



**Project Liverpool – Due Diligence Workbook**  
**EXTRACT ONLY**  
**Redacted Copy**





Mr. Mohamed Salah  
Chief Financial Officer  
Manchester United, LLC  
1 Sir Matt Busby Way  
Manchester, United Kingdom

Dear Mr. Salah:

**RE: Project Liverpool: The Potential Acquisition of Liverpool, LLC**

Farrell Advisory Inc. ("FAI") was asked by you to perform analyses of certain financial information on Liverpool, LLC ("Liverpool", "Company" or "Target") to assist with your due diligence investigation of the Company. Our Due Diligence services have been limited to the procedures and scope outlined within the engagement letter dated September 22, 2020 ("Engagement Letter") and at Appendix A.

**Statement of Limitation**

Information with respect to the Company's operations, account balances and accounting and operating procedures purported to be in effect and described in our report was obtained through analyses provided by Company's management ("Management") and discussions with Management. FAI's analysis was restricted to the information provided by you and Management.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"). Accordingly, FAI does not express an opinion or any other form of assurance on the financial statements of Company or any financial or other information, or operating and internal controls of the Company. FAI work was primarily focused on the trailing 12 months ended October 2020 with the majority of the balance sheet work performed as of August 2020 and September 2020. At the additional request of the Client, FAI performed, at a high level only, roll forward of the trailing 12 month results ended November 2020; no detailed work

With respect to prospective accounting, business, and industry information relative to Company referenced throughout this Report, FAI did not examine, compile or apply agreed-upon procedures to such information in accordance with standards established by the AICPA and FAI does not express any assurances of any kind on such information. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. FAI takes no responsibility for the achievability of the expected results anticipated by the Management and/or Client.



## Statement of Limitation - Continued

FAI makes no representation regarding the sufficiency of the work either for purposes for which this Report has been requested or for any other purpose. The sufficiency of the work FAI performed is solely the responsibility of Client and neither FAI's work nor its findings shall in any way constitute a recommendation whether Client should or should not consummate the Transaction. Had FAI been requested to perform additional work, additional matters might have come to FAI's attention that would

It is understood that this Report is solely for the information of the management of Client. This Report, or portions thereof, should not be referred or distributed to any other persons or entity, other than Client's legal counsel or other professional advisors associated with this Transaction. The Report is not to be referred to or quoted, in whole or in part, in any registration statement, public filing, loan agreement or document without FAI's prior written approval, which may require that FAI performs

## Tax Disclosure

In compliance with Treasury Regulations, FAI informs you that any tax advice contained in this Report was not intended or prepared by FAI to be used, and cannot be used, by you or anyone else for the purpose of avoiding penalties imposed under the Internal Revenue Code or applicable state or local tax laws. The advice was not written to support recommending, promoting or marketing the transaction or matter addressed by the written tax advice. Persons other than Client should seek advice

Should you require clarification of any of the matters contained in this Report or any further information, FAI would be pleased to extend its work as you consider necessary. FAI has no responsibility to update this Report for events and circumstances occurring after the date of this letter.

**Yours Very Truly,**

**DRAFT**

**Farrell Advisory Inc.**



## Limits on Report Access and Distribution

This workbook styled report ("Report") has been prepared for Manchester United, LLC ("Manchester United" or "Client") pursuant to the terms of engagement between Farrell Advisory Inc. ("FAI") and Client in connection with their investment appraisal of Liverpool, LLC ("Liverpool", "Target" or "Company"). This Report is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, fund raising, loan agreement, or other agreement or any other document without the prior written approval of FAI.

FAI has agreed with Client to allow access to this Report to the lenders in connection with the potential Transaction provided that each person or entity ("Reader") obtaining access to this Report agrees to the terms set forth below (and signs a Release Letter):

The Reader of this Report understands that the work performed by FAI was performed in accordance with instructions provided by Client and was performed exclusively for Client's sole benefit and use and may not be relied upon in any way by anyone else.

The Reader of this Report acknowledges that this Report was prepared at the direction of Client and may not include all procedures deemed necessary for the purpose of the Reader.

In consideration of FAI allowing the reader access to the Report, the Reader agrees that it does not acquire any rights as a result of such access that it would not otherwise have had and acknowledges that FAI does not assume any duties or obligations to the Reader in connection with such access.

The Reader agrees to release Client, FAI and its personnel from any claim by the Reader that arises as a result of the Reader having access to the Report. Further, the Reader agrees that this Report is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document and agrees not to distribute the report without FAI's prior written consent.



## SCOPE OF WORK

### A) OVERVIEW OF SERVICES

The following represents Manchester United, LLC ("Manchester United" or "Client") initial evaluation of the consulting services required ("Services") to assist management of Manchester United in their investment appraisal of Target.

FAI has been informed that Manchester United is acquiring the trade, assets and certain liabilities (to be determined) of the Target. On the basis that the contemplated transaction is not a stock acquisition, Manchester United would like a highly focused due diligence approach on the Target and with limited duplicated due diligence as performed by other parties (e.g., Manchester United will be performing its own due diligence and the Manchester United's attorney will be reviewing the agreements with regards to customers, vendors and employees). The due diligence procedures are described in more detail in Section B below.

#### Index

#### 1. Historical Results or Historical Periods includes:

- ▶ **2019:** The year ended December 31, 2019
- ▶ **YTD 20:** The latest results for 2020 which is expected to be the nine months ended September 30<sup>th</sup>, 2020
- ▶ **TTM 20:** The latest trailing twelve months results ended in 2020, which is expected to be the twelve months ended September 30<sup>th</sup>, 2020

#### 2. Historical Balance Sheets or Key Balance Sheet Dates includes:

- ▶ **Dec18:** As of December 31, 2018
- ▶ **Dec19:** As of December 31, 2019
- ▶ **Latest Balance Sheet Date or Sep-20:** The latest balance sheet date, which is expected to be as of September 30th, 2020



Overview and Financial Due Diligence Description	Reference	Comments
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Manchester United has indicated that its own employees and/or partners will perform the following due diligence procedures:

**i. Information Request List**

- ▶ Manchester United will update the information request list for the Services and liaise with the management of the Target (“Management”) over the collection of the data for the due diligence on the Target (see sperate document).

**ii. Review of financial statements**

- ▶ Review the monthly results at a high level (e.g., revenue, gross profit and operating profit) of the Historical Periods of the Target.
- ▶ Propose Due Diligence and Pro Forma Adjustments including, if appropriate, the reallocation of revenue and expenses so that the pro forma monthly income statements are presented consistently during the Historical Periods with Manchester United.

**iii. Customers and Contracts**

- ▶ Revenue and Profitability
  - Analyze revenue by Top 10 customers:
    - By type of revenue, if possible, for the Historical Periods.
    - Summarize customer contracts.
- ▶ Make verbal inquiries with Management on Top 10 customers/contracts concerning:
  - Significant expected changes in contract value or scope of services;
  - Contractual requirements of specific contracts.
- ▶ From discussions with Management, obtain an understanding of the following:
  - Loss and new customers.
  - Change in terms for customers

Note: The resulting conclusions will have an impact on quality of earnings.
- ▶ Reconcile revenue per the financial statements to customer lists
- ▶ On a judgmental basis agree 10 monthly revenue results back to invoices and contracts.
- ▶ Download bank statements into Excel, if necessary, to assist with the cash revenue proof test.
- ▶ Backlog
  - Obtain and analyze revenue backlog information.

**iv. Inventory**

- ▶ If applicable, Manchester United will check the physical counts of inventory.

Manchester United will supply their findings in writing to FAI from the above so that FAI can incorporate Manchester United’s findings into the quality of earnings analysis. After Manchester United has completed its initial high-level due diligence, Manchester United and FAI will update its Services to be performed (see Section B below for proposed scope of Work).

At present, Manchester United wishes for the Consultant to perform the Services remotely. In addition, Manchester United does not believe it is beneficial for FAI to perform:

1. A “Cash Proof of Expenses”; and
2. A review of the workpapers of the External Accountant as the results of the Target are not audited.

FAI will report at a high level in Excel workbook or similar format which is to be shared and utilized by the Client.



Overview and Financial Due Diligence Description	Reference	Comments
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## B) Services

Subject to cooperation from Management and sufficient information available and at request of Manchester United, FAI will perform the following analysis on the Company remotely:

### 1) Individual Tasks

#### i. Accounting Procedures and Policies and Finance Function

- ▶ From telephone conversations with Management (including Controller) and/or the External Accountant, obtain an understanding of accounting procedures and key revenue and expense accounting policies, including but not limited to:
  - Cash versus accrual basis of accounting.
  - Procures involved in preparing monthly and annual financial statements and tax statements and speed of closing period ends.
  - Differences in methods in preparing monthly and annual financial statements including adjustments by management and the external accountant around the December 2019 year end ("Period 12 Adjustments").
  - Billings for (i) deposits; (ii) product sales; and (iii) services lasting more than one month.
  - The accounting policies for:
    - Product sales and matching with expenses
    - Deferred revenue and customer deposits
    - Unbilled Projects in Progress
    - Inventory
    - Payroll accrual
    - Leased Receivable – HaaS
    - Loans & Exchanges
    - Intangible Assets
  - Weaknesses and risks (e.g., estimates, procedures) in accounting from Management which may lead to inaccurate finance statements.
- ▶ Customers and Accounts Receivable
  - Review customer losses and gains.
  - Review aging of accounts receivable as of Latest Balance Sheet Date.

[FAI-Exec-Notes'!B88](#)

[FAI-Exec-Notes'!D110](#)

[FAI-Exec-Notes'!C109](#)

[FAI-Exec-Notes'!B118](#)

[FAI-Exec-Notes'!B138](#)

[FAI-Exec-Notes'!B23](#)

[FAI-Customer Managed Services'!A1](#)

[FAI-Exec-Notes'!A303](#)

#### ii. Financial Statements and Structure of Business

- ▶ Review:
  - The income statement results for the Historical Periods.
  - Monthly working capital analysis of the Company for the Historical Periods.
  - The key balance sheet categories as of Historical Balance Sheet Dates.
- ▶ Where possible, FAI will liaise with Mr. Jesse Sanders for analysis of QuickBooks, rather than contacting the Management or FAI performing the work.
- ▶ Obtain an understanding of the organization/legal structure.
- ▶ Review Historical Periods monthly results from the information supplied by Manchester United.

[FAI-P&L'!A1](#)

[FAI-BS'!A274](#)

[FAI-BS'!A1](#)

[n/a](#)

[n/a](#)

[FAI-P&L'!D22](#)

#### iii. Revenue and Gross Profitability Analysis

- ▶ If possible, obtain an understanding of gross profitability (revenue less cost of sales where possible) for:
  - Monthly Recurring Revenue
  - Project Labor (Professional services)
  - Materials Income (Project Hardware and Software)
  - Other Regular Income
 (together called "Revenue Streams").

[FAI-P&L'!A1037](#)

[FAI-P&L'!H1063](#)

[FAI-P&L'!H1064](#)

[FAI-P&L'!H1066](#)

[FAI-P&L'!H1068](#)



Overview and Financial Due Diligence		Reference	Comments
Description			
<b>iv. Quality of Earnings</b>			
<ul style="list-style-type: none"> <li>▶ Prepare a Quality of Earnings analysis that addresses (i) EBITDA, As Reported; (ii) Adjusted EBITDA (i.e., that incorporates management and due diligence proposed adjustments); and (iii) Pro Forma EBITDA (i.e., that incorporates potential synergies after completion of the Potential Transaction) for the Historical Periods by month, including an analysis and review of support for: <ul style="list-style-type: none"> <li>▪ Revised payroll run rate (e.g., for owner's salary less costs for his new consulting or employee agreement, and agree back to payroll reports), revenue adjustments (and agree back to customer contracts as supplied by Client), rent and personal expenses EBITDA adjustments.</li> <li>▪ Proposed add backs by management for non-operational and/or non-recurring items of revenue and/or expenses.</li> <li>▪ If appropriate, review the reallocation of revenue and expenses, as suggested by Manchester United, so that the pro forma monthly income statements are presented consistently during the Historical Periods with Manchester United.</li> <li>▪ An estimation for cash to accrual accounting.</li> <li>▪ Synergies (e.g., advertising and promotion, charitable contributions, insurance expense and professional fees, estimate of changes in cost base (e.g., employee benefits, insurance costs) if the Company becomes part of the Manchester United group.</li> </ul> </li> <li>▶ The Pro Forma EBITDA will be further analyzed to present a pro forma income statement by individual caption.</li> </ul>		<a href="#">FAI-P&amp;L'!A250</a>  <a href="#">FAI-P&amp;L'!A250</a> <a href="#">FAI-P&amp;L'!A250</a>  <a href="#">FAI-P&amp;L'!A250</a> <a href="#">FAI-P&amp;L'!A250</a>  <a href="#">FAI-P&amp;L'!A694</a> <a href="#">FAI-P&amp;L'!D806</a>	
<b>v. Revenue and Payroll Proof</b>			
<ul style="list-style-type: none"> <li>▶ Reconcile the bank account deposit activity for 2019 or TTM20 to the Target's reported revenue as reflected in the Target's books and records.</li> </ul>		<a href="#">FAI-Rev to Cash Receipts Rec'!A1</a>	Non-Material revenue variance. Total -1.6%
<ul style="list-style-type: none"> <li>▶ Reconcile 2019 payroll costs for YTD20 payroll costs per the payroll to internal financial statements.</li> </ul>		<a href="#">FAI-ITD 2020 Payroll'!A1</a>	Non-Material monthly variances; largest in Aug-20 -1.1% YTD Sept 2020 Variance 0.0%
<b>vi. Expenses</b>			
<ul style="list-style-type: none"> <li>▶ Obtain details regarding direct cost of services during the Historical Periods and obtain an understanding of the Company's method to capture such costs.</li> </ul>		<a href="#">FAI-P&amp;L'!D102</a>	
<ul style="list-style-type: none"> <li>▶ Obtain details regarding operating expenses during the Historical Periods and obtain an understanding of the Company's method to capture such costs.</li> </ul>		<a href="#">FAI-P&amp;L'!D222</a>	
<ul style="list-style-type: none"> <li>▶ Identify any items expensed through the profit and loss account that would be capitalized to conform with US GAAP.</li> </ul>		<a href="#">FAI-P&amp;L'!A250</a>	Expenses were identified which were then capitalized. Correct via DD
<b>vii. Balance Sheet</b>			
<ul style="list-style-type: none"> <li>▶ Review the support from the Company for the following key captions on the Balance Sheet at the Historical Balance Sheet Dates: <ul style="list-style-type: none"> <li>▪ Bank reconciliations</li> <li>▪ Accounts receivable</li> <li>▪ Bad debts</li> <li>▪ Inventory</li> <li>▪ Other current assets</li> <li>▪ Accounts payable</li> <li>▪ Credit cards</li> <li>▪ Deferred revenue and customer deposits</li> <li>▪ Other current liabilities including accrued expenses, employee expenses and taxes and sales tax payable</li> </ul> </li> <li>▶ Obtain support from the Company for the following captions on the Balance Sheet as at the Latest Balance Sheet Date: <ul style="list-style-type: none"> <li>▪ Debt (including related party loans)</li> <li>▪ Fixed assets.</li> </ul> </li> </ul>		<a href="#">FAI-BS to Source Summary'!A60</a> <a href="#">FAI-BS-AR-Summary'!A1</a> <a href="#">FAI-Write-Offs - Bad Debt adj.'!A1</a> <a href="#">FAI-BS to Source Summary'!A3</a> <a href="#">FAI-BS to Source Summary'!A24</a> <a href="#">FAI-BS-AP-Summary'!A1</a> <a href="#">FAI-BS to Source Summary'!A42</a> <a href="#">FAI-BS to Source Summary'!A54</a> <a href="#">FAI-BS to Source Summary'!A49</a>  <a href="#">FAI-Exec-Notes'!B254</a>  <a href="#">FAI-FA-Register'!A1</a>	Depreciation rates per Fixed asset register are for tax reasons, not for GAAP



Overview and Financial Due Diligence		
Description	Reference	Comments
<b>viii. Accounts Receivable</b> <ul style="list-style-type: none"> <li>▶ Review aging of accounts receivable ledgers as of the Historical Balance Sheet Dates.</li> <li>▶ Discuss with management any customer account balances as of the Latest Balance Sheet which are at risk.</li> <li>▶ Understand the level of bad debt and credit notes within the Historical Periods.</li> </ul>	<a href="#">FAI-BS-AR-Summary'!A1</a> <a href="#">FAI-Exec-Notes'!A303</a> <a href="#">FAI-Write-Offs - Bad Debt adj.'!A1</a>	
<b>ix. Accounts Payable</b> <ul style="list-style-type: none"> <li>▶ Review aging of accounts payable ledgers as of the Historical Balance Sheet Dates.</li> </ul>	<a href="#">FAI-BS-AP-Summary'!A1</a>	
<b>x. Equity</b> <ul style="list-style-type: none"> <li>▶ Analyze the roll-forward of the equity accounts to verify there are not any current operational expenses flowing through which should be classified within the EBITDA analysis for the Historical Periods.</li> </ul>	<a href="#">FAI-BS'!A204</a>	
<b>xi. Control Environment</b> <ul style="list-style-type: none"> <li>▶ From telephone conversations with management of the Target (including Controller) and/or the External Accountant, obtain an understanding of accounting procedures and key revenue and expense accounting policies, including but not limited to: <ul style="list-style-type: none"> <li>▪ The appropriate capitalization of expenses.</li> </ul> </li> <li>▶ Obtain an understanding of weaknesses and risks (e.g., estimates, procedures) in accounting from Management which may lead to inaccurate finance statements.</li> <li>▶ Review significant journal entries during the Historical Periods.</li> <li>▶ Reconcile the 2019 results to the tax accounts and/or external financial statements.</li> </ul>	<a href="#">FAI-Exec-Notes'!B23</a>  <a href="#">FAI-Exec-Notes'!B23</a> <a href="#">FAI-2020 Journals'!A1</a> <a href="#">FAI-2019 Journals'!A1</a> <a href="#">FAI-P&amp;L-TAX'!A1</a>	
<b>xii. External Accountant</b> <ul style="list-style-type: none"> <li>▶ Obtain an understanding of Period 12 adjustments as prepared by the External Accountant.</li> <li>▶ Obtain an understanding of weaknesses and risks in accounting from the External Accountant.</li> <li>▶ If appropriate, review the management letters or weakness letters as prepared by the external accountants for the Historical Periods.</li> </ul>	<a href="#">n/a</a> <a href="#">FAI-Exec-Notes'!C73</a>  <a href="#">n/a</a>	Company does not have a year end closing process, only a monthly closing process. As such Management started that most entries were in line with the same ones done every month end
<b>2) Issues and Proposed Resolutions Memo</b> <ul style="list-style-type: none"> <li>▶ Based on FAI's findings from the above Services set out in Section B above, FAI will summarize at a high-level issues and proposed resolutions in either Word or Excel format ("Memo").</li> </ul>	<a href="#">FAI-Exec-Notes'!A1</a>	



Per Farrell Advisory Inc.									
Liverpool	2018	2019	TTM Jul-20	TTM Aug-20	TTM Sep-20	TTM Oct-20	TTM Nov-20	YTD Nov-19	YTD Nov-20
As Reported to As Adjusted Results									
Revenue	7,382,830	9,866,126	12,799,649	13,313,620	13,292,061	13,032,328	13,338,066	8,814,454	12,286,394
COGS	(4,678,480)	(6,585,344)	(8,466,207)	(8,907,325)	(8,930,444)	(8,750,023)	(8,917,576)	(5,900,739)	(8,232,971)
Gross Profit	2,704,350	3,280,782	4,333,442	4,406,295	4,361,617	4,282,305	4,420,490	2,913,715	4,053,423
Expenses	(1,594,935)	(2,381,618)	(2,898,884)	(2,956,985)	(2,956,699)	(2,973,017)	(3,030,926)	(1,960,085)	(2,609,394)
Net Other Income	9,902	(72,121)	(78,757)	(127,790)	(145,368)	(155,316)	885,521	(71,577)	886,065
Net Income	1,119,317	827,044	1,355,801	1,321,519	1,259,550	1,153,973	2,275,085	882,053	2,330,094
Technical EBITDA Adjustments	173,225	262,602	312,828	316,562	297,721		299,860	94,675	131,933
EBITDA, As Reported	1,292,542	1,089,646	1,668,629	1,638,081	1,557,271		2,574,945	976,728	2,462,027
Acquisition Adjustments	134,863	425,459	230,715	139,320	-	-	-	425,459	-
EBITDA, Acquisition	1,427,405	1,515,105	1,899,345	1,777,401	1,557,271	1,153,973	2,574,945	1,402,187	2,462,027
Due Diligence Adjustments	(250,848)	(294,179)	(212,354)	(141,862)	32,426	92,279	(947,147)	(237,845)	(890,812)
EBITDA, Adjusted	1,176,557	1,220,926	1,686,991	1,635,539	1,589,697	1,246,252	1,627,799	1,164,342	1,571,215
Run Rate Adjustments	(21,640)	(74,764)	(69,593)	(64,156)	(58,918)	(894)	(556)	(72,283)	1,925
EBITDA, Run Rate	1,154,917	1,146,162	1,617,398	1,571,383	1,530,778	1,245,358	1,627,243	1,092,059	1,573,140
Manchester United Synergies	-	-	-	-	-	-	-	-	-
EBITDA, Pro Forma	1,154,917	1,146,162	1,617,398	1,571,383	1,530,778	1,245,358	1,627,243	1,092,059	1,573,140

  

	2019 vs. 2018	TTM Jul-20 vs. 2019	TTM Aug-20 vs. 2019	TTM Sep-20 vs. 2019	TTM O -20 vs. 2019	TTMM Nov-20 vs. 2019	YTD Nov-20 vs. Nov-19
Growth							
Revenue	33.6%	29.7%	34.9%	34.7%	32.1%	35.2%	39.4%
Expenses	49.3%	21.7%	24.2%	24.1%	24.8%	27.3%	33.1%

  

	2018	2019	TTM Jul-20	TTM Aug-20	TTM Sep-20	TTM Oct-20	TTM Nov-20	YTD Nov-19	YTD Nov-20
Percentage of Revenue, As Reported									
Gross Profit	36.6%	33.3%	33.9%	33.1%	32.8%	32.9%	33.1%	33.1%	33.0%
Expenses	-21.6%	-24.1%	-22.6%	-22.2%	-22.2%		-22.7%	-22.2%	-21.2%
EBITDA, As Reported	17.5%	11.0%	13.0%	12.3%	11.7%	0.0%	19.3%	11.1%	20.0%
EBITDA, Acquisition	19.3%	15.4%	14.8%	13.4%	11.7%	8.9%	19.3%	15.9%	20.0%
EBITDA, Run Rate	15.6%	11.6%	12.6%	11.8%	11.5%	9.6%	12.2%	12.4%	12.8%
EBITDA, Pro Forma	15.6%	11.6%	12.6%	11.8%	11.5%	9.6%	12.2%	12.4%	12.8%



Per Farrell Advisory Inc.									
Liverpool	2018	2019	TTM Jul-20	TTM Aug-20	TTM Sep-20	TTM Oct-20	TTM Nov-20	YTD Nov-19	YTD Nov-20
<b>As Adjusted Results</b>									
Revenue	10,796,605	12,119,652	12,893,686	13,079,927	12,972,801	13,003,068	13,325,460	11,088,025	12,293,833
COGS	(6,318,773)	(7,658,999)	(8,113,734)	(8,372,925)	(8,318,834)	(8,315,441)	(8,486,650)	(6,999,846)	(7,827,496)
<b>Gross Profit</b>	<b>4,477,832</b>	<b>4,460,652</b>	<b>4,779,951</b>	<b>4,707,002</b>	<b>4,653,968</b>	<b>4,687,627</b>	<b>4,838,810</b>	<b>4,088,179</b>	<b>4,466,337</b>
Expenses	(3,309,308)	(3,328,206)	(3,161,536)	(3,133,248)	(3,108,570)	(3,125,157)	(3,178,980)	(3,031,387)	(2,882,162)
Net Other Income	(13,607)	13,715	(1,017)	(2,371)	(14,619)	(20,774)	(32,587)	35,267	(11,035)
<b>EBITDA, As Adjusted</b>	<b>1,154,917</b>	<b>1,146,162</b>	<b>1,617,398</b>	<b>1,571,383</b>	<b>1,530,778</b>	<b>1,541,696</b>	<b>1,627,243</b>	<b>1,092,059</b>	<b>1,573,140</b>
Decrease/(Increase) in NWC	(377,349)	(87,900)	(517,373)	(476,741)	(529,058)	(341,410)	(204,182)	-	-
Capex	(19,935)	247,733	218,716	209,293	95,836	95,836	100,410	<b>184,981</b>	<b>37,658</b>
<b>Free Cash Flow</b>	<b>757,634</b>	<b>1,305,995</b>	<b>1,318,741</b>	<b>1,303,935</b>	<b>1,097,556</b>	<b>1,296,122</b>	<b>1,523,471</b>	<b>1,277,040</b>	<b>1,610,798</b>

	2019 vs. 2018	TTM Jul-20 vs. 2019	TTM Aug-20 vs. 2019	TTM Sep-20 vs. 2019	TTM O -20 vs. 2019	TTM Nov-20 vs. 2019	YTD Nov-20 vs. Nov-19
<b>Growth</b>							
Revenue	12.3%	6.4%	7.9%	7.0%	7.3%	9.9%	10.9%
Expenses	0.6%	-5.0%	-5.9%	-6.6%	-6.1%	-4.5%	-4.9%
EBITDA, As Adjusted	-0.8%	41.1%	37.1%	33.6%	34.5%	42.0%	44.1%
<b>Percentage of Revenue</b>							
Gross Profit	41.5%	36.8%	37.1%	36.0%	35.9%	36.1%	36.3%
Expenses	-30.7%	-27.5%	-24.5%	-24.0%	-24.0%	-23.9%	-23.4%
EBITDA, As Adjusted	10.7%	9.5%	12.5%	12.0%	11.8%	12.2%	12.8%



Summarized Adjusted Income Statement	2018	2019	TTM Jul-20	TTM Aug-20	TTM Sep-20	TTM Oct-20	TTM Nov-20	YTD Nov-19	YTD Nov-20
<b>Revenue</b>									
Managed Services	7,633,148	8,570,037	8,787,956	8,813,321	8,847,730	8,926,700	9,016,614	7,851,718	8,298,295
Professional Services	1,157,333	1,600,089	2,014,622	1,987,239	1,933,519	1,945,868	2,030,605	1,468,068	1,898,583
<b>Services</b>	<b>8,790,481</b>	<b>10,170,127</b>	<b>10,802,578</b>	<b>10,800,560</b>	<b>10,781,249</b>	<b>10,872,568</b>	<b>11,047,219</b>	<b>9,319,786</b>	<b>10,196,878</b>
Produ Resale	2,006,124	1,949,525	2,091,108	2,279,368	2,191,552	2,130,500	2,278,241	1,768,239	2,096,955
Other Revenue	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>10,796,605</b>	<b>12,119,652</b>	<b>12,893,686</b>	<b>13,079,927</b>	<b>12,972,801</b>	<b>13,003,068</b>	<b>13,325,460</b>	<b>11,088,025</b>	<b>12,293,833</b>
<b>Cost of Goods Sold</b>									
Managed Services	(4,015,994)	(4,762,295)	(5,141,688)	(5,181,436)	(5,242,076)	(5,301,129)	(5,369,992)	(4,360,931)	(4,968,628)
Professional Services	(427,874)	(893,686)	(1,084,667)	(1,116,579)	(1,130,020)	(1,117,591)	(1,111,193)	(802,476)	(1,019,982)
<b>Services</b>	<b>(4,443,869)</b>	<b>(5,655,981)</b>	<b>(6,226,355)</b>	<b>(6,298,015)</b>	<b>(6,372,096)</b>	<b>(6,418,720)</b>	<b>(6,481,185)</b>	<b>(5,163,407)</b>	<b>(5,988,611)</b>
Produ Resale	(1,742,192)	(1,803,456)	(1,774,962)	(1,958,057)	(1,855,193)	(1,803,678)	(1,911,149)	(1,645,990)	(1,753,684)
<b>Allocated COGS</b>	<b>(6,186,061)</b>	<b>(7,459,437)</b>	<b>(8,001,317)</b>	<b>(8,256,072)</b>	<b>(8,227,288)</b>	<b>(8,222,398)</b>	<b>(8,392,334)</b>	<b>(6,809,397)</b>	<b>(7,742,294)</b>
Other COGS	(132,712)	(199,563)	(112,417)	(116,853)	(91,546)	(93,042)	(94,316)	(190,448)	(85,202)
<b>Total Cost of Goods Sold</b>	<b>(6,318,773)</b>	<b>(7,658,999)</b>	<b>(8,113,734)</b>	<b>(8,372,925)</b>	<b>(8,318,834)</b>	<b>(8,315,441)</b>	<b>(8,486,650)</b>	<b>(6,999,846)</b>	<b>(7,827,496)</b>
<b>Gross Profit</b>									
Managed Services	3,617,153	3,807,742	3,646,268	3,631,884	3,605,654	3,625,571	3,646,622	3,490,787	3,329,667
Professional Services	729,459	706,403	929,955	870,660	803,500	828,276	919,412	665,592	878,600
<b>Services</b>	<b>4,346,612</b>	<b>4,514,146</b>	<b>4,576,223</b>	<b>4,502,544</b>	<b>4,409,154</b>	<b>4,453,848</b>	<b>4,566,034</b>	<b>4,156,379</b>	<b>4,208,267</b>
Produ Resale	263,932	146,069	316,145	321,311	336,359	326,822	367,092	122,249	343,271
<b>Allocated</b>	<b>4,610,545</b>	<b>4,660,215</b>	<b>4,892,368</b>	<b>4,823,855</b>	<b>4,745,513</b>	<b>4,780,669</b>	<b>4,933,126</b>	<b>4,278,628</b>	<b>4,551,538</b>
Other	(132,712)	(199,563)	(112,417)	(116,853)	(91,546)	(93,042)	(94,316)	(190,448)	(85,202)
<b>Gross Profit</b>	<b>4,477,832</b>	<b>4,460,652</b>	<b>4,779,951</b>	<b>4,707,002</b>	<b>4,653,968</b>	<b>4,687,627</b>	<b>4,838,810</b>	<b>4,088,179</b>	<b>4,466,337</b>
<b>SG&amp;A Expenses:</b>									
SG&A-Labor - Operations	(1,327,730)	(1,238,014)	(1,202,509)	(1,193,334)	(1,181,543)	(1,202,006)	(1,223,456)	(1,142,084)	(1,127,526)
SG&A-Labor - Officer	(249,121)	(248,700)	(249,640)	(249,840)	(250,040)	(250,240)	(250,440)	(227,930)	(229,670)
SG&A-Labor - Sales	(638,418)	(607,125)	(457,846)	(434,810)	(412,269)	(417,278)	(430,933)	(574,094)	(397,902)
<b>Salaries</b>	<b>(2,215,269)</b>	<b>(2,093,840)</b>	<b>(1,909,996)</b>	<b>(1,877,984)</b>	<b>(1,843,852)</b>	<b>(1,869,523)</b>	<b>(1,904,830)</b>	<b>(1,944,108)</b>	<b>(1,755,098)</b>
Prof/General Fees & Donations	(148,920)	(235,317)	(232,990)	(246,682)	(267,836)	(280,262)	(305,492)	(199,162)	(269,337)
Sales and Marketing	(124,108)	(98,565)	(126,169)	(124,532)	(122,543)	(110,350)	(105,474)	(74,074)	(80,983)
Insurance	(43,301)	(36,877)	(36,021)	(35,392)	(40,500)	(41,567)	(42,568)	(34,078)	(39,769)
Facilities	(350,535)	(345,282)	(327,712)	(324,616)	(317,886)	(319,506)	(320,972)	(318,585)	(294,275)
Operations Infrastructure	(137,632)	(176,618)	(258,569)	(259,470)	(254,923)	(256,319)	(251,954)	(158,149)	(233,485)
Auto, Travel and Entertainment	(47,903)	(34,063)	(38,367)	(38,451)	(38,711)	(35,222)	(34,590)	(30,805)	(31,332)
Office	(85,071)	(92,439)	(68,040)	(65,146)	(66,524)	(66,445)	(60,717)	(83,607)	(51,885)
Employee Programs and Events	(131,387)	(204,026)	(157,899)	(155,200)	(150,286)	(139,685)	(145,779)	(179,771)	(121,524)
Taxes	(6,852)	(6,047)	(5,479)	(5,479)	(5,479)	(5,479)	(5,479)	(3,947)	(3,379)
S&G-Other	(18,330)	(5,131)	(295)	(295)	(30)	(799)	(1,125)	(5,101)	(1,095)
<b>Total SG&amp;A Expenses</b>	<b>(3,309,308)</b>	<b>(3,328,206)</b>	<b>(3,161,536)</b>	<b>(3,133,248)</b>	<b>(3,108,570)</b>	<b>(3,125,157)</b>	<b>(3,178,980)</b>	<b>(3,031,387)</b>	<b>(2,882,162)</b>
Other Income/(Expenses)	(13,607)	13,715	(1,017)	(2,371)	(14,619)	(20,774)	(32,587)	35,267	(11,035)
<b>EBITDA, As Adjusted</b>	<b>1,154,917</b>	<b>1,146,162</b>	<b>1,617,398</b>	<b>1,571,383</b>	<b>1,530,778</b>	<b>1,541,696</b>	<b>1,627,243</b>	<b>1,092,059</b>	<b>1,573,140</b>



Gross Profit Margin	2018	2019	TTM Jul-20	TTM Aug-20	TTM Sep-20	TTM Oct-20	TTM Nov-20	YTD Nov-19	YTD Nov-20
Managed Services	47.4%	44.4%	41.5%	41.2%	40.8%	40.6%	40.4%	44.5%	40.1%
Professional Services	63.0%	44.1%	46.2%	43.8%	41.6%	42.6%	45.3%	45.3%	46.3%
<b>Services</b>	49.4%	44.4%	42.4%	41.7%	40.9%	41.0%	41.3%	44.6%	41.3%
Produ Resale	13.2%	7.5%	15.1%	14.1%	15.3%	15.3%	16.1%	6.9%	16.4%
<b>Allocated</b>	42.7%	38.5%	37.9%	36.9%	36.6%	36.8%	37.0%	38.6%	37.0%
Other	-1.2%	-1.6%	-0.9%	-0.9%	-0.7%	-0.7%	-0.7%	-1.7%	-0.7%
<b>Gross Profit</b>	41.5%	36.8%	37.1%	36.0%	35.9%	36.1%	36.3%	36.9%	36.3%

  

	2019 vs. 2018	TTM Jul-20 vs. 2019	TTM Aug-20 vs. 2019	TTM Sep-20 vs. 2019	TTM O -20 vs. 2019	TTM Nov-20 vs. 2019	YTD Nov-20 vs. Nov-19
<b>Change in Gross Profit Margin</b>							
Managed Services	-3.0%p	-2.9%p	-3.2%p	-3.7%p	-3.8%p	-4.0%p	-4.3%p
Professional Services	-18.9%p	2.0%p	-0.3%p	-2.6%p	-1.6%p	1.1%p	0.9%p
<b>Services</b>	-5.1%p	-2.0%p	-2.7%p	-3.5%p	-3.4%p	-3.1%p	-3.3%p
Produ Resale	-5.7%p	7.6%p	6.6%p	7.9%p	7.8%p	8.6%p	9.5%p
<b>Allocated</b>	-4.3%p	-0.5%p	-1.6%p	-1.9%p	-1.7%p	-1.4%p	-1.6%p
Other	-0.4%p	0.8%p	0.8%p	0.9%p	0.9%p	0.9%p	1.0%p
<b>Gross Profit</b>	-4.7%p	0.3%p	-0.8%p	-0.9%p	-0.8%p	-0.5%p	-0.5%p



	2019 vs. 2018	TTM Jul-20 vs. 2019	TTM Aug-20 vs. 2019	TTM Sep-20 vs. 2019	TTM O -20 vs. 2019	TTM Nov-20 vs. 2019	YTD Nov-20 vs. Nov- 19
<b>Change Over Period</b>							
<b>Revenue</b>							
Managed Services	936,890	217,918	243,283	277,693	356,663	446,577	446,577
Professional Services	442,756	414,533	387,150	333,430	345,778	430,515	430,515
<b>Services</b>	<b>1,379,646</b>	<b>632,451</b>	<b>630,433</b>	<b>611,123</b>	<b>702,441</b>	<b>877,092</b>	<b>877,092</b>
Produ Resale	(56,599)	141,583	329,843	242,027	180,975	328,716	328,716
<b>Total Revenue</b>	<b>1,323,047</b>	<b>774,034</b>	<b>960,276</b>	<b>853,150</b>	<b>883,416</b>	<b>1,205,808</b>	<b>1,205,808</b>
<b>Gross Profit</b>							
Managed Services	190,589	(161,475)	(175,858)	(202,088)	(182,171)	(161,121)	(161,121)
Professional Services	(23,056)	223,552	164,257	97,096	121,873	213,009	213,009
<b>Services</b>	<b>167,534</b>	<b>62,077</b>	<b>(11,601)</b>	<b>(104,992)</b>	<b>(60,298)</b>	<b>51,888</b>	<b>51,888</b>
Produ Resale	(117,863)	170,076	175,241	190,290	180,752	221,023	221,023
<b>Allocated</b>	<b>49,671</b>	<b>232,153</b>	<b>163,640</b>	<b>85,298</b>	<b>120,454</b>	<b>272,911</b>	<b>272,911</b>
Other	(66,850)	87,146	82,710	108,017	106,520	105,247	105,247
<b>Gross Profit</b>	<b>(17,180)</b>	<b>319,299</b>	<b>246,350</b>	<b>193,315</b>	<b>226,974</b>	<b>378,157</b>	<b>378,157</b>
<b>SG&amp;A Expenses:</b>							
SG&A-Labor - Operations	89,716	35,505	44,680	56,471	36,009	14,558	14,558
SG&A-Labor - Officer	421	(940)	(1,140)	(1,340)	(1,540)	(1,740)	(1,740)
<b>Salaries</b>	<b>90,137</b>	<b>34,565</b>	<b>43,540</b>	<b>55,131</b>	<b>34,469</b>	<b>12,818</b>	<b>12,818</b>
Prof/General Fees & Donations	(86,397)	2,326	(11,366)	(32,519)	(44,945)	(70,175)	(70,175)
SG&A-Labor - Sales	31,292	149,279	172,316	194,857	189,848	176,192	176,192
Sales and Marketing	25,543	(27,604)	(25,967)	(23,978)	(11,785)	(6,909)	(6,909)
Insurance	6,424	857	1,485	(3,622)	(4,689)	(5,691)	(5,691)
Facilities	5,254	17,569	20,666	27,396	25,776	24,310	24,310
Operations Infrastructure	(38,986)	(81,950)	(82,852)	(78,305)	(79,701)	(75,336)	(75,336)
Auto, Travel and Entertainment	13,840	(4,304)	(4,388)	(4,647)	(1,158)	(527)	(527)
Office	(7,368)	24,399	27,293	25,915	25,994	31,722	31,722
Employee Programs and Events	(72,639)	46,127	48,826	53,740	64,341	58,247	58,247
Taxes	805	568	568	568	568	568	568
S&G-Other	13,199	4,836	4,836	5,101	4,332	4,006	4,006
<b>Total SG&amp;A Expenses</b>	<b>(18,898)</b>	<b>166,669</b>	<b>194,958</b>	<b>219,636</b>	<b>203,049</b>	<b>149,226</b>	<b>149,226</b>
Other Income/(Expenses)	27,322	(14,732)	(16,086)	(28,334)	(34,489)	(46,302)	(46,302)
<b>EBITDA, As Adjusted</b>	<b>(8,756)</b>	<b>471,236</b>	<b>425,222</b>	<b>384,617</b>	<b>395,534</b>	<b>481,081</b>	<b>481,081</b>



Liverpool	Dec-18	Dec-19	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
<b>Working Capital Summarized, As Adjusted</b>							
Accounts Receivable	1,204,509	1,526,875	1,213,627	1,429,026	1,351,965	1,234,310	1,604,734
Inventory	11,992	12,693	63,226	57,677	38,977	54,999	62,835
Other Assets	29,341	30,574	154,618	75,962	53,860	90,810	67,726
Work in Progress	-	119,260	86,699	77,258	88,254	92,561	12,467
Lease	39,690	22,050	11,760	10,290	8,820	7,350	5,880
Loans & Exchanges	147,142	169,287	171,390	179,135	175,981	179,226	184,242
Accounts Payable	(131,845)	(356,526)	(147,134)	(123,109)	(96,825)	(91,486)	(103,629)
Credit Cards	(257,328)	(276,365)	(201,008)	(342,698)	(162,242)	(181,958)	(224,323)
Deferred Revenue	-	(80,787)	(56,349)	(42,520)	(28,931)	(96,091)	(157,017)
Other Current Liabilities	(45,628)	(81,287)	(104,169)	(105,656)	(115,672)	(94,941)	(120,026)
<b>Total NWC</b>	<b>997,874</b>	<b>1,085,774</b>	<b>1,192,658</b>	<b>1,215,365</b>	<b>1,314,187</b>	<b>1,194,780</b>	<b>1,332,889</b>

<b>Working Capital Metrics, As Adjusted Based On Revenue - Days</b>							
DSO	30.8	45.9	34.5	37.1	39.0	35.4	38.8
DIO	0.3	0.4	1.8	1.5	1.1	1.6	1.5
Other Assets	0.7	0.9	4.4	2.0	1.6	2.6	1.6
WIP	-	3.6	2.5	2.0	2.5	2.7	0.3
Lease	1.0	0.7	0.3	0.3	0.3	0.2	0.1
Loans & Exchanges	3.8	5.1	4.9	4.7	5.1	5.1	4.5
DPO (Accounts Payable and Credit Card)	(9.9)	(19.0)	(9.9)	(12.1)	(7.5)	(7.8)	(7.9)
Deferred Revenue	-	(2.4)	(1.6)	(1.1)	(0.8)	(2.8)	(3.8)
DPOA (Other Current Liabilities)	(1.2)	(2.4)	(3.0)	(2.7)	(3.3)	(2.7)	(2.9)
<b>Total Working Capital Days</b>	<b>25.5</b>	<b>32.6</b>	<b>33.9</b>	<b>31.6</b>	<b>38.0</b>	<b>34.2</b>	<b>32.2</b>

<b>Summary of NWC</b>						
	<b>TTM1</b>	<b>TTM2</b>	<b>TTM3</b>	<b>TTM6</b>	<b>TTM9</b>	<b>TTM12</b>
Accounts Receivable	1,604,734	1,419,522	1,397,003	1,343,201	1,385,832	1,467,120
Inventory	62,835	58,917	52,270	56,718	47,332	38,686
Other Assets	67,726	79,268	70,799	80,314	64,866	58,820
Work in Progress	12,467	52,514	64,427	72,942	84,581	96,258
Lease	5,880	6,615	7,350	9,555	11,760	13,965
Loans & Exchanges	184,242	181,734	179,816	177,383	178,486	179,414
Credit Cards	(224,323)	(203,140)	(189,507)	(227,880)	(229,376)	(249,648)
Deferred Revenue	(157,017)	(126,554)	(94,013)	(71,336)	(65,606)	(69,000)
Other Current Liabilities	(120,026)	(107,483)	(110,213)	(105,015)	(163,925)	(159,140)
<b>Total Net Working Capital, As Adjusted</b>	<b>1,332,889</b>	<b>1,263,835</b>	<b>1,280,619</b>	<b>1,219,305</b>	<b>1,186,040</b>	<b>1,199,399</b>
<i>NWC, As Adjusted, as a % of Revenue</i>	<i>107.5%</i>	<i>108.8%</i>	<i>114.3%</i>	<i>108.6%</i>	<i>108.2%</i>	<i>108.0%</i>

Adjusted NWC on an upward trend from TTM12 to TTM1. manchester united needs to be careful when trying to optimize the NWC capital target as part of the asset purchase agreement especially with regards to definition of deferred revenue and unbilled revenue and cut-off of Produ and PSS sales.



**1 Background on Liverpool or Company****1 Background of Company**

**Liverpool, LLC ("Liverpool", "LP", "Target" or "Company").**

Headquartered at 1 Anfield Rd, Liverpool, United Kingdom

Founded in 1892, LP is a football team in the Premier League

**Key Management**

Sadio Mane	President and Owner
Diogo Jota	COO
Alisson Becker	VP of Business Development and Former President of XYZ
Thiago Alcantara	Dire or of Operations
Virgil Dijk	Dire or of Services
Takumi Minamino	Dire or of Staffing and HR

**Information Technology Group LLC ("XYZ")**

XYZ was acquired by LP on September 13, 2019.

Adding approximately \$3.5m of additional revenue

Prior to September 2019 results included within adjusted results (i.e., not in as reported results)

Post September 2019 results, included within as reported numbers

**2 Overview of Reporting**

Financial reporting of the Company needs to be improved and has historically been lacking in robustness

ABC, external accounting firm, been providing assistance since Summer of 2019

Services provided (\$10k to \$20k per month of costs, provided 106.5 hours in O ober)

Providing book keeping (e.g., processing journals, paying invoices) and controller work (e.g., reconciliation of all balance sheet, analytical review of IS and BS)

Income tax

Payroll processing

Sales and use and property

Looking to next improve mapping of Conne Wise to QuickBooks

Basic procedures are good i.e., reconciliation of balance sheet accounts

Reporting by 10th day each month

Accounting policies for revenue needs to be improved

Not accruing for costs which have been delivered but no purchase invoice received

Goodwill calculation was prepared for tax purposes, not for accounting purposes

Joe Smith appointed approximately 4 weeks ago and appears to making good positive progress

Reviewing reporting

Weekly meetings on A/R

However, further progress will be limited because her attention has been focused on DD exercise

General ledger appears well set out

Prior Controller was poor

Minimal finance support pre acquisition of XYZ

Non-performing Controller (Stephen) came over with acquisition of LP

Not proper chasing and monitoring of accounts receivable prior to May 2020

Multiple GAAP departures

MRR revenue recorded in month of invoicing rather than in the next month once service delivered

FAI has estimated error and corre ed difference

Material sales (i.e., Produ Sales) revenue were recorded when invoiced

Produ sales are basically invoiced once

Take order from customer, check with vendor and order and then raise sales invoice

From order to dispatch of produ s typically is 24/48 hours (9 times out of 10)

Material revenue and COGS matching

Joe has corre ed this for YTD 2020 within QuickBooks

Q4-2019 has now been corre ed via top sided adjustments within Excel (QuickBooks was not adjusted)

Joe moved COGS to when invoiced

Revenue should only be recognized when delivered but as most deliveries are within 24/48 hours, this approach seems reasonable



## Executive Notes

PSS revenue is not matched with costs

Typically 50% on taking order, 50% on completion

Joe has reviewed cut-off issues at a high level for TTM-September 2020

FAI has reviewed these workings and adjusted TTM-Sep 2020 accordingly and 2019

This has adjusted revenue as follows

\$

YTD-Sept 2019	(24,916.13)	Spread difference evenly over 9 months ended September 2019
TTM-Sep-20	47,391.75	Spread difference evenly over 12 months ended September 2020
Post TTM sep-20	(22,475.62)	Spread difference evenly over 3 months ending December 2020

**Total** -

No bad debt reserves

No deferred revenue accounting except for a few customers transferred from XYZ to LP

Joe confirmed that no impact on revenue recognition for Financing for customers for Production or Labor Revenue

Given change in recent head of finance and multiple revenue GAAP departures, there has led multiple inefficiencies

Joe has changed certain bad accounting policies

Change in Policies

Smoothing of bonus accrual

Material revenue in YTD 9-2020

Smoothed recruitment fees over 12 months

This is a wrong GAAP change and FAI has corrected

2020 Changes pushed through QuickBooks

[FAI-P&L 2020 adj'IA1](#)

2019 Changes pushed through Excel

[FAI-P&L 2019 adj'IA1](#)

FAI is using these results as the as reported numbers

	2019
2019 Income As Now Reported by Company	827,044
Variance	6,376
Original 2019 Net Income per QuickBooks	833,420



## 1 Finance Department

## People

Joe Smith (Director of Finance, POC for due diligence work)

Worked for LP for ~45 days

Has experience with due diligence procedures, was VP of finance at Engage121 for the last 13 years

Junior Accountant Sarah (invoicing, receivables, general accounting)

Chelsea does all purchasing

## 2 External Accountant (ABC - Manchester United also uses for auditing)

## People

John Doe: Partner; oversees accounting services department but not actively involved in client facing relationships

Katherine Jones: Involved with clients, specifically with LP and this engagement

Additional support for LP includes Katie (senior) and Mike (staff)

ABC equivalent of one FTE

## Key Accounting Policies

## Revenue

Handled internally by LP through Connie Wise - all invoicing done by Joe's staff

ABC focuses on COGS and expenses

## Goodwill Accounting

Calculated by Steve and reviewed by Lisa (ABC tax partner) and Steve Saslow's tax preparer as well

Mostly done for tax purposes

## COGS/expenses

ABC does accounts payable transactions

Sarah prepares a margins analysis (but does not get booked)

Fast speed for reporting - usually final close by the 10th (very good)

## Role

Controller type of role, also does bookkeeping

They do a lot of month end journal entries (bills.com to pay payables)

Balance sheet reconciliation

Reclass entries

Bank reconciliation

All bank accounts reconciled on monthly basis

Payroll journal

Joe provides hours, compensation information, bonus information, salary changes, etc. then ABC does processing for them and books journal entries for payroll

No accrual for vacation policy - unlimited vacation policy

Taxes

Cost about \$13k per month

Maintains fixed asset register (tax department of ABC)

## Prior to ABC

LP used a smaller accountant who could not do all the projects that Ari wanted done because they were doing a lot of tax season work

In 2019 Ari began looking for other accountants

Started with ABC in summer 2019

At LP, John was doing double duty as HR and finance in a dual role called ops (John was not good enough)



**3 Accounting Procedures**

Cash versus accrual basis of accounting.

Currently semi-cash reporting; working to make it more accrual based but not there yet

**Payroll**

Used to pay biweekly but starting June 2020 switched to semi-monthly payroll

Bonuses paid out quarterly to everyone based on performance (different levels of bonus pay for different people)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
24100 · Accrued Payroll - Payable	21,104	(5)	(21,280)	(42,550)	(79,273)	(115,990)	37,157	-	-	-	-	-	-
24110 · Gross Wages Payable	-	-	-	-	-	-	-	-	(59,504)	(98,332)	(152,519)	(219,099)	-

No accruals from May 2020, none as of December 2019

Starting June 2020 switched to semi-monthly payroll so no accrual needed

For Dec-19 Joe smoothed 2 months with triple payrolls (May and November); May pushed from January to June (\$5 impa ), July to December (\$0 impa )

No personal expenses or friends/family members on payroll per Management that go through Income Statement

Certain personal expenses go dire ly through balance sheet like a distribution

Accounts are not audited or reviewed, just compiled

No differences in methods in preparing monthly and annual financial statements including adjustments by management and the external accountant around the December 2019 year end ("Period 12 Adjustments").

Do not make annual adjustments

Monthly adjustments booked by accounting or ABC include

Depreciation

Amortization of prepaids

Revenue reclass entries for items not mapped to the right accounts

Reconciliation of Inventory

Sales Tax

Lines of Credit Interest

**4 Billing and Warranties**

Billed and invoiced on the 15th for the following month (this is non-GAAP accounting)

Generally invoice 50% upfront (materials and labor), and then 50% upon completion of the proje

A& B invoices for proje s

XYZ also invoiced in advance

LP does not provide warranties, only warranties are backed by vendors

**5 Systems****QuickBooks**

Accounting

**Conne Wise**

Invoicing

Sales invoices

Purchase Orders

**Excel**

Inventory

Deferred revenue

Deposits



## 1 Overview

**Accounting policies with regards to revenue recognition are very poor**

MRR invoices, basically invoiced in the mid of prior month, are recognized one month early

ORR invoices, basically invoiced in the mid of prior month, are recognized one month early

Proje s or Professional Services are recognized when invoices raised (50% on signing order and 50% at end of job)

Jobs can take 3 or 4 or longer to complete

Material Sales were not originally matched with purchases (this has been subsequently adjusted)

Finance Produ s

them pay them over 12-16 months. Conne Wise needs to record to P&L and end of month it will move to BS,

customer will then pay LP monthly

Cash colle ed over up to 16 months but 50% of revenue recognized on signing order and 50% at end of order (A&B invoicing)

Cost of the work is recognized depending on where in the process they are at

**Customer deposits and deferred revenue were only used on XYZ and gradually reduce post acquisition**

A few accounts/customer deposits that came over from XYZ that were on a deferred revenue (so recognized that over that time), but LP has never utilized deferred revenue

Under account 13000

Customer	Proje Name
Confidential	OnPrem Upgrade
Confidential	OnPrem Upgrade
Confidential	Replace Win 7
Confidential	Cloud Migr
Confidential	OnPrem Upgrade
Confidential	Cloud Migr

**Unbilled Proje s in Progress**

Renamed this account "Accounts Receivable Unbilled"

This account came over with XYZ, was their Deferred Revenue account. They have 3 customers left on here (NOSS, PP, and RMA)

These 3 clients totaled \$114,300 in Proje Quotes, they paid \$53,460 in A invoice (sitting in account 23100 Customer Deposits)

If the two accounts were netted the amount remaining would be equal to the amount of work performed but not

yet billed or \$39,998.44 as of 8/31

These accounts will clear when 3 proje s are finished and final B invoice is sent.

**Inventory**

Inventory is counted and costed once per month, near month end but not always effe ive month end

Sometimes old produ s e.g., laptops, batteries, which can be utilized as spares/swap outs if customers produ s break down

Manual Excel based system to record and account for inventory

**Leased Receivable – HaaS**

1 customer 1202 Perception Programs Inc.

Lease began 5/8/18, term 36 months, Amount financed \$51,450, monthly amount \$1,470

**Loans & Exchanges**

17200 Reconciliation account used during the purchase of XYZ, remaining balance of \$-\$1,711 should be netted

against account "Due from Steve Sheeran"

17300 Intercompany account with Mercedes Properties

17400 Financed Equipment – 5 customers as of 12/31/19, now only 1 customer left as of 8/30/20 for a total of \$726.47

17700 Financed Onboard Labor – 6 customer



**2 Procedures per Joe**

All balance sheet captions were reconcile on a monthly basis  
 No differences between monthly and annual financial statements

**3 Changes to Accounting Policies (following appointment of Joe)**

2020

Now accrue for bonuses on monthly basis  
 Now accrue for recruitment fee over 12 months  
 This has been reversed by fail as not GAAP accounting  
 Now smooth payroll costs so that certain months do not have 3 pay periods  
 3rd payroll in may smoothed between January and June  
 Matched material revenue and expenses for jobs greater than \$1000  
 Net change for 2020 was only \$4k

2019

Now accrue for bonuses on monthly basis  
 Now accrue for recruitment fee over 12 months  
 Now smooth payroll costs so that certain months do not have 3 pay periods

**4 Customer payments come in through 2 accounts depending on if check or ACH**

Checks go to 4383  
 ACHs go to 3542  
 LP PPP Account 0179  
 Not cash coming in from customers  
 Money that comes in there goes towards salary  
 Business Savings 41417 is only savings, nothing from customers

**5 PSS Revenue Recognition**

The Company presently recognizes costs when incurred and revenue when invoiced which is not GAAP

The preference would have been to:

For jobs with no interim milestones, to recognize revenue at end of engagements and account for labor costs in WIP (i.e., capitalize costs) until revenue is recognized

For jobs where the company is effectively just invoicing labor at an hourly rate, to recognize labor revenue at the hourly selling rate (less any potential losses) when the labor activity is performed (utilized unbilled revenue)

FAI has incorporated a revenue recognition adjustment for PSS revenue based on estimation of completion of % of job completed based on number of months from start to number of months to end of job and total billings (information supplied by Management)

D57.

Management presented that it does not have a tracking system by labor hours or estimation of completion of job at month end  
 This adjustment is not pure GAAP but is a reasonable estimation of recognizing revenue over the life of the engagements



## Executive Notes

### 4 Acquisition of XYZ

#### 1 Overview

Acquired on September 13, 2019  
 QuickBooks was accounting system  
 Purchase Price \$2,070k  
 Cash financed via Loan from PUB Bank - \$500K  
 Shareholder loan to Steve Saslow - \$1,500,000 (9/20/2020: \$1,200,000)  
 Repayable \$25K per month + Interest  
 \$70k for cash

#### 2 Record of XYZ Accounting Results in September 2019

Within XYZ  
 9/1/2019 to 9/13/2019 Certain expenses  
 9/1/2019 to 9/13/2019 \$10k of revenue  
 Within LP  
 Post 9/13/2019

#### 3 Goodwill

Memo	Account	Total	Cash/Debt	W/C	Fixed Assets	Goodwill	Comments	Source
9/13 cash balance acquired at purchase	10121 - ITG BOA Account	190,735	190,735					n/a
9/13 AR balance acquired at purchase	26000 - Exchange	231,050		231,050				<a href="#">FAI-Goodwill Detail 26000'IA1</a>
9/13 AR balance acquired at purchase	26000 - Exchange	(5,276)		(5,276)				n/a
9/13 Unbilled Con in Prog acquired at purchase	13000 - Accounts Receivable - Unbilled	59,676		59,676			No detailed support could be found by Company for this caption	<a href="#">FAI-Goodwill Detail 13000'IA1</a>
9/13 Inventory at customers acquired at purchase	15200 - Inventory-Hardware at Customers	22,527		22,527				<a href="#">FAI-Goodwill-XYZ Inv at Cust'IA1</a>
9/13 Office Equipment acquired at purchase	18140 - Office Equipment	52,928			52,928		W23.	n/a
9/13 Office Furniture acquired at purchase	18150 - Office Furniture & Fixtures	22,860			22,860			n/a
9/13 Leasehold improvements acquired at purchase	18120 - Leasehold Improvements	24,212			24,212			n/a
9/13 Security deposits acquired at purchase	19700 - Security Deposits	200		200				n/a
9/13 Pre-lim Goodwill acquired at purchase	19110 - Goodwill/NonCompete	1,956,509				1,956,509		n/a
9/13 Accounts payable acquired at purchase	17200 - Exchange items	(231,854)		(231,854)			No detailed support could be found by	<a href="#">FAI-Goodwill Detail 17200'IA1</a>
9/13 credit card payable acquired at purchase	21300 - BOA Credit Card	(51,936)		(51,936)				n/a
9/13 EE expense reimb payable acquired at purchase	22400 - Employee Reimbursements	(706)		(706)				n/a
9/13 Customer deposits acquired at purchase	23100 - Customer Deposits	(120,930)		(120,930)				<a href="#">FAI-Goodwill Detail 23100'IA1</a>
9/13 retirement plan payable acquired at purchase	24230 - ER Match Payable	(56,942)		(56,942)				<a href="#">FAI-Goodwill Detail 24230'IA1</a>
9/13 State Sales Tax	Sales Tax Payable-CT	(23,053)		(23,053)				<a href="#">FAI-Goodwill Detail Sale Tax'IA1</a>
9/13 cash paid at closing	19110 - Goodwill/NonCompete	(570,000)				(570,000)		n/a
9/13 note issued at closing	19110 - Goodwill/NonCompete	(1,500,000)				(1,500,000)		n/a
	19110 - Goodwill/NonCompete	242,006				242,006		n/a
	19110 - Goodwill/NonCompete	(175,252)				(175,252)		n/a
	23000 - Deferred Revenue	(242,006)		(242,006)			Sale to Integrated Physicians	See below
	15000 - Inventory	175,252		175,252			Cost of Products related to Integrated	See below
<b>Total</b>		<b>-</b>	<b>190,735</b>	<b>(243,998)</b>	<b>100,000</b>	<b>(46,737)</b>		

Per Management, goodwill was calculated for tax purposes rather than for accounting purposes



		Corre Calculation			Order date	Variance	Per Goodwill	
		\$	\$			\$	\$	
<b>Sales Invoice in the name of Liverpool</b>								
Integrated Physicians Management	8/2/2019		227,556		Order date	14,450	242,006	Sales tax included
<b>Purchase Invoices in the name of Lion LLC</b>								
Confidential	9/21/2019	69,114		Ship to Information Technology Group	9/12/2019			Corrected via D55.
Confidential	9/20/2019	35,350		Shipped 9/20/2019				
Confidential	9/15/2019	44,995		Shipped 9/15/2019				
Confidential	9/12/2019	25,793						
		175,252				0	175,252	Per Goodwill calculation
Confidential	9/12/2019	1,982			9/12/2019			Was not included within
<b>Purchases</b>			(177,234)					
<b>Contribution</b>			50,323					
<b>Margin %</b>			22%					

FAI excluded the "corre calculation" from the results of August via Due Diligence Adjustment

D55.

Effectively Management were including the revenue and gross profit in August and October 2019

While the sale was invoiced pre acquisition of XYZ, the order and delivery of goods happened after acquisition of XYZ.

Goodwill should have estimated profits for winning sale and excluded from post acquisition results

Revenue should normally be recorded when the customer accepts the products

FAI excluded the "per goodwill" excluding sales tax error calculation from the results of October 2019 via Run Rate Adjustment

D94.

Size and margin of this product sale is not likely to reoccur on a consistent basis

#### Notes

- Original invoice was in XYZ's name on 8/2/19 when XYZ open orders were inputted in Conne Wise LP they would follow the Conne Wise template and now have an LP logo
- Payment was received by XYZ on 9/11 (2 days before acquisition date, but after original Goodwill calc). XYZ's policy was to not order equipment until payment received.
- Company does not have a PO
- Order was large because client requested the products they needed for the project they were undertaking. Both XYZ and LP have done large installs over the years. Most projects are not this large but certainly not the first or last large install. All projects are one offs.
- Invoice or charge for installation – Does not appear so – I have checked Conne Wise and QuickBooks and no separate invoices for installation
- Significant difference between invoice to customer and orders being placed is because XYZ's policy was to not order equipment until payment received (9/11/20)
- Original invoice and purchase invoices were all in XYZ's name on 8/2/19 (upon acquisition all invoices uploaded into Conne Wise would then appear to have LP logo)



## 5 Customers

## 1 Top 10 Customers by TTM Sep-20 (Total Revenue)

Customer	TTM Sep-20	% Total Revenue
Confidential	644,621	5.0%
Confidential	642,706	5.0%
Confidential	535,404	4.2%
Confidential	428,797	3.4%
Confidential	393,334	3.1%
Confidential	372,278	2.9%
Confidential	325,989	2.6%
Confidential	320,657	2.5%
Confidential	293,394	2.3%
Confidential	268,787	2.1%

## 2 Top 10 Customers by TTM Sep-20 (Managed Services)

Customer	TTM Sep-20 <i>Managed Services Revenue</i>	
Confidential	521,161	6.2%
Confidential	369,352	4.4%
Confidential	288,677	3.4%
Confidential	279,290	3.3%
Confidential	277,061	3.3%
Confidential	255,485	3.0%
Confidential	250,466	3.0%
Confidential	186,344	2.2%
Confidential	168,596	2.0%
Confidential	167,332	2.0%

## 3 Top 10 Customers by TTM Sep-20 (Professional Services)

Customer	TTM Sep-20 <i>Professional Services Revenue</i>	
Confidential	312,318	16.3%
Confidential	145,930	7.6%
Confidential	142,263	7.4%
Confidential	83,658	4.4%
Confidential	50,369	2.6%
Confidential	38,300	2.0%
Confidential	34,914	1.8%
Confidential	32,825	1.7%
Confidential	31,185	1.6%
Confidential	30,644	1.6%

## 4 Top 10 Customers by TTM Sep-20 (Materials)

Customer	TTM Sep-20	% Material Revenue
Confidential	266,650	11.1%
Confidential	240,355	10.0%
Confidential	172,457	7.2%
Confidential	95,894	4.0%
Confidential	84,772	3.5%
Confidential	80,072	3.3%
Confidential	77,704	3.2%
Confidential	69,547	2.9%
Confidential	61,426	2.6%
Confidential	60,590	2.5%



## 5 Recent Loss of MRR customers

Customer	2017	2018	2019	YTD 2020	TTM Sep-20	TTM 9/20 vs 2019	Total	Comments
Confidential	-	36,681	34,306	-	-	(34,306)	70,987	Bad fit for client
Confidential	293,659	300,135	37,448	5,687	11,375	(26,073)	636,929	Acquired by another company that had IT
Confidential	155,000	162,439	136,826	68,702	91,637	(45,189)	522,968	Acquired by large multinational relationship continues but at modified scope
Confidential	16,050	15,801	4,357	1,592	(7,822)	(12,178)	37,799	Retired them - CNS (Autopilot) only client
Confidential	54,627	76,458	63,840	8,082	8,082	(55,758)	203,007	Formerly Arkor Laser - acquired by Cadence and has own IT
Confidential	45,080	48,593	56,832	27,106	41,058	(15,774)	177,610	Live Theater - closed for pandemic at this time
Confidential	21,287	21,348	21,736	(927)	4,633	(17,103)	63,445	Retired them - CNS (Autopilot) only client
Confidential	33,983	36,374	37,785	6,594	16,195	(21,591)	114,737	Monthly billing did not change -looking at why reporting changed
Confidential	30,251	32,674	20,440	-	-	(20,440)	83,366	Acquired by another company that had IT

## 6 Customer lists not reconciling to income statement for certain months

Explanation of revenue variances between income statement vs. monthly revenue by customer spreadsheet

[FAI-Customer Managed Services'IH178](#)

	Sep 19	Oct 19	Nov 19	May 20
Per Customer Listing	474,068	465,247	469,634	780,879
Variance to P&L:	243,840	250,898	248,685	(20,834)
Per P&L:	717,908	716,145	718,319	760,045

Sept, O , Nov 2019 are due to XYZ invoices being entered as a journal entry; May a JE was partially coded to some customers but not others or both sides

[FAI-Customer Professional Svc'IH164](#)

	Sep 19	Oct 19
Per Customer Listing	109,332	119,023
Per P&L	172,877	149,905
Adjustments:		
46100 · Out of Scope      New Haven		(11,790)
46200 · General Support      New Haven		(816)
47000 · Proje Labor      New Haven		(18,276)
46100 · Out of Scope      New Haven	(4,354)	
46200 · General Support      New Haven	(394)	
47000 · Proje Labor      New Haven	(58,798)	
Adjustments	(63,545)	(30,882)
Per Adjusted IS	109,332	119,023
Variance	0	(1)



1 Small variances ranging from ±1 to ±4 under balance sheet check are due to rounding differences

2 [FAI-AR Aging 8-31-20](#)<sup>1A1</sup>

	Current	1 - 30	31 - 60	61 - 90	> 90	TOTAL	
Confidential	11,139	194	5,379	129,139	9,976	155,827	
Confidential	8,493	-	-	1,758	-	10,251	
Confidential	-	22,962	-	-	25,871	48,832	Paid
Confidential	3,811	794	3,828	-	22,031	30,464	Requesting reconciliation, should be paid
Confidential	2,777	-	4,861	2,777	2,777	13,191	
Confidential	2,496	2,581	-	-	2,199	7,276	
Confidential	1,034	-	-	-	2,056	3,089	
Confidential	15,123	691	16,759	41,975	-	74,548	Paid
Confidential	1,246	-	1,489	1,215	-	3,950	
Confidential	2,733	3,433	-	-	2,808	8,973	
Confidential	-	-	-	825	10,862	11,687	Needs reconciliation, working with customer, most should get paid
Confidential	-	2,399	-	-	9,491	11,890	To be paid 11/1/2020 on credit card
Confidential	20,567	738	-	-	6,753	28,058	Paid, slow payer
Confidential	3,288	11,165	10,357	-	2,413	27,222	
Confidential	-	9,130	-	-	4,726	13,856	Paid
Confidential	-	1,650	-	-	1,622	3,272	
Confidential	85,671	37,670	-	6,658	-	130,000	
Confidential	-	11,909	-	842	4,212	16,963	At risk clients, need to fix at risk operational issue
Confidential	5,165	-	-	5,313	13,089	23,567	Paid

No bad debt reserve presently proposed but should be considered as part of Net Working Capital as of Close



## 3 Debt and Debt-like Instruments

	Sep-20
<b>Debt and Cash</b>	
Confidential	663,906
Confidential	643,191
Confidential	37,494
Confidential	-
Confidential	222,573
Confidential	364,498
Confidential	1,802
<b>Cash</b>	<b>1,933,465</b>
Confidential	1,267
Confidential	134,813
Confidential	-
Confidential	(99,457)
Confidential	(399,907)
Confidential	(1,200,000)
Confidential	(1,050,800)
Confidential	(37,500)
<b>External Debt</b>	<b>(2,787,664)</b>
<b>Total Debt and Cash</b>	<b>(718,119)</b>
<b>Financing For Customers</b>	
17200 · Exchange items	(1,711)
17400 · CNS-Financed Equip. Receivable	
17402 · 1213 - CF	436
17403 · 1005 - BBAD	(229)
<b>Total 17400 · CNS-Financed Equip. Receivable</b>	<b>206</b>
Confidential	
Confidential	10,302
Confidential	5,625
Confidential	13,527
Confidential	7,291
Confidential	380
Confidential	(341)
Confidential	5,889
<b>Total 17700 · CNS-Onboard Labor Receivable</b>	<b>42,673</b>
<b>Total Financing for Customers</b>	<b>41,168</b>

\*LP leases property from related party (owned by President and President's brother)

See below

11 Property

Manchester United needs to establish how the financing for Customers should be accounted for within Asset Purchase Agreement and for accounting purposes

Working Capital vs Debt and Debt Like Instruments

Also, some of the financing receivable from customers is due after one year and thus could be classified as non-current

FAI has been informed that deferred revenue and Unbilled Revenue may be defined as debt-like instruments as part of the Asset Purchase Agreement; however, typically, these 2 items would be defined as working capital.



**Financing For Customers**

**1 Financing For Customers Provided by 2 sources**

**By LP**

Typically provide financing for 24 to 26 months

24 months typical

On the call, they talked about one deal for 17 months which did not come through

The Balance from Customers is shown as a receivable at

17400 CNS-Finance Equip. Receivable

For produ financing

As of September 2020, basically one customer balance owing of \$436 (excluding what appears a slight over payment of \$229)

17700 · CNS-Onboard Labor Receivable

For Labor (PSS) work

As of September 2020, balance owing of \$42,673 by 6 customers

Contra ual relationship between LP and customer

**Externally**

Leasing Companies used

By Great America

Leaf Financing

Mostly pay 75%, sometimes 100% of order on shipment

Contra ual leasing relationship between leasing company and customer

But leasing company pays LP (mostly pay 75%, sometimes 100%, up front

**2 Revenue Recognition Policy**

Weather financing is provided or customer pays, revenue/expense recognition is the same and has already been adjusted by Joe or via a DD adjustment



## 7 Income Statement

## 1 PSS

This account fluctuates from month to month depending entirely on when new projects start and when old projects finish since they are billed as A and B invoices.  
Also varies significantly based on the size of the project.

Revenue reduced significantly in November 2019

About 12 projects invoices (A or B) ranging in price from \$700 to \$11K

Compare that to Dec-19 which included 23 Projects ranging from \$800 to \$16K

Or Dec-19 that had 20 projects ranging from \$800 to \$24.5K

## 2 48000 - Materials Income

Income fairly accurate for 2020

However materials cost needs to be fixed, purchases grouped and invoice does not come until later (expense sitting in later month but incurred earlier)

## 3 67050 - Accounting

Charge about \$13k/month; also happens to be a client of the company

Part of the accounting department; similar to another person in the accounting department (work w same 3 people, meet every week)

Booking journal entries, doing bank recs, doing payables once approved at bills.com

All reconciliations done on monthly basis. Tax adjustment is only thing done on annual basis.

Accounting fees

Before end of 2019, someone at a company by the name of NAG consultant type relationship

NAG would help with bookkeeping

Currently (Nov-19 to Sep-19) paying \$10K per month for services of 3 people at ABC

In March paid additional \$9k related to purchase of XYZ

Increased rate starting in July because they were not getting everything they needed from the person Joe replaced

(charged more because working more hours; need to renegotiate since Joe replaced previous person)

September is high because pay for preparation of tax return

## 4 Product Sales

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	TTM 10/20	TTM 11/20
Sales	92,932	181,286	318,647	226,628	199,956	133,576	115,705	159,129	140,175	331,186	127,181	104,099	240,673	2,130,500	2,278,241
Gross Profit	6,115	23,821	92,999	26,945	27,756	16,752	14,345	18,712	15,699	51,821	17,474	14,384	46,385	326,822	367,092
Gross Profit %	6.6%	13.1%	29.2%	11.9%	13.9%	12.5%	12.4%	11.8%	11.2%	15.6%	13.7%	13.8%	19.3%	15.3%	16.1%

## 5 Revised TTM October 2020 Results

<b>EBITDA, Pro Forma</b>	<b>\$'000</b>
<b>Per 12.2.2020</b>	<b>1,576,756</b>
Revised Estimates for Professional Services Engagements	(35,061)
<b>Subtotal</b>	<b>1,541,695</b>
Variance	(296,338)
<b>Per 12.30.2020</b>	<b>1,245,358</b>



**1 82000 Evoton Settlement Income****91200 Evoton Write off**

Evoton lifecare was customer (customer 1031)  
 Did settlement dated 4/4/2019, 18 equal installments of \$8594.87  
 Went directly to AR each month  
 Cash receipts and receivables both started coming in April

**2 Background on Eveton**

Evoton was an Liverpool client from March 2009.  
 Evoton is long term care facility that has campus including independent living, assisted living, adult day care, medical services, nursing home and memory care.

**3 Issues**

Around 2016 JGS' long time CEO and COO combination left their employment  
 Around 2018 LP became aware that JGS was having financial difficulties

They started having payment difficulties and ran up a large balances -- between \$150-200k as I recall (keep in mind they were a \$20-25k per month MRR client plus regularly buying equipment, running small projects, etc.)

They were making promises and payments but clearly there were issues

**4 Changes**

In late summer (or so) 2018 Evoton was acquired (or merged) with another LTC group from Western MA  
 That group ran their IT internally and it became clear that a change was foot

**5 Payment Negotiations**

LP was working through payment negotiations and ultimately agreed to the payment plan below.  
 There are a lot of details as to how LP got here and why Fred felt it was the right move at the time.  
 Most credits in question were all from 2018 invoices (\$7,888.81 from March 2019-added by Joe).

*NOTE: LP carried forward some Evoton billing for two things:*

1. There was a lease agreement from Great Britain that LP was receiving ongoing service fees from that last until much later.
2. They continued to use Mimecast and some other items for a period of time that they paid for
3. Ari thinks the combined total of this was \$2k-2.5k per month (\$1,895.76 (continued through Feb 2020) + \$819 (continued through Aug 2019) added by Joe)



Executive Notes

9 Tax

1 Passthrough Entity

This was excluded from EBLPA, As Reported via		Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
D3.		(15,000)	-	-	(20,500)	-	-	-	(20,500)	-	-	(22,000)	-	-	-
Jesse spoke with Jane Doe, Manchester United Tax Advisor, and they both felt comfortable that this should be treated as an income tax and therefore added back to EBLPA.															
Manchester United will pay the Passthrough Entity tax, but shareholder tax distributions will be reduced by approximately the same amount, so the FCF impact is neutral.															
Her explanation email is below.															
*Confidential Email*		FAI recommends that the definition for taxes for borrowing agreement is defined so that it is excluded from EBLPA, for borrowing multiple issues													

10 HR

- 1 There is no upper limit for vacation as long as employees do their work and hit all their KPI  
No accrual for unused vacation

11 Property

1 63050 - Rent

67 Prospe avenue is owed by a company named Mercedes. Mercedes is owned by Fred & his brother.  
There are 3% annual rate increases (no more than 3% for a 4 year term). Post closing rent would be 14471, then 3% increase each year for years 2, 3, and 4  
Lease terms are being reworked so lease is clean (in LOI)

Basically, surplus space gets allocated to XYZ depending on what space can or can not be rented out to other third parties; rent \$ then gets adjusted

FAI recommends a new rental agreement gets documented and agreed upon as part of the Transaction.

12 Sale and Purchase Agreement

1 Accounting Policies

FAI recommends that the accounting policies are clearly defined within the asset purchase agreement and covers as a minimum the following:

- Revenue recognition
- Bad debts
- Working capital definition especially over customer financing
- Inventory reserves
- Recruitment fees



Summary of Adjustments				Per FAI			
				2018	2019	TTM Oct-20	TTM Nov-20
D1.	79100 · Interest Expense	Technical	Technical	-	16,154	48,684	47,632
D2.	79400 · Depreciation Expense	Technical	Technical	61,577	210,242	203,698	208,272
D3.	79200 · Taxes	Technical	Technical	111,648	36,206	43,956	43,956
				<b>173,225</b>	<b>262,602</b>	<b>296,338</b>	
D4.	79100 · Interest Expense	Technical	Acquisition	2,273	10,076	-	-
D5.	79400 · Depreciation Expense	Technical	Acquisition	12,186	8,361	-	-
D6.	79200 · Taxes	Technical	Acquisition	-	6,143	-	-
D7.	99000 · Other Expenses	Seller Add Backs - ITG	Acquisition	(0)		-	-
D8.	Acquisition Net Income Adjustments	Net Income- ITG	Acquisition	38,813		-	-
D9.	Revenue Adjustment for ITG Invoicing and Recording One Month In Advance	Rev/Exp Rec-MRR	Acquisition	(34,138)	248,600	-	
D10.	Reversal of Other Expenses	Seller Add Backs - ITG	Acquisition	115,729	77,577	-	
				<b>134,863</b>	<b>350,757</b>	-	
D11.	41000 · CLOUD SERVICES Income	3 Rev/Exp Rec-MRR	DD	(18,363)	(79,985)	52,134	59,412
D12.	42000 · Cloud Services Security	4 Rev/Exp Rec-MRR	DD	(3,440)	228	(6,949)	(10,142)
D13.	43000 · Monthly Contract	5 Rev/Exp Rec-MRR	DD	(30,981)	(165,021)	(43,439)	(48,951)
D14.	44000 · ITD WFDR Basic & Std Monthly	6 Rev/Exp Rec-MRR	DD	(3,176)	(2,116)	(15,914)	(15,531)
D15.	40000 · Monthly Recurring Revenue - Other	7 Rev/Exp Rec-MRR	DD	-	-	-	-
D16.	45000 · Other Recurring Revenue	9 Rev/Exp Rec-MRR	DD	(12,212)	(24,652)	(75,714)	(74,488)
D17.	49000 · Other Regular Income	25 Rev/Exp Rec-MRR	DD	(512)	(6,507)	(32)	4,078
				<b>(68,684)</b>	<b>(278,053)</b>	<b>(89,914)</b>	
	48100 · Hardware Sales	13	DD				
	57100 · Hardware	63	DD				
D18.	50000 · MRR COGS, Excluding Labor	30 Seller Add Backs - ITD	DD	-	17,325	37,532	31,757
D19.	51000 · CLOUD SERVICES	31 Seller Add Backs - ITD	DD	-	46,709	51,933	40,945
D20.	56310 · Support-Wages	51 Seller Add Backs - ITD	DD	-	-	-	-
D21.	59700 · Software Support COGS	77 Seller Add Backs - ITD	DD	-	-	424	424
		85	DD				
D22.	60130 · Operations-Payroll Taxes/Fees	87 Seller Add Backs - ITD	DD	-	-	-	-
D23.	60140 · Operations-Health Insurance	88 Seller Add Backs - ITD	DD	-	-	-	-
D24.	60150 · Operations-Simple IRA Match	89 Seller Add Backs - ITD	DD	-	-	-	-
D25.	60160 · Operations-Fringe Benefits	90 Seller Add Backs - ITD	DD	-	-	-	-
D26.	60210 · Officer Salary	94 AS Comp	DD	(113,947)	(112,591)	(107,786)	(107,741)
D27.	60230 · Officer - Payroll Taxes/Fees	95 AS Comp	DD	(22,340)	(22,696)	(28,813)	(30,547)
D28.	60240 · Officer-Health Insurance	96 AS Comp	DD	-		-	-
D29.	60250 · Officer-Simple IRA Match	97 AS Comp	DD	(3,366)	(3,147)	(2,879)	(2,753)
				<b>(139,652)</b>	<b>(138,435)</b>	<b>(139,478)</b>	



Summary of Adjustments				Per FAI			
				2018	2019	TTM Oct-20	TTM Nov-20
D30.	60990 · Payroll service charges	99 Seller Add Backs - ITD	DD	-	1,886	-	-
D31.	61350 · Consulting	112 Seller Add Backs - ITD	DD	-	35,720	-	-
D32.	61700 · Marketing Ex.	117 Seller Add Backs - ITD	DD	-	40,672	-	-
D33.	62500 · Life	123 Seller Add Backs - ITD	DD	-	1,573	8,211	8,109
D34.	62000 · Insurance - Other	125 Seller Add Backs - ITD	DD	-	372	5,837	5,837
D35.	63250 · Internet Connectivity	132 Seller Add Backs - ITD	DD	-	-	-	-
D36.	63350 · AV Repairs	134 Seller Add Backs - ITD	DD	-	-	(5,941)	(5,941)
D37.	63510 · Plumbing	138 Seller Add Backs - ITD	DD	-	1,196	-	-
D38.	63550 · HVAC	139 Seller Add Backs - ITD	DD	-	-	(6,320)	(6,320)
D39.	63600 · Security	140 Seller Add Backs - ITD	DD	-	1,540	1,007	1,007
D40.	64000 · Operations Infrastructure Expen	142 Seller Add Backs - ITD	DD	-	1,930	1,930	1,930
		143	DD				
D41.	65100 · Automobile Expense	144 Seller Add Backs - ITD	DD	-	15,787	18,725	18,116
		145	DD				
D42.	66100 · Computer Supplies	153 Seller Add Backs - ITD	DD	-	4,944	3,959	3,959
D43.	67100 · Consulting	163 Seller Add Backs - ITD	DD	-	465	7,520	7,520
D44.	67050 · Accounting	165 Seller Add Backs - ITD	DD	-	7,212	-	-
D45.	67550 · Sales & Use Taxes	170 Seller Add Backs - ITD	DD	-	-	-	-
D46.	67600 · Contributions	171 Seller Add Backs - ITD	DD	-	10,000	5,000	5,000
		192	DD				
D47.	81000 · Hiring Program Credits	204 Seller Add Backs - ITD	DD	-	-	-	-
D48.	82000 · JGS - Settlement Income	205 Seller Add Backs - ITD	DD	-	(154,708)	-	-
D49.	91200 · JGS-Write-off	211 Seller Add Backs - ITD	DD	-	214,872	-	-
D50.	95200 · M&A - Professional Fees	+213+214+215 Seller Add Backs - ITD	DD	-	72,317	25,498	25,270
D51.	Write-Offs	218 Seller Add Backs - ITD	DD	-	(15,218)	15,218	15,218
D52.	59100 · Recruiting Expenses	71 GAP-Recr	DD	-	(23,884)	(4,455)	(2,464)
D53.	Correction of Rent per Terms of Transaction	128 Seller Add Backs - ITD	DD	(40,359)	(27,867)	-	-
D54.	Reallocation of Other Expenses and Non-Recurring Expenses	217 Seller Add Backs - ITD	DD	-	(21,171)	93,825	93,825
D55.	Product Sales Reversed out as in Goodwill and Correction of Sales Tax	13+63 GAP-Other	DD	-	(64,772)	-	-
D56.	57100 · Hardware	63 Rev/Exp Rec-Prod	DD	-	(28,345)	1,113	14,729
D57.	47000 · Project Labor	11 Rev/Exp Rec-PSS	DD	-	(10,303)	60,654	73,016
D58.	Estimate of Aged Inventory and built up through September 2020	68 GAP-Other	DD	(2,152)	(5,943)	-	-
D59.	Reversal on Profit of Write-off of PPP Loan	208 GAP-Other	DD	-	-	-	(1,051,000)
D60.	M&A Costs related to Jennifer Tayntor	163 GAP-Other	DD	-	-	-	-
D61.	Old Inventory Previously Written-Off	217 GAP-Other	DD	-	-	-	5,266
D62.	A/R Bad Debts from A/R November 2020 Review	GAP-Other	DD	-	-	-	(6,687)
D63.	56110 · Cloud-Wages	36 RRA	RRA	123,244	123,244	123,244	123,244
D64.	56120 · Cloud-Incentives	37 RRA	RRA	25,000	25,000	25,000	25,000
D65.	56130 · Cloud-Payroll Taxes/Fees	38 RRA	RRA	20,754	20,754	20,754	20,754
D66.	56150 · Cloud-Health Insurance	39 RRA	RRA	-	-	-	-
D67.	56160 · Cloud-Simple IRA Match	40 RRA	RRA	1,634	3,120	2,920	2,724

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Summary of Adjustments				Per FAI			
				2018	2019	TTM Oct-20	TTM Nov-20
D68.	56210 · OPE-Wages	43 RRA	RRA	-	-	-	-
D69.	56220 · OPE-Incentives	44 RRA	RRA	-	-	-	-
D70.	56230 · OPE-Payroll Taxes/Fees	45 RRA	RRA	-	-	-	-
D71.	56250 · OPE-Health Insurance	46 RRA	RRA	-	-	-	-
D72.	56260 · OPE-Simple IRA Match	47 RRA	RRA	(1,900)	(9,407)	(7,597)	(8,230)
D73.	56310 · Support-Wages	51 RRA	RRA	144,173	144,173	144,173	144,173
D74.	56320 · Support-Incentives	52 RRA	RRA	35,000	35,000	35,000	35,000
D75.	56330 · Support-Payroll Taxes/Fees	53 RRA	RRA	25,084	25,084	25,084	25,084
D76.	56350 · Support-Health Insurance	54 RRA	RRA	-	-	-	-
D77.	56360 · Support-Simple IRA Match	55 RRA	RRA	(32,921)	(28,068)	(20,544)	(22,214)
D78.	56370 · Support- Fringe Benefits	56 RRA	RRA	-	-	-	-
D79.	60110 · Operations-Wages	85 RRA	RRA	(267,417)	(267,417)	(267,417)	(267,417)
D80.	60120 · Operations-Incentives	86 RRA	RRA	(60,000)	(60,000)	(60,000)	(60,000)
D81.	60130 · Operations-Payroll Taxes/Fees	87 RRA	RRA	(45,838)	(45,838)	(45,838)	(45,838)
D82.	60140 · Operations-Health Insurance	88 RRA	RRA	-	-	-	-
D83.	60150 · Operations-Simple IRA Match	89 RRA	RRA	-	-	-	-
D84.	60160 · Operations-Fringe Benefits	90 RRA	RRA	-	-	-	-
D85.	60210 · Officer Salary	94 AS Comp	RRA	-	-	-	-
		95 RRA	RRA				
D86.	60240 · Officer-Health Insurance	96 RRA	RRA	-	-	-	-
D87.	60250 · Officer-Simple IRA Match	97 RRA	RRA	(107)	(415)	(659)	(877)
		98 RRA	RRA				
D88.	0	103 RRA	RRA	-	-	-	-
D89.	61120 · Sales-Commission	104 RRA	RRA	-	-	-	-
D90.	61130 · Sales-Payroll Taxes/Fees	105 RRA	RRA	-	-	-	-
D91.	61140 · Health Insurance	106 RRA	RRA	-	-	-	-
D92.	61150 · Sales-Simple IRA Match	107 RRA	RRA	-	-	-	-
D93.	Normalizing Accounting Services	165 RRA	RRA	-	-	-	-
D94.	Excluding One-off Transaction included within ITG Goodwill	RRA	RRA	-	(52,304)	-	-
D95.	60230 · Officer - Payroll Taxes/Fees	AS Comp	RRA	11,654	12,310	24,986	28,042
D96.				-	-	-	-
D97.				-	-	-	-
D98.							
RRA Subtotal				(21,640)	(74,764)	(894)	(556)
Total				35,600	244,416	387,723	(647,842)



