FARRELL ADVISORY INC.

M&A ▪ RESTRUCTURING ▪ CFO

Project Liverpool – DRAFT - Redacted
Financial Due Diligence Report
Example of Lite DD Report

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- This report ("Report") has been prepared for Company A ("Client") pursuant to the terms of engagement between Farrell Advisory Inc. ("FAI") and Client in connection with their investment appraisal of Company B ("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.
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May 30th, 2022

[Employee A]
CEO
[Company A]
[Company A Address]

Dear Employee A

Project Liverpool

Farrell Advisory Inc. ("FAI") was asked by you to perform analyses of certain financial information on Company B ("Company" or the "Target") to assist with your due diligence investigation of the Company. FAI's Due Diligence services have been limited to the procedures and scope outlined within the engagement letter dated May 5th, 2022 between Company A ("Client") and FAI ("Engagement Letter") and at Appendix B.

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.

FAI's 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 the Company or any financial or other information or operating and internal controls of the Company.

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.

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 have been reported to you.

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 additional work.

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 based on their particular circumstances from an independent tax advisor.

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

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Appendices

Section 1: Definition of Terms

I. DEFINITION OF TERMS
Abbreviations and Definitions

ABBREVIATIONS	DEFINITIONS
Adjusted EBITDA	Earnings before interest, income taxes, depreciation, amortization, and adjusted for due diligence adjustments
AP / AR	Accounts payable and accounts receivable
Accountant or External Accountant	Accountant, CPA
Capex	Capital expenditures
Client	Company A (“Client”)
COGS	Cost of goods sold
Company, or Target	Company B
COVID	COVID-19 pandemic
EBITDA	Earnings before interest, income taxes, depreciation and amortization
FYXX	Fiscal year ended December 31, 20XX
GAAP	Generally Accepted Accounting Principles in the United States of America
GL	General ledger
Historical Balance Sheet Dates	December 31, 2020 (“Dec-20”), December 31, 2021 (“Dec-21”), and April 30, 2022 (“Apr-22”)
Historical Period	28 months ended April 30, 2022 (FY20 and FY21: Year ended December 31, 2020 and 2021, respectively and YTD Apr-22: Four months ended April 30, 2022)
LTM Apr-22	12 months ended April 30, 2022
Management	(Owner / President)
NQ	Non-quantified
Adjusted NWC	Net Working Capital adjusted for due diligence adjustments
Project Liverpool or Transaction	Proposed acquisition of Company by Client which is a portfolio company of Company C
PTO	Paid time off
TB	Trial balance

Figures in this report are presented in thousands of US dollars unless otherwise noted.

Section 2: Executive Summary

2. Executive Summary
QoE, NWC, Free Cash Flow, Background and Transaction

Quality of Earnings Analysis Summary

in $000s	FY20	FY21	LTM Apr-22
Revenue, as reported	**$ 1,207**	**$ 1,122**	**$ 1,204**
Revenue adjustments	(2)	15	-
Revenue, as adjusted	**$ 1,205**	**$ 1,136**	**$ 1,204**
Net income, as reported	**$ 407**	**$ 500**	**$ 518**
Definitional adjustments	23	-	-
EBITDA, as reported	**$ 431**	**$ 500**	**$ 518**
Diligence adjustments	$ 5	$ 27	$ 33
EBITDA, as adjusted	**$ 435**	**$ 527**	**$ 551**
% of revenue			
EBITDA, as reported	*35.7%*	*44.6%*	*43.0%*
EBITDA, as adjusted	*36.1%*	*46.4%*	*45.8%*

Summary Net Working Capital Analysis

in $000s	Averages as of Apr-22 LTM	L6M	L3M
Current assets, as reported	555	287	188
Current liabilities, as reported	22	17	11
Net working capital, as reported	**$ 534**	**$ 270**	**$ 177**
Total adjustments	(456)	(169)	(68)
Net working capital, as adjusted	**$ 77**	**$ 101**	**$ 109**

Adjusted Free Cash Flow Summary

in $000s	FY20	FY21	LTM Apr-22
EBITDA, as adjusted	435	527	551
(less) Increase in NWC, as adjusted	14	(11)	(64)
(less) CapEx, as adjusted	-	-	-
Implied adjusted free cash flow	**$ 450**	**$ 517**	**$ 488**

Background

- Company B, a [state] S corporation, was incorporated in December 1996.
- Company B provides various IT computer services and support in the [city, state] area.
- The Company is owned and managed by [Owner]
- The Company operates out of a single facility in [city, state], which is personally owned by [Owner], but also performs onsite services at various customer locations. FAI understands the Client is in separate discussion with [Owner] with respect the use of the facility post-Transaction.
- The Company replaced its external CPA firm in late FY21. The current external CPA indicated the replacement was the result of [Owner] seeking a more capable accounting partner. [Accountant] assists with ad hoc accounting support and income tax preparation (as did the prior firm).
- FAI's diligence included analysis of the Company's FY20, FY21, and YTD Apr-22 financial data and consisted of the following:
  - A telephone call with [Owner] and [Accountant] on May 17, 2022, as well as a follow-up call with [Accountant] on May 25, 2022.
  - Analysis of information and responses provided by [Owner] and [Accountant] via an electronic data room and emails.
  - Financial data extracted from a backup copy of the Company's QuickBooks Desktop accounting system.
- **Figures in this report are presented in thousands of US dollars unless otherwise noted.**
- FAI's due diligence did not include tax, legal, technology, commercial, human resources, or environmental due diligence.
- Management represented that COVID had nominal impact to the results of the business, other than the $78 of PPP funding received in May-20. Refer to Quality of Earnings adjustment C for additional discussion.

Transaction

- Per the letter from the Company to the Client dated April 8, 2022, the Client is looking to acquire the assets of Company B for a purchase price of $1,900, of which $280 will be held in escrow. The purchase price is subject to adjustments for a measurement in the customer base and for [Owner] remaining with the business for about six months.

2. Executive Summary
Key Findings – Key Metrics

Key Metric	Summary	Report Reference
Adjusted Revenue	Adjusted revenue was $1.1 million, $1.1 million, and $1.2 million in FY20, FY21, and LTM Apr-22, respectively. (N.B. All periods had non-quantified adjustments).	Quality of Earnings Analysis
Adjusted Gross Margin	Adjusted gross margin was 64%, 71% and 70% in FY20, FY21, and LTM Apr-22, respectively. However, if expenses are allocated on a more consistent basis, adjusted contribution margin is more consistent at 66%, 69% and 67% in FY20, FY21, and LTM Apr-22, respectively.	Appendix A.6
Adjusted EBITDA	Adjusted EBITDA was $435, $527, and $551 in FY20, FY21, and LTM Apr-22, respectively. (N.B. All periods had non-quantified adjustments).	Quality of Earnings Analysis
Adjusted Net Working Capital	Adjusted net working capital averaged $109, $101, and $77 over the three-, six-, and 12-month periods ended April 30, 2022, respectively (all +/-NQs).	Appendix A.9
Debt and Debt-Like	Net debt and debt-like items as at April 30, 2022 amounted to $(83) (i.e., net cash).	Appendix A.10

Key Findings – Revenue Recognition and Accounts Payable

Key Finding Area	Summary	Report Reference
Revenue Recognition	The Company has three general revenue streams: (i) recurring monthly subscription-based services; (ii) ad hoc professional services; and (iii) IT equipment sales (most commonly in conjunction with the ad hoc professional services). Management represented that the recurring monthly subscription-based services are invoiced at the beginning of the month for the current month's subscription fee, and that the ad hoc professional services and IT equipment sales are invoiced upon completion of the related work. Management further represented that the ad hoc professional services are completed within a week approximately 80% of the time, but to the extent such projects straddle a month-end the associated invoice (and thus the related revenue) is recorded in the month the work begun; accordingly, some revenue could be recognized early. Additionally, in the rare circumstance where a project spanned multiple months, the customer would be invoiced no less frequently than monthly for the work performed in that period. Refer to Quality of Earnings Analysis section for additional discussion.	Quality of Earnings Analysis
Accounts Payable Accounting	Management represented that when the Company purchases products for resale (direct material), it makes two pairs of entries. The first records an increase to both inventory and accounts payable (in the amount of the purchased item(s)); this entry is typically linked to the supplying vendor within QuickBooks. The second records a Cost of Goods Expense ("COGS") and either a reduction to cash or an increase to the credit card liability, depending on the form of payment; this entry is also typically linked to the supplying vendor within QuickBooks. When the Company completes the project with which the procured products were associated, it invoices for the labor and parts utilized. This triggers an entry in QuickBooks which (among other things) records COGS expense and reduces inventory; this entry is tagged to the customer within QuickBooks (i.e., not the vendor of the parts). This accounting results in overstated COGS expense and overstated AP balance. Because the related COGS transactions are sometimes tagged to the vendor and sometimes tagged to the customer, confirmation of Management's representation would require a forensic analysis of related vendor purchase orders and customer invoices (a level of effort which was beyond the scope of this engagement). That said, if Management's representation of the accounting is assumed to be correct (which is the assumption FAI made for purposes of passing a related adjustment for EBITDA and NWC), the year-end adjustment Management made for FY21 properly restates the FY21 COGS and Dec-21 AP, however overstates the FY20 COGS (but properly states Dec-20 AP balance). Refer to Quality of Earnings Analysis section for additional discussion, as well as Appendix A.11 for a graph illustrating the monthly balance of AP.	Quality of Earnings Analysis, Adjustment 3; Appendix A.11

Key Findings – Parts Accounts and FAI's DD Reconciliations

Key Finding Area	Summary	Report Reference
Miscellaneous Parts Accounting	A similar dynamic as described previously for accounts payable accounting also manifests when the Company purchases miscellaneous products which are not run through the inventory module within QuickBooks. For example, when the Company purchases bulk cable (something which is charged by the foot to customers when utilized in ad hoc projects) an entry is made to record COGS expense and either a reduction to cash or an increase to credit card liability, depending on the form of payment. Then, when project is completed and invoiced via QuickBooks (one of the invoice line items is the length of bulk cable utilized), an entry to record COGS expense and reduce inventory is posted to QuickBooks. This results in overstated COGS and understated inventory. Refer to Quality of Earnings Analysis section for additional discussion.	Quality of Earnings Analysis, Adjustment 4; Appendix A.12
Cash proof / payroll reconciliation / equity roll-forward / book-to-tax reconciliations	Given the foregoing accounting issues, FAI performed a number of analyses aimed at detecting potential misstatements or inconsistencies within the financial statements. These included: • **Cash proof:** FAI reconciled (i) revenue per the financial statements to cash receipts per the bank statements as well as (ii) total expenses per the financial statements to cash expenditures per the bank statements (both over the 28-month period ended Apr-22). FAI were able to reconcile both the inflows and outflows to within approximately 0.5%. This suggests that the financial statements, taken as a whole, are reflective of the actual cash activity flowing through the Company's bank account. • **Payroll Reconciliation:** FAI reconciled the payroll disbursements implied by the compensation expense reported on the income statement and the changes in the payroll-related balance sheet accounts, to the payroll disbursements reported on the FY20 and FY21 W-2 filings. FAI was able to reconcile these amounts without variance. This suggests the financial statements accurately reflect the compensation being reported to the IRS and local taxing authorities. • **Equity Roll-Forward:** FAI analyzed the change in equity throughout the Historical Period and were able to decompose the period-to-period change in equity to specific driving events / transactions. This provides specific insight into the various activities impacting the book value of equity. • **Book-to-Tax Reconciliation:** FAI reconciled the net income reported on the income statement to the book net income reported on the FY20 and FY21 tax returns within an insignificant variance. This mitigates the possibility that the financial statements that FAI analyzed vary from those upon which the Company's tax returns are based.	Appendix A.1, A.2, A.3 and A.4

Key Findings - Income Tax Impacts and Quality of Information

Key Finding Area	Summary	Report Reference
Income Tax Impacts	Diligence of income tax-related issues was beyond the scope of this engagement. That said, FAI wanted to convey certain related findings and recommend that the Client further investigates: • **PPP Income:** The Company received approximately $78 through the US Small Business Administration's Paycheck Protection Program in May 2020 in conjunction with the COVID 19 pandemic. The Company included this amount as a component of its FY20 net income for both book and tax purposes. Management confirmed this amount was fully forgiven. It is likely this amount should not have been included in the Company's taxable income (i.e., taxable income reported on the FY21 income tax filings was overstated by approximately $78). • **Accounts Payable Accounting:** As discussed, the Company's accounting for accounts payable results in overstated COGS. The current external Accountant posted adjusting entries to restate FY21 COGS, however the analogous adjustment that was posted by the prior accounting group in relation to FY20 did not correct the COGS overstatement. Consequently, to the extent Management's representation of the related accounting is correct, the taxable income reported on the FY20 income tax filing was understated by approximately $91. FAI did not review periods prior to FY20 and thus cannot comment on potential similar misstatements in prior tax years. • **Miscellaneous Parts Accounting:** As discussed, the Company's accounting for miscellaneous parts purchases may result in overstated COGS. If so, this may result in underreported income for tax purposes during the Historical Period and/or prior periods.	NA – out of scope
Quality of Information	The Company's financial statements have not been audited by an independent accounting firm during the Historical Period. The risk exists that additional adjusting journal entries could have been identified had the Company been subject to a full financial statement audit, and these adjustments could have impacted EBITDA or NWC. In addition, certain adjustments made by the prior accountant could not be explained by Management and the new External Accountant. Notwithstanding, the evidence from the cash proof, payroll reconciliation, equity roll-forward and book-to-tax reconciliations, FAI recommends that the Client obtains representations and warranties that the historical financial statements are not misstated, and that the transaction is an asset (rather than stock) deal to reduce the risk of tax exposure from incorrectly submitted tax returns.	NA

Section 3: Quality of Earnings Analysis

Summary and Due Diligence Adjustments - Revenue

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	**A**	(2)	15	-
Accrued revenue	**B**	NQ	NQ	NQ
PPP income	**C**	(78)	-	-
Total revenue adjustments (+/-NQ)	**1**	(80)	15	-
Revenue, as adjusted		**$ 1,127**	**$ 1,136**	**$ 1,204**
Net income, as reported		**$ 407**	**$ 500**	**$ 518**
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		**$ 431**	**$ 500**	**$ 518**
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	**1**	(80)	15	-
Cash-to-accrual, payroll	**2**	(2)	(9)	(2)
AP accounting	**3**	91	-	(1)
Miscellaneous parts accounting	**4**	NQ	NQ	NQ
Cash-to-accrual, COGS	**5**	NQ	NQ	NQ
Gain on sale of assets	**6**	(5)	-	-
Terminated manager expense	**7**	-	21	37
Change in accrued PTO	**8**	NQ	NQ	NQ
FY20 year-end adjustment	**9**	NQ	-	-
Total adjustments (+/-NQ)		**$ 5**	**$ 27**	**$ 33**
EBITDA, as adjusted (+/-NQ)		**$ 435**	**$ 527**	**$ 551**
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

The schedule to the left presents a Quality of Earnings Analysis for the Historical Period. The adjusting items are discussed below and on the following pages.

Revenue adjustments

A. **Cash-to-accrual adjustment reversal**: The Company adjusts its reported revenue each year end from an accrual basis to a cash basis for income tax reporting purposes which are submitted on a cash basis. FAI reverses this adjustment for quality of earnings purposes so that the results are presented on an accrual basis.

B. **Accrued revenue**: As discussed in the Executive Summary, a portion of the Company's revenue is derived from ad hoc professional services. While the projects are typically short-duration (Management indicated approximately 80% are completed within a week), some span for several weeks to a couple months. Management noted that the vast majority of these ad hoc projects (essentially all other than the rare multi-month projects which are billed at least monthly) are recorded as revenue in the month the related work began, even if the period of performance straddled two months; accordingly, some revenue could be recognized early. Full accrual accounting would require the revenue associated with work performed the following month to be accrued to the balance sheet at current month-end and amortized to revenue the following month. Implementing such an adjustment would require an invoice-level analysis across the Historical Period (a level of effort which is beyond the scope of this engagement). Additionally, such adjustment is unlikely to result in a significant difference to the annual revenue figures, as the business is relatively consistent period-to-period (i.e., accruals which effectively move revenue into the following month are likely to be significantly similar in volume to amortizations brining revenue in from the prior month resulting in limited net change). Consequently, FAI flagged this dynamic as a non-quantified adjustment only.

C. **PPP income**: The Company received approximately $78 through the US Small Business Administration's Paycheck Protection Program in May 2020 in conjunction with the COVID 19 pandemic. Management represented this loan was fully forgiven in March 2021 (but had been recorded as revenue in May 2020). FAI excluded this amount as it is a non-recurring income.

Due Diligence Adjustments - Expenses

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	**A**	(2)	15	-
Accrued revenue	**B**	NQ	NQ	NQ
PPP income	**C**	(78)	-	-
Total revenue adjustments (+/-NQ)	**1**	(80)	15	-
Revenue, as adjusted		**$ 1,127**	**$ 1,136**	**$ 1,204**
Net income, as reported		**$ 407**	**$ 500**	**$ 518**
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		**$ 431**	**$ 500**	**$ 518**
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	**1**	(80)	15	-
Cash-to-accrual, payroll	**2**	(2)	(9)	(2)
AP accounting	**3**	91	-	(1)
Miscellaneous parts accounting	**4**	NQ	NQ	NQ
Cash-to-accrual, COGS	**5**	NQ	NQ	NQ
Gain on sale of assets	**6**	(5)	-	-
Terminated manager expense	**7**	-	21	37
Change in accrued PTO	**8**	NQ	NQ	NQ
FY20 year-end adjustment	**9**	NQ	-	-
Total adjustments (+/-NQ)		**$ 5**	**$ 27**	**$ 33**
EBITDA, as adjusted (+/-NQ)		**$ 435**	**$ 527**	**$ 551**
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments

1. **Total revenue adjustments**: Refer to revenue adjustments for related narrative.

2. **Cash-to-accrual, payroll**: The Company records payroll expense on a cash basis. Payroll is disbursed every other Friday for the 14-day work period ended the prior Friday. This adjustment reflects the EBITDA impact of converting the payroll expense from a cash basis to an accrual basis. Note, as shown below, FAI included an estimated payroll tax impact of this adjustment as well (estimated as 7.65% of pre-fringe impact amount).

Payroll Cash-to-Accrual Adjustment

in $000s	FY20	FY21	LTM Apr-22
Payroll expense, cash basis	336	346	395
Payroll expense, accrual basis	338	354	397
Implied EBITDA impact, pre-fringe	(2)	(8)	(2)
Estimated payroll tax impact	(0)	(1)	(0)
Implied EBITDA impact	**$ (2)**	**$ (9)**	**$ (2)**

Due Diligence Adjustments – Expenses (Continued)

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		$ 1,207	$ 1,122	$ 1,204
Cash-to-accrual adjustment reversal	A	(2)	15	-
Accrued revenue	B	NQ	NQ	NQ
PPP income	C	(78)	-	-
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Revenue, as adjusted		$ 1,127	$ 1,136	$ 1,204
Net income, as reported		$ 407	$ 500	$ 518
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		$ 431	$ 500	$ 518
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Cash-to-accrual, payroll	2	(2)	(9)	(2)
AP accounting	3	91	-	(1)
Miscellaneous parts accounting	4	NQ	NQ	NQ
Cash-to-accrual, COGS	5	NQ	NQ	NQ
Gain on sale of assets	6	(5)	-	-
Terminated manager expense	7	-	21	37
Change in accrued PTO	8	NQ	NQ	NQ
FY20 year-end adjustment	9	NQ	-	-
Total adjustments (+/-NQ)		$ 5	$ 27	$ 33
EBITDA, as adjusted (+/-NQ)		$ 435	$ 527	$ 551
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments (continued)

3. **AP accounting**: As discussed in the Executive Summary section (Key Findings table), the Company's AP-related accounting may result in duplicative COGS entries. Essentially, the Company records COGS associated with certain product purchases both at the time of payment for the product and at the time the product resale is invoiced. This accounting results in AP building throughout the year, then being cleared out with an adjustment at year-end. The Dec-20 adjustment was entered by the prior external accountant and reclassified the $91 AP balance to offset an asset account (due from owner) rather than reducing COGS. Similar adjustments were recorded in Dec-21 and Mar-22 (by the current external Accountant) but offset the clearing of AP against COGS (i.e., reduced AP to the proper zero balance and reduced COGS proportionately). The related impacts are summarized below.

AP Accounting Detail

in $000s	FY20	FY21	LTM Apr-22
BoP AP balance, as reported	-	-	4
New purchases	91	82	89
Payments via CC	-	(20)	(1)
Cleared as credit to due from owner	(91)	-	-
Cleared as credit to COGS	-	(62)	(89)
EoP AP balance, as reported	**$ -**	**$ -**	**$ 3**
COGS adjustment, as reported	-	(62)	(89)
COGS adjustment, as adjusted	(91)	(62)	(88)
Implied EBITDA impact	**$ 91**	**$ -**	**$ (1)**

- **New purchases**: Products purchased for resale.
- **Payments via CC**: There were a few instances in FY21 where the Company was correctly accounting for AP (i.e., items were not expensed to COGS at the time of purchase, but rather properly recorded to inventory and AP and subsequently relieved from AP with a credit card payment).
- **Cleared as credit to due from owner**: Dec-20 adjustment which zeroed AP and reduced the due from owner asset balance.
- **Cleared as credit to COGS**: Dec-21 and Mar-22 adjustment which zeroed AP and reduced COGS.

Due Diligence Adjustments – Expenses (Continued)

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	A	(2)	15	-
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Adjustments				
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Cash-to-accrual, payroll	2	(2)	(9)	(2)
AP accounting	3	91	-	(1)
Miscellaneous parts accounting	4	NQ	NQ	NQ
Cash-to-accrual, COGS	5	NQ	NQ	NQ
Gain on sale of assets	6	(5)	-	-
Terminated manager expense	7	-	21	37
Change in accrued PTO	8	NQ	NQ	NQ
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% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments (continued)

3. AP accounting (continued)

AP Accounting Detail

in $000s	FY20	FY21	LTM Apr-22
BoP AP balance, as reported	-	-	4
New purchases	91	82	89
Payments via CC	-	(20)	(1)
Cleared as credit to due from owner	(91)	-	-
Cleared as credit to COGS	-	(62)	(89)
EoP AP balance, as reported	**$ -**	**$ -**	**$ 3**
COGS adjustment, as reported	-	(62)	(89)
COGS adjustment, as adjusted	(91)	(62)	(88)
Implied EBITDA impact	**$ 91**	**$ -**	**$ (1)**

- **COGS adjustment, as reported**: As illustrated by the blue arrows, this matches the previously noted "cleared as credit to COGS" amount. It reflects the impact to COGS in the reported financials.
- **COGS adjustment, as adjusted**: Reflects what would have been reported had (i) the Dec-20 adjustment been offset to COGS as opposed to due from owner; (ii) the adjustments been made monthly as opposed to only at Dec-20, Dec-21, and Mar-21; and (iii) an analogous adjustment been made in April 2022.

As previously noted, definitively confirming Management's representation that the accounting has led to duplicated COGS would require review of both vendor purchase orders customer invoices throughout the Historical Period (a level of effort which is beyond the scope of this engagement). That said, comparing the gross margin implied on product sales based on the reported COGS to that based on adjusted COGS supports Management's representation. As shown below, the gross margin implied by the reported COGS is unreasonable in FY20 (Management indicated it marks-up all product sales).

Adjusted Product Gross Margin

in $000s	FY20	FY21	LTM Apr-22
COGS, as reported	215	84	94
Adjustments	(91)	-	1
COGS, as adjusted	**$ 123**	**$ 84**	**$ 96**
Product revenue	151	132	148
Gross margin on product revenue, as reported	**(43%)**	**36%**	**36%**
Gross margin on product revenue, as adjusted	**18%**	**36%**	**35%**

Due Diligence Adjustments – Expenses (Continued)

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	A	(2)	15	-
Accrued revenue	B	NQ	NQ	NQ
PPP income	C	(78)	-	-
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Revenue, as adjusted		**$ 1,127**	**$ 1,136**	**$ 1,204**
Net income, as reported		**$ 407**	**$ 500**	**$ 518**
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		**$ 431**	**$ 500**	**$ 518**
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Cash-to-accrual, payroll	2	(2)	(9)	(2)
AP accounting	3	91	-	(1)
Miscellaneous parts accounting	4	NQ	NQ	NQ
Cash-to-accrual, COGS	5	NQ	NQ	NQ
Gain on sale of assets	6	(5)	-	-
Terminated manager expense	7	-	21	37
Change in accrued PTO	8	NQ	NQ	NQ
FY20 year-end adjustment	9	NQ	-	-
Total adjustments (+/-NQ)		**$ 5**	**$ 27**	**$ 33**
EBITDA, as adjusted (+/-NQ)		**$ 435**	**$ 527**	**$ 551**
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments (continued)

4. **Miscellaneous parts accounting**: As discussed in the Executive Summary section (Key Findings table), a similar dynamic as described previously for AP accounting also manifests when the Company purchases miscellaneous products which are not run through the inventory module within QuickBooks. In this situation the Company purchases a miscellaneous product for which no individual SKU or inventory item is maintained within QuickBooks (for example, bulk cable). The initial entry is to record the purchase as a COGS expense and the payment as either a reduction to cash or an increase to credit card liability, depending on the form of payment. When the miscellaneous product is then utilized in a project, a related line item is included on the invoice which triggers a reduction to inventory and an equal amount of COGS expense. Because the item was never added to inventory in the first place, this deduction results in an understated inventory balance*. Similarly, because the miscellaneous product is expensed to COGS at the time of original purchase, and then again at the time of invoice, COGS is overstated.

   Unlike the previously discussed adjustments to AP, the Company made no adjustments to the financial statements in relation to this issue. FAI requested but did not receive additional information allowing us to quantify a related adjustment. Full quantification of this issue would again require a review of all related vendor purchase orders and customer invoices throughout the Historical Period (beyond the scope of this engagement). That said, this is unlikely to have a significant impact given it would only manifest in relation to miscellaneous products deemed not to be significant enough to explicitly include in inventory. Additionally, this would most likely result in an EBITDA pickup (as duplicative COGS would be removed), thus the risk of adjusted EBITDA being overstated is limited. Nevertheless, FAI flagged this as a non-quantified adjustment and recommend that the Client consider modifying the related accounting upon acquisition.

*Note: This dynamic, paired with the generally low level of inventory required (Company stocks only a select few items; others are purchased only in relation to specific projects and deployed almost immediately), results in inventory balance sometimes reflecting a credit (i.e., negative) balance. Reported inventory has ranged from ($11) to $8 over the Historical Period. Refer to Appendix A.12.

Due Diligence Adjustments – Expenses (Continued)

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	A	(2)	15	-
Accrued revenue	B	NQ	NQ	NQ
PPP income	C	(78)	-	-
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Revenue, as adjusted		**$ 1,127**	**$ 1,136**	**$ 1,204**
Net income, as reported		**$ 407**	**$ 500**	**$ 518**
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		**$ 431**	**$ 500**	**$ 518**
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Cash-to-accrual, payroll	2	(2)	(9)	(2)
AP accounting	3	91	-	(1)
Miscellaneous parts accounting	4	NQ	NQ	NQ
Cash-to-accrual, COGS	5	NQ	NQ	NQ
Gain on sale of assets	6	(5)	-	-
Terminated manager expense	7	-	21	37
Change in accrued PTO	8	NQ	NQ	NQ
FY20 year-end adjustment	9	NQ	-	-
Total adjustments (+/-NQ)		**$ 5**	**$ 27**	**$ 33**
EBITDA, as adjusted (+/-NQ)		**$ 435**	**$ 527**	**$ 551**
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments (continued)

5. **Cash-to-accrual, COGS**: While FAI were able to adjust the payroll-related COGS from cash-basis to accrual basis, FAI is unable to quantify an analogous adjustment in relation to material COGS. That is, because of the aforementioned issues with the AP and miscellaneous parts accounting, it is likely that some amount of timing adjustment is required for the material COGS. That said, given the relatively small and consistent amounts of product COGS, the potential timing adjustments are unlikely to result in a significant adjustment. FAI has included a non-quantified adjustment for this dynamic.

6. **Gain on sale of assets**: [Owner] and [Owner's Spouse] (who is an administrative employee at the Company) utilize the two Company-owned cars as their personal vehicles. In FY20 one of the cars was traded in at a dealership and replaced. This resulted in a $5 gain. FAI exclude this profit as non-operational.

7. **Terminated manager expense**: [Owner] hired a manager on a test basis. He explained that this action did not have the desired effect of increasing operational efficiency / productivity and, in fact, impacted these categories deleteriously. This employee was hired in October 2021 and terminated in March 2022. FAI exclude the associated compensation expense (including the related fringe expense amounts) as non-recurring.

8. **Change in accrued PTO**: Employees are eligible for 80-120 hours per year of paid time off ("PTO") based on tenure (80 hours for employees with up to three years of tenure; 120 hours for four or more years with the Company). [Owner] indicated employees are allowed to roll unused PTO balances from one year to the next and that unused amounts are paid out upon termination. Employees earn PTO on a straight-line basis throughout the year, however the Company does not accrue any related expense or maintain a related liability. Based on Management's representation that employees regularly utilize their PTO balances and FAI's review of the PTO balances as of April 30, 2022 (approximately $2, refer to the Debt and Debt-Like Analysis in Appendix A for quantification of the off balance sheet liability as of April 30, 2022), FAI does not believe accruing the PTO expense over the Historical Period would result in a significant adjustment. That said, FAI included a non-quantified adjustment and recommend the Client consider accruing related amounts upon acquisition.

Due Diligence Adjustments – Expenses (Continued)

Quality of Earnings Analysis

in $000s	Ref.	FY20	FY21	LTM Apr-22
Revenue, as reported		**$ 1,207**	**$ 1,122**	**$ 1,204**
Cash-to-accrual adjustment reversal	A	(2)	15	-
Accrued revenue	B	NQ	NQ	NQ
PPP income	C	(78)	-	-
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Revenue, as adjusted		**$ 1,127**	**$ 1,136**	**$ 1,204**
Net income, as reported		**$ 407**	**$ 500**	**$ 518**
Income tax expense/(benefit)		-	-	-
Depreciation expense		23	-	-
Interest expense/(income)		-	-	-
EBITDA, as reported		**$ 431**	**$ 500**	**$ 518**
% of reported revenue		*35.7%*	*44.6%*	*43.0%*
Adjustments				
Total revenue adjustments (+/-NQ)	1	(80)	15	-
Cash-to-accrual, payroll	2	(2)	(9)	(2)
AP accounting	3	91	-	(1)
Miscellaneous parts accounting	4	NQ	NQ	NQ
Cash-to-accrual, COGS	5	NQ	NQ	NQ
Gain on sale of assets	6	(5)	-	-
Terminated manager expense	7	-	21	37
Change in accrued PTO	8	NQ	NQ	NQ
FY20 year-end adjustment	9	NQ	-	-
Total adjustments (+/-NQ)		**$ 5**	**$ 27**	**$ 33**
EBITDA, as adjusted (+/-NQ)		**$ 435**	**$ 527**	**$ 551**
% of adjusted revenue		*38.6%*	*46.4%*	*45.8%*

Diligence adjustments (continued)

9. **FY20 year-end adjusting entry**: The former external accounting group made a year-end journal entry at Dec-20. As shown below, the majority of the entry relates to closing distributions to retained earnings; however, there are numerous other components impacting both the income statement and the balance sheet. Neither Management nor the current external Accountant were able to provide further detail or narrative on this entry. As such, FAI are unable to determine if this entry requires adjustment and, consequently, reflect a non-quantified adjustment.

FY20 Year-End Adjusting Journal Entry

in $000s	Act. Type	Debit	Credit
C.O.S.- Payroll Taxes	Expense	23	-
Officer Health Insurance	Expense	17	-
Payroll Taxes	Expense	-	12
Payroll Expenses(misc)	Expense	2	-
Due From Stockholder	Asset	449	-
Inventory Asset	Asset	3	-
Sales Tax Payable	Liability	-	2
Futa Tax Payable	Liability	-	0
Suta Tax Payable	Liability	-	0
Chase Biz Credit Card	Liability	0	-
Distributions	Equity	-	478
Totals		**$ 493**	**$ 493**

Note there were a couple other instances of journal entries made by the prior accounting group which could not be explained by Management or the current external Accountant. Given the substantially smaller magnitude (under $4) FAI did not further consider.

Section 4: Income Statement Overview

4. Income Statement Overview
Analysis of Income Statement

Summary Income Statements

in $000s	FY20	FY21	LTM Apr-22	% of revenue FY20	% of revenue FY21	% of revenue LTM Apr-22
Income	1,205	1,137	1,204	100%	101%	100%
Accrual to Cash Adj	2	(15)	-	0%	(1%)	-
Returns, Allowances & Discounts	-	(1)	-	-	(0%)	-
Total revenue	**$ 1,207**	**$ 1,122**	**$ 1,204**	**100%**	**100%**	**100%**
C.O.S. Production Wages	173	205	256	14%	18%	21%
Cost of Goods Sold	215	84	94	18%	8%	8%
Software	35	35	34	3%	3%	3%
Employee Mileage Reimb	4	6	6	0%	0%	1%
Contract Labor	38	6	5	3%	1%	0%
Employee Benefits -Meals, Other	4	3	2	0%	0%	0%
C.O.S. Supplies	3	0	1	0%	0%	0%
C.O.S.- Payroll Taxes	23	0	-	2%	0%	-
Merchant Fees	1	-	-	0%	-	-
Sales Tax Paid	1	(1)	(1)	0%	(0%)	(0%)
Total COGS	**$ 496**	**$ 339**	**$ 397**	**41%**	**30%**	**33%**
Gross Profit	**$ 710**	**$ 783**	**$ 808**	**59%**	**70%**	**67%**
Officer Salary	107	107	107	9%	10%	9%
Payroll Taxes	13	27	31	1%	2%	3%
Office Wages	55	17	20	5%	2%	2%
Employee Medical Insurance	13	18	17	1%	2%	1%
Payroll Expenses(misc)	-	17	12	-	2%	1%
Officer Health Insurance	17	4	3	1%	0%	0%
Payroll Wages and related - Other	-	-	3	-	-	0%
Total Payroll Wages and related	204	190	194	17%	17%	16%
Rent or Lease	42	42	42	3%	4%	3%
Professional services	1	16	17	0%	1%	1%
Telephone Expense	6	7	6	1%	1%	1%
Utilities	3	5	6	0%	0%	1%
Total Auto	3	5	6	0%	0%	0%
Internet Access	5	5	5	0%	0%	0%
Office Expenses	2	4	6	0%	0%	0%
Repair Maintenance	0	1	3	0%	0%	0%
Insurance Business	6	3	2	1%	0%	0%
Postage	2	1	2	0%	0%	0%
Advertising	2	1	1	0%	0%	0%
Licenses & Fees	0	1	1	0%	0%	0%
Bank Charges	1	0	0	0%	0%	0%
Travel	2	0	0	0%	0%	0%
Printing	-	-	0	-	-	0%
Bank Service Charges	-	0	-	-	0%	-
Uniforms	-	0	-	-	0%	-
Property Taxes	4	-	-	0%	-	-
Total operating expenses	**$ 284**	**$ 283**	**$ 289**	**24%**	**25%**	**24%**
Gain On Sale Assets	(5)	-	-	(0%)	-	-
Depreciation	23	-	-	2%	-	-
Net other (income)/expense	19	-	-	2%	-	-
Net Income	**$ 407**	**$ 500**	**$ 518**	**34%**	**45%**	**43%**

The schedule to the left presents the Company's summary income statements for the Historical Period. Refer to Appendix A for select account detail as well as a bridge from as reported income statements to as adjusted income statements. Additional commentary available in the FAI databook.

Section 5: Balance Sheet Overview

5. Balance Sheet Overview

Summary Balance Sheets

in $000s	Dec-20	Dec-21	Apr-22
Checking Chase	4	14	85
Accounts Receivable	89	105	122
Accts Rec - Contra	(90)	(105)	-
Due From Stockholder	357	-	0
Inventory Asset	5	4	(1)
Undeposited Funds	46	7	-
Total Current Assets	**$ 410**	**$ 25**	**$ 206**
Office Equipment	9	9	9
Vehicles	46	46	46
X-Accum Deprec Office Eqt	(9)	(9)	(9)
X-Accum Deprec Vehicle	(46)	(46)	(46)
Fixed assets, net	-	-	-
Total assets	**$ 410**	**$ 25**	**$ 206**
Accounts Payable	-	-	3
Chase Biz Credit Card	-	(0)	7
Total Payroll Taxes Payable	0	0	0
Sales Tax Payable	1	1	2
Total current liabilities	1	0	12
Total liabilities	**$ 1**	**$ 0**	**$ 12**
Common Stock	1	1	1
Distributions	-	(886)	(98)
Retained Earnings	1	410	23
Net Income	407	500	269
Total equity	**$ 409**	**$ 24**	**$ 195**
Total liabilities and equity	**$ 410**	**$ 25**	**$ 206**

The schedule to the left presents the Company's summary balance sheets at the Historical Balance Sheet Dates. Refer to Appendix A for select account detail. Additional commentary available in the FAI databook.

Appendix A: Supplemental Financial Information

A.1 Cash Proof - FY20 and 16 Months Ended April 2022

Proof of Cash Analysis

Cash Inflow Analysis

in $000s	FY20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	Total
Revenue	1,207	172	109	71	89	87	57	106	102	112	100	103	15	204	98	109	113	2,852
Gain on sale of assets	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Due from owner - inflow-related	(5)	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	0
(Inc)/dec in AR	4	11	(6)	38	(3)	(9)	16	(30)	(2)	(22)	18	(13)	(11)	(18)	(19)	13	8	(29)
(Inc)/dec in AR contra	(2)	(90)	-	-	-	-	-	-	-	-	-	-	105	(105)	-	-	-	(92)
(Inc)/dec in undeposited funds	(44)	64	(19)	(2)	2	(0)	0	-	(2)	2	0	(1)	(6)	7	-	-	-	2
Sales tax collection	10	0	1	0	0	1	0	1	1	2	1	1	1	0	0	2	2	25
Expected Cash Inflows	**$ 1,175**	**$ 157**	**$ 85**	**$ 108**	**$ 88**	**$ 79**	**$ 73**	**$ 76**	**$ 98**	**$ 93**	**$ 119**	**$ 90**	**$ 109**	**$ 88**	**$ 79**	**$ 124**	**$ 122**	**$ 2,762**
Deposits, per bank statements	1,176	139	103	108	80	87	73	76	98	90	122	90	99	97	79	126	132	2,776
Variance	**$ 1**	**$ (18)**	**$ 18**	**$ 0**	**$ (8)**	**$ 8**	**$ 0**	**$ 0**	**$ 0**	**$ (3)**	**$ 3**	**$ -**	**$ (9)**	**$ 9**	**$ -**	**$ 2**	**$ 10**	**$ 13**
as a % of expectations	*0.1%*	*(11.7%)*	*21.6%*	*0.0%*	*(9.4%)*	*10.0%*	*0.4%*	*0.1%*	*0.1%*	*(3.4%)*	*2.7%*	*-*	*(8.6%)*	*10.6%*	*-*	*1.8%*	*7.9%*	*0.5%*

Cash Outflow Analysis

in $000s	FY20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	Total
COGS	496	23	23	21	31	23	17	33	36	43	56	44	(9)	41	42	34	38	990
Opex	284	19	19	26	30	20	21	23	17	23	32	24	30	19	20	27	34	667
(Inc)/dec in AP	-	(2)	1	(2)	(1)	(1)	(1)	(0)	(13)	(12)	(14)	(10)	55	(5)	(1)	6	(3)	(3)
Inc/(dec) in inventory asset	3	1	(0)	1	(0)	(3)	(0)	(1)	2	1	2	(1)	(2)	1	(3)	1	(4)	(3)
Capex	23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23
(Inc)/dec in credit card payable	0	(6)	(1)	3	(4)	6	1	(9)	3	(7)	2	2	12	(1)	(8)	(12)	13	(7)
(Inc)/dec in direct deposit liabilities	-	-	-	-	-	-	-	-	-	12	(12)	-	-	-	-	11	(11)	-
(Inc)/dec in payroll liabilities	-	-	-	-	(1)	1	(0)	-	-	-	-	-	0	-	-	-	-	-
(Inc)/dec in payroll tax payables	(0)	0	(0)	3	(3)	(0)	(0)	(0)	0	4	(4)	(0)	(0)	5	(5)	4	(3)	(0)
Sales tax remittance	11	1	0	1	1	1	1	1	0	1	1	2	2	1	1	1	1	25
Due from owner - outflow-related	(96)	100	0	81	30	54	0	54	54	0	105	0	(831)	-	-	-	0	(449)
Year-end adjustment to RE	(32)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(32)
"Write-off pennies" JE	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0)
Shareholder distributions	481	-	-	-	-	-	-	-	-	-	-	-	886	19	0	79	-	1,466
COGS direct to RE	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)
Change in book-to-bank variance	42	20	(18)	(4)	13	(8)	(0)	(1)	0	(0)	1	(0)	(6)	(4)	11	1	(6)	39
Expected Cash Outflows	**$ 1,214**	**$ 153**	**$ 24**	**$ 129**	**$ 95**	**$ 92**	**$ 37**	**$ 98**	**$ 100**	**$ 64**	**$ 170**	**$ 59**	**$ 136**	**$ 77**	**$ 56**	**$ 152**	**$ 57**	**$ 2,716**
Withdrawals, per bank statements	1,215	135	42	129	87	100	37	98	100	61	174	59	127	86	56	154	67	2,730
Variance	**$ 1**	**$ (18)**	**$ 18**	**$ 0**	**$ (8)**	**$ 8**	**$ 0**	**$ 0**	**$ 0**	**$ (3)**	**$ 3**	**$ -**	**$ (9)**	**$ 9**	**$ -**	**$ 2**	**$ 10**	**$ 13**
as a % of expectations	*0.1%*	*(11.9%)*	*77.6%*	*0.0%*	*(8.7%)*	*8.6%*	*0.8%*	*0.1%*	*0.1%*	*(5.0%)*	*1.9%*	*-*	*(6.8%)*	*12.1%*	*-*	*1.5%*	*16.9%*	*0.5%*

A.2 Payroll Reconciliation – FY20 and FY21

Payroll Reconciliation

in $000s	[A] Comp per GL FY20	[A] Comp per GL FY21	[B] Pre-Tax Health FY20	[B] Pre-Tax Health FY21	[C = A - B] Implied Taxable FY20	[C = A - B] Implied Taxable FY21	[D] Comp per W-2s FY20	[D] Comp per W-2s FY21	[E = C - D] Variance FY20	[E = C - D] Variance FY21
[Employee 1]	107	107	-	-	107	107	107	107	-	-
[Employee 2]	49	63	(5)	(5)	45	58	45	58	-	-
[Employee 3]	12	23	-	-	12	23	12	23	-	-
[Employee 4]	-	20	-	(0)	-	19	-	19	-	-
[Employee 5]	-	18	-	-	-	18	-	18	-	-
[Employee 6]	-	17	-	-	-	17	-	17	-	-
[Employee 7]	-	17	-	(0)	-	17	-	17	-	-
[Employee 8]	-	16	-	-	-	16	-	16	-	-
[Employee 9]	-	16	-	(0)	-	16	-	16	-	-
[Employee 10]	-	15	-	-	-	15	-	15	-	-
[Employee 11]	-	7	-	-	-	7	-	7	-	-
[Employee 12]	46	7	-	-	46	7	46	7	-	-
[Employee 13]	11	5	-	-	11	5	11	5	-	-
[Employee 14]	10	3	(0)	-	10	3	10	3	-	-
[Employee 15]	-	3	-	-	-	3	-	3	-	-
[Employee 16]	-	3	-	-	-	3	-	3	-	-
[Employee 17]	-	3	-	-	-	3	-	3	-	-
[Employee 18]	-	2	-	-	-	2	-	2	-	-
[Employee 19]	-	2	-	-	-	2	-	2	-	-
[Employee 20]	53	-	(5)	-	48	-	48	-	-	-
[Employee 21]	17	-	(4)	-	13	-	13	-	-	-
[Employee 22]	12	-	-	-	12	-	12	-	-	-
[Employee 23]	11	-	-	-	11	-	11	-	-	-
[Employee 24]	6	-	(1)	-	5	-	5	-	-	-
[Employee 25]	2	-	-	-	2	-	2	-	-	-
[Employee 26]	1	-	-	-	1	-	1	-	-	-
[Employee 27]	1	-	-	-	1	-	1	-	-	-
Totals	**$ 336**	**$ 346**								
breakout by P&L account										
C.O.S. Production Wages	*173*	*205*								
Officer Salary	*107*	*107*								
Office Wages	*55*	*17*								
Payroll Expenses(misc)	*-*	*17*								

The schedule to the left presents a reconciliation between payroll expense reported on the income statements and payroll disbursements reported on the W-2 filings for FY20 and FY21.

Note, the monthly headcount (including [Owner]) has averaged approximately six employees (and primarily ranged from four to eight employees) over the Historical Period.

As of Apr-22 there were six employees (four technical full-time employees, [Owner], and [Owner’s Spouse] who provides part-time administrative assistance).

Turnover has been relatively high (e.g., monthly headcount has averaged approximately six, but there have been 27 discrete employees over the Historical Period).

Average hourly wage has remained relatively stable over the Historical Period at approximately $30 per hour (actual $s).

Appendix A: Supplemental Financial Information
A.3 Equity Roll-Forward – FY20, FY21 and YTD 4/22

Equity Roll-forward

$ in 000s	Total	Ref.
Equity as of December 31, 2019	**$ 5**	
Net income	407	
Distributions	(481)	
Year-end FY20 adjusting journal entry	478	**1**
Equity as of December 31, 2020	**$ 409**	
Net income	500	
Distributions	(538)	
Infusion (to cover year-end payroll)	5	**2**
May-21 adjusting journal entry	4	**3**
Write-off prior period due from owner to equity	(357)	**4**
Prior period adjustment	1	**5**
Equity as of December 31, 2021	**$ 24**	
Net income	269	
Distributions	(98)	
Equity as of April 30, 2022	**$ 195**	

The schedule to the left presents an equity roll-forward across the Historical Period. Some notable commentary is provided below.

1. **Year-end FY20 adjusting journal entry**: As discussed in the Quality of Earnings Analysis section, the prior external accounting group posted a year-end journal entry which impacted a number of accounts on the income statement and balance sheet. The $478 shown to the left reflects this journal entry's impact to equity. As detailed in the related adjustment in the Quality of Earnings Analysis, this is primarily offset as an increase to the due from owner asset.

2. **Infusion:** [Owner] indicated he had to deposit $5 to the Company's bank account in order to cover a payroll in December 2021.

3. **May-21 adjusting journal entry**: In a similar situation as described in #1, above, the former external accounting group made a journal entry which impacted retained earnings. Neither Management, nor the current Accountant was able to articulate the nature of this entry. Given the relative insignificance FAI did not further investigate.

4. **Write-off prior period due from owner**: The current Accountant posted an entry to clear out the due from owner account as of Dec-21. The offset to this was retained earnings. The due from owner account has not been utilized since that clearing entry in Dec-21.

5. **Prior period adjustment**: As discussed in the Quality of Earnings Analysis section, the Company records a reversing journal entry each year-end to restate the revenue from an accrual basis to a cash basis (for income tax preparation purposes). The current Accountant determined that the FY20 accrual-to-cash adjustment was incorrect by $1, and posted an adjusting journal entry to retained earnings. Given the relative insignificance FAI did not further investigate.

A.4 Book-to-Tax Net Income Reconciliation – FY20 and FY21

Reconciliation to Tax Return

in $000s	FY20	FY21
Net income as reported in QuickBooks	**$ 407**	**$ 500**
(plus) COGS to retained earnings	-	1
(less) Increase in AR	2	(1)
(less) Decrease in AP	-	-
Additional variance (rounding)	(0)	0
Net income per books reported on tax return	**$ 410**	**$ 500**

FY20 Tax Return

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Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books	409,601	5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		a	Tax-exempt interest $	0
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14p (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 14p, not charged against book income this year (itemize):	
a	Depreciation $		a	Depreciation $	0
b	Travel and entertainment $		7	Add lines 5 and 6	0
	See Attached Statement 16,569	16,569	8	Income (loss) (Schedule K, line 18). Subtract line 7 from line 4	426,170
4	Add lines 1 through 3	426,170			

FY21 Tax Return

Form 1120-S (2021) Page **5**

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: The corporation may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books	500,063.	5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		a	Tax-exempt interest $	
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 16f (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 16f, not charged against book income this year (itemize):	
a	Depreciation $		a	Depreciation $	
b	Travel and entertainment $ 1,657.		7	Add lines 5 and 6	
	[illegible] 16,828.	18,485.	8	Income (loss) (Schedule K, line 18). Subtract line 7 from line 4	518,548.
4	Add lines 1 through 3	518,548.			

Appendix A: Supplemental Financial Information

A.5 Adjusted Income Statements – FY20, FY21 and LTM April-22

Reconciliation to Adjusted Income Statements

in $000s	As Reported FY20	As Reported FY21	As Reported LTM Apr-22	Adjustments FY20	Adjustments FY21	Adjustments LTM Apr-22	As Adjusted FY20	As Adjusted FY21	As Adjusted LTM Apr-22
Income	1,205	1,137	1,204	(78)	-	-	1,127	1,137	1,204
Accrual to Cash Adj	2	(15)	-	(2)	15	-	-	-	-
Returns, Allowances & Discounts	-	(1)	-	-	-	-	-	(1)	-
Total revenue	**$ 1,207**	**$ 1,122**	**$ 1,204**	**$ (80)**	**$ 15**	**$ -**	**$ 1,127**	**$ 1,136**	**$ 1,204**
C.O.S. Production Wages	173	205	256	(0)	(10)	(32)	173	194	224
Cost of Goods Sold	215	84	94	(91)	-	1	123	84	96
Software	35	35	34	-	-	-	35	35	34
Employee Mileage Reimb	4	6	6	-	(0)	(0)	4	6	6
Contract Labor	38	6	5	-	-	-	38	6	5
Employee Benefits -Meals, Other	4	3	2	-	-	-	4	3	2
C.O.S. Supplies	3	0	1	-	-	-	3	0	1
C.O.S.- Payroll Taxes	23	0	-	-	-	-	23	0	-
Merchant Fees	1	-	-	-	-	-	1	-	-
Sales Tax Paid	1	(1)	(1)	-	-	-	1	(1)	(1)
Total COGS	**$ 496**	**$ 339**	**$ 397**	**$ (92)**	**$ (10)**	**$ (31)**	**$ 405**	**$ 328**	**$ 366**
Gross Profit	**$ 710**	**$ 783**	**$ 808**	**$ 11**	**$ 25**	**$ 31**	**$ 722**	**$ 808**	**$ 838**
as a % of revenue	*59%*	*70%*	*67%*	*(14%)*	*171%*	*-*	*64%*	*71%*	*70%*
Officer Salary	107	107	107	1	0	0	107	107	107
Payroll Taxes	13	27	31	0	(1)	(3)	13	26	28
Office Wages	55	17	20	0	(0)	(1)	55	17	19
Employee Medical Insurance	13	18	17	-	0	2	13	18	19
Payroll Expenses(misc)	-	17	12	1	(1)	(0)	1	16	12
Officer Health Insurance	17	4	3	-	-	-	17	4	3
Payroll Wages and related - Other	-	-	3	-	-	-	-	-	3
Total Payroll Wages and related	204	190	194	2	(2)	(2)	206	189	192
Rent or Lease	42	42	42	-	-	-	42	42	42
Professional services	1	16	17	-	-	-	1	16	17
Telephone Expense	6	7	6	-	(0)	(0)	6	7	6
Utilities	3	5	6	-	-	-	3	5	6
Total Auto	3	5	6	-	-	-	3	5	6
Internet Access	5	5	5	-	-	-	5	5	5
Office Expenses	2	4	6	-	-	-	2	4	6
Repair Maintenance	0	1	3	-	-	-	0	1	3
Insurance Business	6	3	2	-	-	-	6	3	2
Postage	2	1	2	-	-	-	2	1	2
Advertising	2	1	1	-	-	-	2	1	1
Licenses & Fees	0	1	1	-	-	-	0	1	1
Bank Charges	1	0	0	-	-	-	1	0	0
Travel	2	0	0	-	-	-	2	0	0
Printing	-	-	0	-	-	-	-	-	0
Bank Service Charges	-	0	-	-	-	-	-	0	-
Uniforms	-	0	-	-	-	-	-	0	-
Property Taxes	4	-	-	-	-	-	4	-	-
Total operating expenses	**$ 284**	**$ 283**	**$ 289**	**$ 2**	**$ (2)**	**$ (2)**	**$ 287**	**$ 281**	**$ 287**
Gain On Sale Assets	(5)	-	-	5	-	-	-	-	-
Depreciation	23	-	-	(23)	-	-	-	-	-
Net other (income)/expense	19	-	-	(19)	-	-	-	-	-
Net Income	**$ 407**	**$ 500**	**$ 518**	**$ 28**	**$ 27**	**$ 33**	**$ 435**	**$ 527**	**$ 551**
as a % of revenue	*34%*	*45%*	*43%*	*(35%)*	*185%*	*-*	*39%*	*46%*	*46%*

The schedule to the left presents a walk through from as reported income statement amounts to adjusted income statement amounts. Note, the "as adjusted" net income is equivalent to the diligence adjusted EBITDA. Refer to the Quality of Earnings Analysis section for additional detail on the adjustments.

Appendix A: Supplemental Financial Information

A.6 Revenue & Gross Profit Detail – FY20, FY21 and LTM Apr-22

Revenue and Gross Margin Detail

in $000s	FY20	FY21	LTM Apr-22
Monthly subscriptions	451	501	518
Ad hoc services	443	452	485
Product sales	151	132	148
Recurring products	75	49	51
PPP income	78	-	-
Misc. other	7	2	2
Income, as reported	1,205	1,137	1,204
Accrual to Cash Adj	2	(15)	-
Returns, Allowances & Discounts	-	(1)	-
Revenue, as reported	**$ 1,207**	**$ 1,122**	**$ 1,204**
(less) PPP income	(78)	-	-
(less) Accrual to Cash Adj	(2)	15	-
Revenue, as adjusted	**$ 1,127**	**$ 1,136**	**$ 1,204**
C.O.S. Production Wages	173	205	256
Cost of Goods Sold	215	84	94
Software	35	35	34
Employee Mileage Reimb	4	6	6
Contract Labor	38	6	5
Employee Benefits -Meals, Other	4	3	2
C.O.S. Supplies	3	0	1
C.O.S.- Payroll Taxes	23	0	-
Merchant Fees	1	-	-
Sales Tax Paid	1	(1)	(1)
COGS, as reported	**$ 496**	**$ 339**	**$ 397**
QoE adj #2 impact to C.O.S. Production Wages	(0)	9	2
QoE adj #7 impact to C.O.S. Production Wages	-	(19)	(34)
QoE adj #3 impact to Cost of Goods Sold	(91)	-	1
QoE adj #7 impact to Employee Mileage Reimb	-	(0)	(0)
COGS, as adjusted	**$ 405**	**$ 328**	**$ 366**
Gross profit, as adjusted	**$ 722**	**$ 808**	**$ 838**
gross margin, as adjusted	*64%*	*71%*	*70%*
Administrative contract labor	(28)	(1)	-
Est. incremental payroll tax allocation to direct	(5)	16	20
Est. health benefits allocation to direct	7	11	11
Implied direct cost addition (reduction)	(26)	25	31
Implied "contribution profit", as adjusted	**$ 748**	**$ 783**	**$ 808**
Implied "contribution margin", as adjusted	*66%*	*69%*	*67%*

The schedule to the left presents an analysis of gross profit after adjusting for the various impacts discovered during FAI's diligence. In addition to the cost adjustments discussed in the Quality of Earnings Analysis (and reflected through the gross profit, as adjusted amounts to the left), FAI has included some additional reallocations in an effort to present a more consistent view of profitability. Specifically, FY20 contract labor included $28 of expense associated with administrative assistance. The Company recorded all contract labor within COGS. Additionally, the Company has not consistently allocated payroll tax between COGS and operating expense; similarly, health benefit expense has been recorded entirely within operating expense. These dynamics are adjusted for and presented as "contribution profit" and "contribution margin" at the bottom of the figure to the left. These "contribution" metrics are presented here for reference only and do not appear elsewhere in this report.

An additional table detailing the relative revenue mix percentages is provided below.

Adjusted Revenue Mix by Type

				% of adjusted revenue		
in $000s	FY20	FY21	LTM Apr-22	FY20	FY21	LTM Apr-22
Monthly subscriptions	451	501	518	40%	44%	43%
Ad hoc services	443	452	485	39%	40%	40%
Product sales	151	132	148	13%	12%	12%
Other	82	51	53	7%	4%	4%
Revenue, as adjusted	**$ 1,127**	**$ 1,136**	**$ 1,204**	**100%**	**100%**	**100%**

The table below presents adjusted gross profit specific to the product sale revenue. Given the fungibility of labor expense between recurring monthly subscriptions and ad hoc professional services, FAI is unable to provide analogous tables for these revenue types.

Adjusted Product Gross Margin

in $000s	FY20	FY21	LTM Apr-22
COGS, as reported	215	84	94
Adjustments	(91)	-	1
COGS, as adjusted	**$ 123**	**$ 84**	**$ 96**
Product revenue	151	132	148
Gross margin on product revenue, as reported	**(43%)**	**36%**	**36%**
Gross margin on product revenue, as adjusted	**18%**	**36%**	**35%**

A.7 Revenue by Customer – FY20, FY21 and LTM April-22

Revenue by Customer

				% of income			
in $000s	FY20	FY21	LTM Apr-22	FY20	FY21	LTM Apr-22	Notes
Top 20 customers by LTM Apr-22 revenue							
[Customer 1]	-	79	130	-	7%	11%	Was with Company prior to FY20, left and come back in FY21, merged with another firm - Management indicated this business may double
[Customer 2]	106	117	97	9%	10%	8%	Loyal customer, but continuing to downsize employee base; Management indicated may downsize again soon
[Customer 3]	69	70	71	6%	6%	6%	
[Customer 4]	41	59	65	3%	5%	5%	
[Customer 5]	64	60	63	5%	5%	5%	
[Customer 6]	38	40	55	3%	4%	5%	
[Customer 7]	37	44	51	3%	4%	4%	
[Customer 8]	24	49	50	2%	4%	4%	
[Customer 9]	14	38	45	1%	3%	4%	
[Customer 10]	15	33	42	1%	3%	4%	Acquired Company 24 (see related entry below)
[Customer 11]	31	30	30	3%	3%	2%	
[Customer 12]	27	33	28	2%	3%	2%	
[Customer 13]	-	18	28	-	2%	2%	
[Customer 14]	44	29	25	4%	3%	2%	
[Customer 15]	20	31	25	2%	3%	2%	
[Customer 16]	17	22	24	1%	2%	2%	
[Customer 17]	19	21	20	2%	2%	2%	
[Customer 18]	12	11	18	1%	1%	2%	
[Customer 19]	14	18	18	1%	2%	2%	
[Customer 20]	12	17	18	1%	1%	1%	
Significant attrition customers since FY20							
[Customer 21]	62	12	2	5%	1%	0%	Acquired by Customer 22 (below)
[Customer 22]	39	14	2	3%	1%	0%	Customer's business significantly shrank post COVID
[Customer 23]	33	-	-	3%	-	-	Didn't like Company's COVID response; poached a Company employee
[Customer 24]	28	0	-	2%	0%	-	Merged into Customer 10 (#10 customer currently)
Others (98)	358	290	297	30%	26%	25%	
{untagged}	1	2	1	0%	0%	0%	
PPP income	78	-	-	6%	-	-	
Total Income	**$ 1,205**	**$ 1,137**	**$ 1,204**	**100%**	**100%**	**100%**	
Accrual to Cash Adj	2	(15)	-				
Returns, Allowances & Discounts	-	(1)	-				
Total revenue	**$ 1,207**	**$ 1,122**	**$ 1,204**				

A.8 Net Working Capital Analysis – Dec-20, Dec-21 and Apr-22

Net Working Capital Analysis

in $000s	Dec-20	Dec-21	Apr-22	Averages as of Apr-22 LTM	L6M	L3M
Checking Chase	4	14	85	42	41	55
Accounts Receivable	89	105	122	96	119	131
Accts Rec - Contra	(90)	(105)	-	(9)	(17)	-
Due From Stockholder	357	-	0	421	139	0
Inventory Asset	5	4	(1)	4	4	2
Undeposited Funds	46	7	-	1	1	-
Current assets, as reported	**$ 410**	**$ 25**	**$ 206**	**$ 555**	**$ 287**	**$ 188**
Accounts Payable	-	-	3	15	11	3
Chase Biz Credit Card	-	(0)	7	9	8	12
Direct Deposit Liabilities	-	-	-	(2)	(2)	(4)
Payroll Liabilities	-	-	-	0	0	-
Payroll Taxes Payable	0	0	0	(1)	(1)	(1)
Sales Tax Payable	1	1	2	1	1	1
Current liabilities, as reported	**$ 1**	**$ 0**	**$ 12**	**$ 22**	**$ 17**	**$ 11**
Net working capital, as reported	**$ 409**	**$ 24**	**$ 195**	**$ 534**	**$ 270**	**$ 177**
Adjustments						
Cash	(4)	(14)	(85)	(42)	(41)	(55)
Undeposited funds	(46)	(7)	-	(1)	(1)	-
Cash-to-accrual, revenue	90	105	-	9	17	-
Accrued revenue	NQ	NQ	NQ	NQ	NQ	NQ
Cash-to-accrual, payroll	(12)	(21)	(9)	(17)	(19)	(18)
Terminated manager	-	3	-	1	2	1
Cash-to-accrual, COGS	NQ	NQ	NQ	NQ	NQ	NQ
Due from stockholder	(357)	-	(0)	(421)	(139)	(0)
AP accounting	-	-	3	15	11	3
Miscellaneous parts accounting	NQ	NQ	NQ	NQ	NQ	NQ
Total adjustments	**$ (328)**	**$ 67**	**$ (91)**	**$ (456)**	**$ (169)**	**$ (68)**
Net working capital, as adjusted	**$ 81**	**$ 91**	**$ 104**	**$ 77**	**$ 101**	**$ 109**
NWC as a % of LTM adjusted revenue	*7%*	*8%*	*9%*	*6%*	*8%*	*10%*
Days sales outstanding	*28*	*26*	*33*	*26*	*32*	*37*
Days in inventory	*NQ*	*NQ*	*NQ*	*NQ*	*NQ*	*NQ*
Days payables outstanding	*na*	*na*	*na*	*na*	*na*	*na*

The schedule to the left presents an analysis of net working capital after adjusting for the various impacts discovered during FAI's diligence. Note, as previously discussed, we recommend the Client consider revising the accounting related to AP and inventory which would impact the calculation of net working capital and potentially the net working capital target within the asset purchase agreement.

Appendix A: Supplemental Financial Information
A.9 Accounts Receivable Aging – Dec-20, Dec-21 and Apr-22

Accounts Receivable Aging Summary

$ in 000s	Current	1-30	31-60	61-90	>90	Total per aging	Variance	Total per BS
Dec-20	63	18	3	2	3	89	-	89
Dec-21	80	15	2	5	2	105	-	105
Apr-22	84	12	8	13	4	122	-	122
% of total								
Dec-20	*71%*	*21%*	*4%*	*2%*	*3%*	*100%*	-	*100%*
Dec-21	*77%*	*15%*	*2%*	*5%*	*2%*	*100%*	-	*100%*
Apr-22	*69%*	*10%*	*6%*	*11%*	*4%*	*100%*	-	*100%*

The schedule to the left (top) presents a summary of AR aging as of the Historical Balance Sheet Dates. Management indicated non-payment has not been a notable issue throughout the Historical Period. Based on FAI's review of the general ledger, FAI saw less than $10 of write-offs and discounts across the entire Historical Period.

Management did note that certain customers are sometimes slow to pay, but typically do so quickly once prompted to do so ([Accounts Receivable 1] and [Accounts Recievable 7] were cited as examples of this). Management indicated it expects to fully collect all AR open as of Apr-22 (refer to AR aging detail table below, left).

Accounts Receivable Aging Detail - Apr-22

$ in 000s	Current	1-30	31-60	61-90	>90	Total
[Accounts Receivable 1]	7	4	7	12	6	37
[Accounts Receivable 2]	12	-	-	-	-	12
[Accounts Receivable 3]	11	-	-	-	-	11
[Accounts Receivable 4]	11	-	-	-	-	11
[Accounts Receivable 5]	6	-	-	-	-	6
[Accounts Receivable 6]	6	-	-	-	-	6
[Accounts Receivable 7]	1	2	1	1	1	6
[Accounts Receivable 8]	5	0	-	-	-	5
[Accounts Receivable 9]	5	-	-	-	-	5
[Accounts Receivable 10]	2	3	-	-	-	4
Others (26)	19	4	0	-	(3)	20
Totals	**$ 84**	**$ 12**	**$ 8**	**$ 13**	**$ 4**	**$ 122**

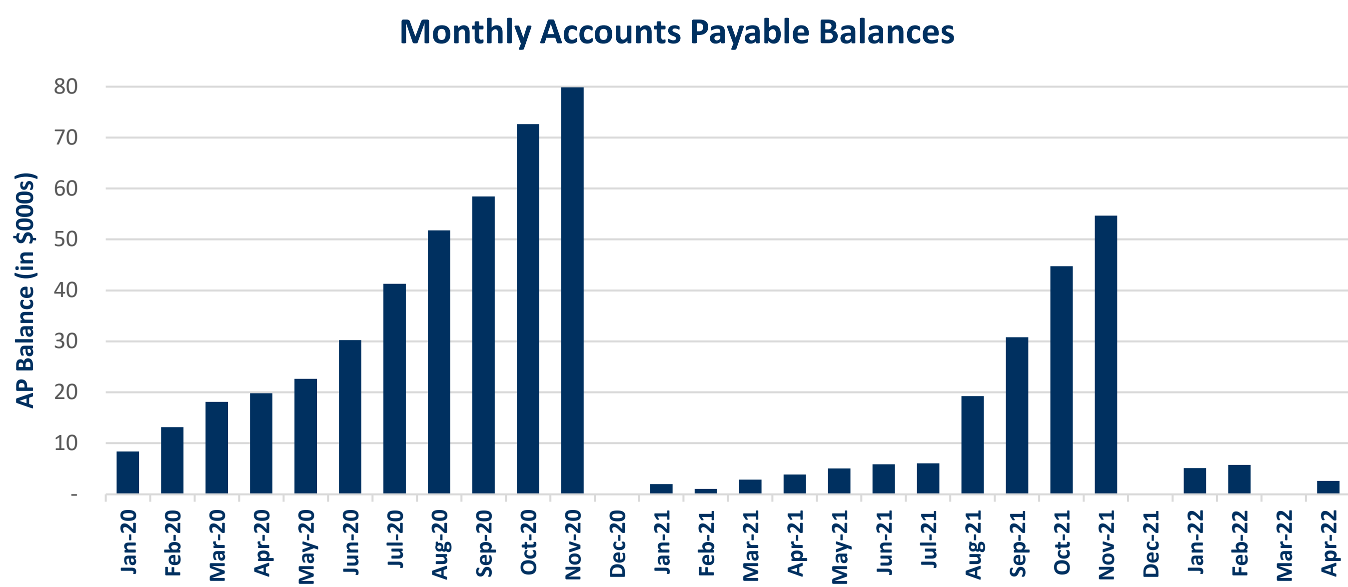
A.10 Debt & Debt-Like Analysis As of Apr-22

Debt and Debt-Like Analysis

in $000s	Apr-22	On / Off Balance Sheet	
Debt	-	na	
(less) Cash	(85)	On	
(less) Undeposited funds	-	On	
Net debt (cash)	**$ (85)**		
Debt-like items			
Accrued PTO	2	Off	(Refer to Quality of Earnings Analysis section for related discussion)
Total debt-like items	2		
Total debt and debt-like items	**$ (83)**		
Other considerations			
Future min. lease payments	-	na	([Owner] owns the facility personally; no related lease; informal agreement is month-to-month)

A.11 Monthly Accounts Payable Balances Jan-20 through Apr-22

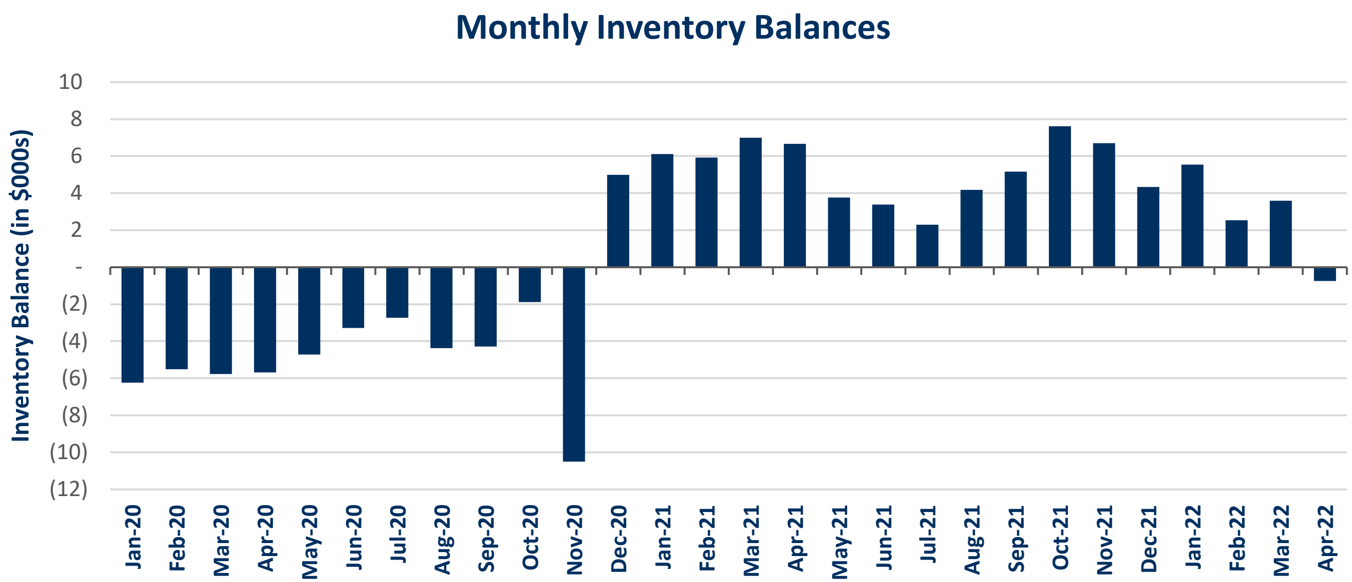
The figure below illustrates the previously discussed dynamic within the accounts payable account, whereby the accounts payable balance continuously builds up throughout the year and is ultimately adjusted to zero periodically (Dec-20, Dec-21, and Mar-22).



Appendix A: Supplemental Financial Information

A.12 Monthly Inventory Balances Jan-20 through Apr-22

The figure below illustrates the previously discussed dynamic within the inventory account, whereby the inventory balance can be driven negative by the erroneous accounting.



A.13 Fixed Asset Roll-Forward – FY20, FY21 and YTD Apr-22

The schedule below presents a fixed asset roll-forward across the Historical Period. As shown, the Company has required minimal capital outlays. In fact, the only outlay during the Historical Period related to replacement of [Owner's] personal vehicle (refer to Quality of Earnings Analysis adjustment #6). FAI reconciled the change in accumulated depreciation reported on the balance sheet to the depreciation expense reported on the income statement without variance. Management indicated there was no deferred or planned capital expense as of Apr-22.

Fixed Asset Roll forward

in $000s	Dec-19	Additions	Disposals	Dec-20	Additions	Disposals	Dec-21	Additions	Disposals	Apr-22
Office Equipment	9	-	-	9	-	-	9	-	-	9
Vehicles	49	23	(27)	46	-	-	46	-	-	46
Fixed assets, gross	**$ 58**	**$ 23**	**$ (27)**	**$ 55**	**$ -**	**$ -**	**$ 55**	**$ -**	**$ -**	**$ 55**
Accumulated depreciation	(58)	(23)	27	(55)	-	-	(55)	-	-	(55)
Fixed assets, gross	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Appendix B: Scope of Work

Appendix B: Scope of Work

i. Accounting Procedures and Policies and Finance Function

- From telephone conversations with Management (including accountant/bookkeeper/controller (as appropriate)) 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 any year-end 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
    - Loans Receivables
  - 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.

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.
- Obtain an understanding of the organization/legal structure.
- Review Historical Periods monthly results.

Appendix B: Scope of Work (continued)

iii. Revenue and Gross Profitability Analysis

- If possible, obtain an understanding of revenue and 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"). This review may not be possible due to limited information collated by Target.
- Reconcile revenue per the financial statements to customer lists.

iv. Quality of Earnings

- 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, as provided by Client, after completion of the Potential Transaction) for the Historical Periods by month, including an analysis and review of support for:
  - 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.
  - Proposed add backs by Management for non-operational and/or non-recurring items of revenue and/or expenses.
  - If appropriate, review the reallocation of revenue and expenses, so that the pro forma monthly income statements are presented consistently during the Historical Periods with Client.
  - An estimation for cash to accrual accounting.
- The Adjusted or Pro Forma EBITDA will be further analyzed to present a pro forma income statement by individual caption.

v. Revenue, expense, and payroll proof

- Reconcile the bank account deposit activity for 2020, 2021 and YTD Apr-22 to the Target's reported revenue as reflected in the Target's books and records.
- Reconcile the bank account withdrawal activity for 2020, 2021 and YTD Apr-22 to the Target's reported expenses as reflected in the Target's books and records.
- Reconcile 2020 and 2021 payroll costs per the internal financial statements to third-party payroll registers.

vi. Expenses

- Obtain details regarding direct cost of services during the Historical Periods and obtain an understanding of the Company's method to capture such costs.
- Obtain details regarding operating expenses during the Historical Periods and obtain an understanding of the Company's method to capture such costs.
- Identify any items expensed through the profit and loss account that would be capitalized to conform with US GAAP.

Appendix B: Scope of Work (continued)

vii. Balance Sheet

- Review the support from the Company for the key captions on the Balance Sheet at the Historical Balance Sheet Dates, including:
  - Bank reconciliations
  - Accounts receivable
  - Other current assets
  - Accounts payable
  - Credit cards
  - Other current liabilities including accrued expenses, employee expenses and taxes and sales tax payable
- Obtain support from the Company for the following captions on the Balance Sheet as at the Latest Balance Sheet Date:
  - Debt (including related party loans)
  - Fixed assets.

viii. Accounts Receivable

- Review aging of accounts receivable ledgers as of the Historical Balance Sheet Dates.
- Discuss with management any customer account balances as of the Latest Balance Sheet which are at risk.
- Understand the level of bad debt and credit notes within the Historical Periods.

ix. Accounts Payable

- Review aging of accounts payable ledgers as of the Historical Balance Sheet Dates.

x. Equity

- 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.

xi. Control Environment

- 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:
  - The appropriate capitalization of expenses.
- Obtain an understanding of weaknesses and risks (e.g., estimates, procedures) in accounting from Management which may lead to inaccurate finance statements.
- Review significant journal entries during the Historical Periods.
- Reconcile the 2021 (or for 2020 if 2021 results are not available) results to the External Accountant's financial statements, if applicable.
- Reconcile the 2021 (or for 2020 if 2021 results are not available) results to the Company's tax return.

Appendix B: Scope of Work (continued)

xii. External Accountant (if applicable)

- Obtain an understanding of any adjustments prepared by the External Accountant.
- Obtain an understanding of weaknesses and risks in accounting identified by the External Accountant.
- Review the management letters or weakness letters as prepared by the External Accountants for the Historical Periods.

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