

SPARK44, LLC
(A Limited Liability Company)
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED MARCH 31, 2021 AND 2020

SPARK44, LLC
(A Limited Liability Company)
FOR THE YEARS ENDED MARCH 31, 2021 AND 2020

Table of Contents

	<u>Page</u>
Independent Accountant's Compilation Report	1
Financial Statements	
Balance sheets	2
Statements of income and member's equity	3
Statements of cash flows	4
Notes to financial statements	5 - 10
Supplementary Information	
Schedule of operating expenses	11

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Managers
Spark44, LLC

Management is responsible for the accompanying financial statements of Spark44, LLC (a limited liability company) (the "Company"), which comprise the balance sheets as of March 31, 2021 and 2020, and the related statements of income and member's equity and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Supplementary Information

The supplementary information contained in the schedule on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The supplementary information was subject to our compilation engagements. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.



CERTIFIED PUBLIC ACCOUNTANTS

White Plains, New York
May 21, 2021

SPARK44, LLC
(A Limited Liability Company)
BALANCE SHEETS
MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 5,058,055	\$ 4,452,620
Trade accounts receivable, net	-	174,274
Due from affiliates	820,647	1,695,394
Affiliate loan receivable	-	39,986
Work in progress - production	7,427	243,111
Prepaid expenses and other current assets	<u>767,271</u>	<u>225,113</u>
Total current assets	6,653,400	6,830,498
Property and equipment, net	<u>166,097</u>	<u>232,247</u>
TOTAL ASSETS	<u>\$ 6,819,497</u>	<u>\$ 7,062,745</u>
<u>LIABILITIES AND MEMBER'S EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 423,785	\$ 640,093
Accrued expenses	<u>369,947</u>	<u>329,433</u>
Total current liabilities	793,732	969,526
Long-term liabilities:		
Deferred rent	<u>326,504</u>	<u>358,549</u>
Total liabilities	1,120,236	1,328,075
Commitments and contingencies (Notes 6, 7 and 8)		
Member's equity	<u>5,699,261</u>	<u>5,734,670</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 6,819,497</u>	<u>\$ 7,062,745</u>

See independent accountant's compilation report and accompanying notes to financial statements.

SPARK44, LLC
(A Limited Liability Company)
STATEMENTS OF INCOME AND MEMBER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Revenues	\$ 11,487,787	\$ 23,134,163
Cost of sales	<u>2,205,788</u>	<u>10,046,857</u>
Gross profit	9,281,999	13,087,306
Operating expenses	<u>8,906,242</u>	<u>12,651,873</u>
Income from operations	<u>375,757</u>	<u>435,433</u>
Other income (expense):		
Interest income	(9,543)	6,777
Other expenses	<u>(14,069)</u>	<u>(615)</u>
Other income (expense), net	<u>(23,612)</u>	<u>6,162</u>
Income before provision for (benefit from) income taxes	352,145	441,595
Provision for (benefit from) income taxes	<u>(612,446)</u>	<u>185,178</u>
Net income	964,591	256,417
Member's equity - beginning	5,734,670	6,228,253
Distributions	<u>(1,000,000)</u>	<u>(750,000)</u>
MEMBER'S EQUITY - ENDING	<u>\$ 5,699,261</u>	<u>\$ 5,734,670</u>

See independent accountant's compilation report and accompanying notes to financial statements.

SPARK44, LLC
(A Limited Liability Company)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 964,591	\$ 256,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92,491	127,219
Loss on sale of equipment	14,069	62
Provision for (recovery of) bad debt	(10,679)	71,250
Interest income capitalized to affiliate loan	-	(6,777)
Changes in assets and liabilities:		
Trade accounts receivable	184,953	(48,024)
Work in progress - production	235,684	(173,275)
Prepaid expenses and other assets	(542,158)	349,575
Due from affiliates	874,747	1,761,348
Accounts payable	(216,308)	448,814
Accrued expenses	40,514	(511,050)
Due to affiliates	-	(147,486)
Deferred rent	<u>(32,045)</u>	<u>(18,687)</u>
Net cash provided by operating activities	<u>1,605,859</u>	<u>2,109,386</u>
Cash used in investing activities:		
Additions to property and equipment	<u>(40,410)</u>	<u>(44,667)</u>
Cash flows from financing activities:		
Payments received from affiliate loan	39,986	20,000
Distributions to member	<u>(1,000,000)</u>	<u>(750,000)</u>
Net cash used in financing activities	<u>(960,014)</u>	<u>(730,000)</u>
Net increase in cash and cash equivalents	605,435	1,334,719
Cash and cash equivalents - beginning	<u>4,452,620</u>	<u>3,117,901</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 5,058,055</u>	<u>\$ 4,452,620</u>
Supplemental disclosures of cash flow information:		
Income taxes paid	<u>\$ -</u>	<u>\$ 32,248</u>

See independent accountant's compilation report and accompanying notes to financial statements.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 1. ORGANIZATION

Spark44, LLC (the "Company") was formed on December 20, 2010, as a limited liability company. The Company is part of a global agency that uses the joint venture model approach with Jaguar Land Rover Limited ("JLR") and other clients to deliver marketing communication services. The Company is wholly owned by Spark 44 (JV) Limited (the "Parent"), a foreign company based in London, England. The Parent has operations through its subsidiaries in North America, South America, Asia, Europe, Africa, the Middle East and Australia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Recently issued but not yet effective accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the balance sheet through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures, but has not yet determined the timing of adoption.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash on deposit and money market accounts with maturities of three months or less that are readily convertible into cash.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade accounts receivable

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at March 31, 2021 and 2020, were \$- and \$71,250, respectively.

Property and equipment

Property and equipment are carried at cost and are stated net of accumulated depreciation. Depreciation is provided using the straight-line over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred, while renewals and betterments that materially extend the life of an asset are capitalized. The cost of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

The useful lives, by asset group of the property and equipment, are as follows:

Leasehold improvements	Lesser of lease life or 7 years
Furniture and fixtures	7 years
Computer hardware	5 years
Communication equipment	5 years
Software	3 years

Impairment of long-lived assets

The Company evaluates long-lived assets for impairment in accordance with FASB ASC 360, *Property, Plant, and Equipment*, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company determines whether the carrying values of such assets are recoverable over their remaining estimated lives through undiscounted future cash flow analysis. When such impairment is indicated, the related assets are written down to estimated fair value. No such impairments were indicated for the years ended March 31, 2021 and 2020.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred rent

The Company recognizes rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased space for construction or other purposes. The Company defers and amortizes tenant improvement allowances over the related lease terms. The difference between rent expense calculated on the straight-line basis and amounts paid in accordance with the terms of the lease is charged or credited to deferred rent in the accompanying balance sheets.

Income taxes

The Company is classified as a limited liability company and has elected to be treated as a C corporation for federal and state income tax purposes. Accordingly, the Company uses the asset and liability method of accounting for income taxes pursuant to FASB Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under the asset and liability method of FASB ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. Based on the Company's assessment, there were no uncertain tax positions requiring recognition at March 31, 2021 and 2020.

The Company files income tax returns in the U.S. federal jurisdiction and in various states. The Company is subject to U.S. federal and state income tax examinations.

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through May 21, 2021, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except for the matter disclosed in Note 11.

See independent accountant's compilation report.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 3. REVENUE RECOGNITION

The Company provides marketing communication services to customers based on executed contracts. The Company's performance obligations related to retainer fee contracts are satisfied ratably over the life of the contract which is typically 12 months. The customer is invoiced monthly the agreed-upon price over the life of the contract (typically paid within 30 days) and revenue is recognized over time due to the continuous transfer of control to the customer or client. The Company's performance obligations related to project costs and pass-through costs consist of fees defined by the contract based on hours and costs incurred. Revenue is recognized as the customer is invoiced monthly the amount for pass-through project costs incurred at cost and cost of hours incurred plus the fee multiple as defined in the contract.

In accordance with Topic 606, the Company disaggregates net sales from contracts with customers as follows:

	<u>2021</u>	<u>2020</u>
Retainer fee revenue	\$ 9,086,713	\$ 12,389,666
Project costs revenue	195,286	697,640
Pass-through project costs	<u>2,205,788</u>	<u>10,046,857</u>
	<u>\$ 11,487,787</u>	<u>\$ 23,134,163</u>

NOTE 4. CONCENTRATION OF CREDIT RISK

The Company places its cash, which may at times be in excess of Federal Deposit Insurance Corporation insured limits, with a high credit quality financial institution. Management believes the Company is not exposed to any significant credit risk related to cash and cash equivalents.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 148,021	\$ 148,021
Communication equipment	8,385	16,043
Furniture and fixtures	617,930	645,487
Software	<u>-</u>	<u>6,496</u>
	774,336	816,047
Less: accumulated depreciation	<u>(608,239)</u>	<u>(583,800)</u>
Property and equipment, net	<u>\$ 166,097</u>	<u>\$ 232,247</u>

Depreciation expense for the years ended March 31, 2021, and 2020, amounted to \$92,491 and \$127,219, respectively.

See independent accountant's compilation report.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 6. COMMITMENTS AND CONTINGENCIES

Lease agreements

The Company leases administrative space from a third party under an operating lease that expires in October 2025. The lease requires annual minimum rental plus operating costs. Rent expense totaled \$681,760 and \$690,098 for the years ended March 31, 2021 and 2020, respectively.

Future minimum lease payments for the remaining life of the lease at March 31, 2021, are as follows:

<u>Year ending March 31:</u>	<u>Amount</u>
2022	\$ 649,204
2023	649,204
2024	649,204
2025	649,204
2026	<u>378,703</u>
	<u>\$ 2,975,519</u>

NOTE 7. RELATED-PARTY TRANSACTIONS

Revenue and related receivables

The Company had sales to JLR, an entity which owns 50.5% of the Parent, for retainer fees, project fees and pass-through costs in the amount of \$9,077,868, \$195,286 and \$2,211,971, respectively, for the year ended March 31, 2021 and \$11,700,000, \$697,641 and \$10,040,725, respectively, for the year ended March 31, 2020. The related receivable from JLR was \$820,646 and \$1,695,394 at March 31, 2021 and 2020, respectively, and is included in "Due from affiliates" in the accompanying balance sheets.

Affiliate loan receivable

The Company signed a loan agreement (the "Affiliate Loan") with an entity affiliated through common ownership (the "Affiliate") effective September 7, 2018, in the maximum aggregate amount of \$47,000. Borrowings bore interest at the one-month London Interbank Offered Rate ("LIBOR") plus 0.85% (1.77% at March 31, 2020). Interest accrued was capitalized and added to the loan balance on a monthly basis. The Affiliate Loan had an original maturity date of December 31, 2019, and was extended to December 31, 2020. The amount was payable on demand and accrued interest. At March 31, 2020, the outstanding balance was \$39,986. The Affiliate Loan was fully repaid during the year ended March 31, 2021.

Management fees

The Company pays certain costs and receives payment for reimbursement of services to and from entities related through common ownership. The Company received a net amount of \$128,145 for these services for the year ended March 31, 2021, and incurred a net amount of \$127,081 for these services for the year ended March 31, 2020.

See independent accountant's compilation report.

SPARK44, LLC
(A Limited Liability Company)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021 AND 2020

NOTE 8. 401(k) PLAN

The Company has established a defined contribution plan under Section 401(k) of the Internal Revenue Code ("IRC") covering substantially all eligible employees. The plan allows employees to defer the lesser of 100% of their annual earnings or up to earnings limitations as provided under Section 402(g)(5) of the IRC, on a pre-tax basis through voluntary contributions to the plan.

The plan also provides for safe harbor matching and nonelective contributions to be made at the discretion of the Company and are allocated to each employee based on compensation as defined. Employees become 100% vested in the matching and profit-sharing contributions after six years of service. For the years ended March 31, 2021 and 2020, the Company's contributions amounted to \$192,826 and \$204,935, respectively.

NOTE 9. INCOME TAXES

At March 31, 2021 and 2020, the provision for (benefit from) income taxes consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal	\$ 73,950	\$ 92,736
State	<u>(686,396)</u>	<u>92,442</u>
Total provisions for (benefit from) income taxes	<u><u>\$ (612,446)</u></u>	<u><u>\$ 185,178</u></u>

The provision for income taxes differs from the amount computed by multiplying the income before income taxes by the U.S. federal income tax rate, primarily due to the prior year overpayment of state income taxes. The Company has not provided for deferred income taxes as such amounts are not significant.

NOTE 10. RISK AND UNCERTAINTIES

During March 2020, the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern." Disruptions to business operations have occurred and could continue to develop as a result of quarantines of employees, customers and suppliers in areas affected by the outbreak. Given the uncertainty surrounding the duration of the COVID-19 outbreak and on-going business disruption, the related financial impact cannot be reasonably estimated at this time.

NOTE 11. SUBSEQUENT EVENT

On May 4, 2021, the Parent signed an asset purchase agreement with an unrelated party to sell certain assets of the Parent for an approximate aggregate amount of \$4,000,000.

SUPPLEMENTARY INFORMATION

SPARK44, LLC
(A Limited Liability Company)
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED MARCH 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Payroll	\$ 5,796,469	\$ 7,933,549
Rent	681,760	690,098
Professional fees	527,359	224,374
Employee benefits	518,329	745,724
Payroll taxes and fees	469,534	690,877
IT and computer expenses	322,081	429,350
401(k) employer contributions	192,826	204,935
Utilities	99,411	143,291
Depreciation and amortization	92,491	127,219
Auto expense	79,954	98,594
Property taxes	64,794	145,418
Miscellaneous	54,040	6,809
Recruitment and employee training	29,340	361,476
Office expense	28,239	95,285
Repairs and maintenance	27,228	63,309
Insurance	25,589	29,053
Travel and entertainment	13,474	356,864
Gifts and awards	6,159	37,022
Relocation costs	5,022	42,598
Licensing	4,814	8,425
Postage and mailing expenses	4,784	9,223
Dues and subscriptions	1,369	10,049
Provision (recovery of) for bad debts	(10,679)	71,250
Management fees (fee income), net	<u>(128,145)</u>	<u>127,081</u>
TOTAL OPERATING EXPENSES	<u>\$ 8,906,242</u>	<u>\$ 12,651,873</u>

See independent accountant's compilation report.