

Hönigsberg & Düvel Corporation

Financial Statements

For the years ended December 31, 2019 and 2018

(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 (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, 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 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 American Institute of Certified Public Accountants. 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, 2020

Hönigsberg & Düvel Corporation

Balance Sheets

As of December 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 284,104	\$ 127,167
Accounts receivable, net	433,863	495,822
Employee advances	-	200
Prepaid expenses and other current assets	1,171	15,563
Income taxes receivable	16,770	12,000
Total current assets	<u>735,908</u>	<u>650,752</u>
Property and equipment, net	14,999	28,446
Other Assets		
Deposits	1,150	1,150
Deferred income taxes	96,800	89,300
Total assets	<u>\$ 848,857</u>	<u>\$ 769,648</u>
Liabilities and Stockholder's Deficit		
Current liabilities		
Line of credit	\$ -	\$ 250,000
Accounts payable	9,324	17,367
Accrued expenses	8,156	2,263
Accrued payroll and benefits	11,219	20,951
Current portion of long term debt	13,039	-
Notes payable to parent company	589,862	489,862
Total current liabilities	<u>631,600</u>	<u>780,443</u>
Other liabilities		
Long term debt	234,858	-
Total liabilities	<u>866,458</u>	<u>780,443</u>
Stockholder's deficit		
Common stock, no par value, 1,000 shares authorized, 1,000 issued and outstanding	100,000	100,000
Accumulated Deficit	(117,601)	(110,795)
Total stockholder's deficit	<u>(17,601)</u>	<u>(10,795)</u>
Total liabilities and stockholder's deficit	<u>\$ 848,857</u>	<u>\$ 769,648</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Operations

For the years ended December 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
Revenues	\$ 3,028,209	\$ 2,909,092
Operating expenses		
Advertising and promotion	1,884	863
Automobile	10,989	2,079
Bad debt	12,989	2,263
Business taxes and licenses	4,373	7,963
Continuing education	965	300
Cost of product sold	119,894	116,460
Depreciation	13,447	13,446
Dues and subscriptions	5,909	8,050
Equipment rentals	7,682	8,878
Facility rents	26,625	51,600
Insurance	36,629	29,477
Miscellaneous	400	2,812
Office expenses	35,692	45,625
Professional fees	92,564	99,841
Salaries, employee benefits, and related payroll taxes	2,606,944	2,679,092
Travel and entertainment	11,733	10,868
Total operating expenses	<u>2,988,719</u>	<u>3,079,617</u>
Operating income (loss)	39,490	(170,525)
Other income (expenses)		
Interest expense	(53,796)	(52,475)
Foreign currency exchange gain (loss)	-	9,269
Total other income (expenses)	<u>(53,796)</u>	<u>(43,206)</u>
Loss before taxes	(14,306)	(213,731)
Income tax benefit	(7,500)	(60,200)
Net loss	<u>\$ (6,806)</u>	<u>\$ (153,531)</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Changes in Stockholder's Equity (Deficit)

For the years ended December 31, 2019 and 2018

(See Independent Accountant's Review Report)

	Common Stock Shares	Common Stock Amount	Retained Earnings (Accumulated Deficit)	Total Stockholder's Equity (Deficit)
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)
Net loss	-	-	(6,806)	(6,806)
Balance, December 31, 2019	100	\$ 100,000	\$ (117,601)	\$ (17,601)

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
<i>Cash flows from operating activities</i>		
Net loss	\$ (6,806)	\$ (153,531)
Adjustments to reconcile net loss to cash flows used by operating activities:		
Deferred tax provision	(7,500)	(60,200)
Depreciation	13,447	13,446
Bad debt expense	12,989	2,263
Changes in operating assets:		
Accounts receivable	48,970	(18,255)
Accounts receivable from related parties	-	70,653
Employee advances	200	(200)
Prepaid expenses and other current assets	14,392	(2,749)
Income taxes receivable	(4,770)	35,789
Change in operating liabilities:		
Accounts payable	(8,043)	(21,185)
Accrued expenses	5,893	(5,327)
Accrued payroll and benefits	(9,732)	(27,025)
Net cash (used) provided by operating activities	<u>59,040</u>	<u>(166,321)</u>
<i>Cash flows from financing activities</i>		
Net payments from line of credit	-	(215,025)
Proceeds from notes payable to Parent company	100,000	-
Repayment of long-term debt	(2,103)	-
Net cash (used) provided in financing activities	<u>97,897</u>	<u>(215,025)</u>
Net change in cash	156,937	(381,346)
<i>Cash, beginning of year</i>	<u>127,167</u>	<u>508,513</u>
<i>Cash, end of year</i>	<u>\$ 284,104</u>	<u>\$ 127,167</u>
<i>Cash paid for:</i>		
Interest	<u>\$ 53,796</u>	<u>\$ 52,475</u>

See Notes to Financial Statements

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2019 and 2018

(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.

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.

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, 2019 and 2018, the allowance for doubtful accounts was \$20,170 and \$20,170, respectively. There were no unbilled amounts in accounts receivable as of December 31, 2019 or 2018.

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

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018, 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 2016.

Revenue recognition:

The Company recognizes revenue in accordance with FASB Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606).

The provisions of the update provide a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Substantially all revenues of the Company are derived from information technology-related service contracts. Revenues are recognized based on contractual rates as services are provided or upon shipment of product. Sales and products are subject to economic conditions and may fluctuate based on changes in the industry and financial markets.

Advertising and promotion:

Advertising costs are charged to operations when incurred. Advertising expense totaled \$1,884 for 2019 and \$863 for 2018.

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

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

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 December 31, 2018, exchange rates, with the related foreign currency translation gain and losses reflected in the statements of operations. There were no international transactions during 2019.

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 the date of the independent accountant's review report, the date the financial statements were available to be issued.

Note 2. Recent Accounting Pronouncements

Recently Adopted

Updated Revenue Accounting:

On January 1, 2019, the Company adopted Topic 606, which replaced most existing revenue recognition guidance, using the modified retrospective method. The core principle of Topic 606 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. Topic 606 has been applied to contracts that were not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting.

The impact of adopting the new standard was not material to the financial statements. The primary impact included additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from client contracts, including judgments and changes in estimates. The Company has not recognized any impact to retained earnings or net income as a result of adopting the standard.

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 2. Recent Accounting Pronouncements, continued

Not Yet Adopted

Lease Accounting:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, Leases (Topic 842) Codification Improvements, which exempts entities from having to provide the interim disclosures required by ASC 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2021, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented. The new standard provides a number of practical expedients. Upon adoption, the Company expects to elect all the practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

Note 3. Credit Risk and Other Concentrations

	<u>2019</u>	<u>2018</u>
Sales from major customers (customers that account for 10% or more of sales)	\$ 2,849,340	\$ 2,736,799
Percent of sales	94 %	94 %
Number of customers	2	2
Receivables from major customers (customers that account for 10% or more of receivables)	\$ 433,863	\$ 508,790
Percent of receivables	100%	99%
Number of customers	2	2

Hönigsberg & Düvel Corporation
Notes to Financial Statements
December 31, 2019 and 2018
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Note 4. Property and Equipment

Property and equipment consist of the following major classifications:

	<u>2019</u>	<u>2018</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>(68,047)</u>	<u>(54,600)</u>
	<u>\$ 14,999</u>	<u>\$ 28,446</u>

Note 5. Note Payable to Stockholder

The Company has a note payable with its stockholder at December 31, 2019 and 2018. The note bears interest at 6.5% and is unsecured. The note states that the holder may give notice to the Company that the note is immediately due and payable. Accordingly, the note is classified as a current liability in the accompanying balance sheets. Interest is accrued and is payable annually on January 31 for the preceding year. The balance due to stockholder was \$589,862 and \$489,862 of December 31, 2019 and December 31, 2018, respectively.

Note 6. Debt Restructuring

The Company's line of credit with Synovus Bank expired during fiscal year 2019. The Company restructured the line of credit into a term loan, executed on October 29, 2019 at a rate of 6.05%, maturing on October 29, 2021. The loan is secured by substantially all assets of the Company. As of December 31, 2019, the principal balance of the loan is \$234,858 and \$2,130 was recognized as interest expense in 2019.

Note 7. 401k Plan

The Company sponsors a 401k plan. The Company made contributions of \$14,913 and \$12,369 to the plan in 2019 and 2018, respectively.

Note 8. Income Taxes

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

	<u>2019</u>	<u>2018</u>
Current tax benefit	\$ -	\$ -
Deferred income taxes related to:		
Financial reporting/tax differences in:		
Allowance for doubtful accounts	(50)	(5,500)
Depreciation and amortization	(2,300)	(2,000)
Net operating loss carryforwards	<u>(5,150)</u>	<u>(52,700)</u>
Deferred tax provision	<u>(7,500)</u>	<u>(60,200)</u>
Income tax expense (benefit)	<u>\$ (7,500)</u>	<u>\$ (60,200)</u>

Hönigsberg & Düvel Corporation

Notes to Financial Statements

December 31, 2019 and 2018

(See Independent Accountant's Review Report)

Note 8. Income Taxes, continued

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 2019 and 2018, as well as anticipated results of operations for 2020 and thereafter, the Company considers realization of remaining federal and state net operating loss carryforwards totaling approximately \$205,756 and \$660,328, respectively, as of December 31, 2019 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, 2019 are as follows:

2020	\$	24,300
2021		24,000
2022		24,000
2023		<u>22,000</u>
	\$	<u>94,300</u>

Rent expense under operating leases totaled \$31,682 and \$54,878 for the years ended December 31, 2019 and 2018, respectively.

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

Advances to an employee totaled \$- and \$200 at December 31, 2019 and 2018, respectively.

Interest expense to related parties amounted to \$35,777 and \$31,754 during the periods ending December 31, 2019 and 2018, respectively.

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