 and 2017, respectively.

Advances to an employee totaled \$200 and \$- at December 31, 2018 and 2017, respectively.

Interest expense to related parties amounted to \$31,754 and \$43,808 during the periods ending December 31, 2018 and 2017, respectively.

See Note 5 for discussion of related party notes payable and accrued interest.