

SPARK44, LLC
FINANCIAL STATEMENTS
AND ACCOUNTANT'S COMPILATION REPORT

MARCH 31, 2019

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May 30/2019

SPARK44, LLC

BALANCE SHEET

As of March 31, 2019

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 3,117,901
Trade accounts receivable - related party	3,456,875
Trade accounts receivable	197,500
Work in process	69,836
Employee receivables	6,506
Miscellaneous receivables	26,497
Prepaid expenses	143,032
Prepaid insurance	86,658
Prepaid income taxes	38,794
Unbilled receivables	231,320
Unbilled production costs	<u>4,712,482</u>
Total Current Assets	<u>12,087,401</u>

PROPERTY AND EQUIPMENT

Leasehold improvements	122,463
Computer hardware	627,000
Furniture and fixtures	71,911
Communication equipment	16,043
Software	6,496
Less Accumulated depreciation	<u>(529,053)</u>
Net Property and Equipment	<u>314,860</u>

OTHER ASSETS

Deposits	<u>41,881</u>
Total Other Assets	<u>41,881</u>

TOTAL ASSETS \$ 12,444,142

SPARK44, LLC

BALANCE SHEET

As of March 31, 2019

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 191,278
Accrued payroll	82,134
Sales tax payable	448
Accrued bonuses	46,267
Accrued vacation	104,168
Accrued expenses	607,466
Accrued production costs	<u>4,712,615</u>

Total Current Liabilities 5,744,376

LONG-TERM LIABILITIES

Deferred rent	377,236
Intercompany loans	<u>94,277</u>

Total Long-Term Liabilities 471,513

Total Liabilities 6,215,889

STOCKHOLDER'S EQUITY

Retained earnings	<u>6,228,253</u>
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Total Equity 6,228,253

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$ 12,444,142

SPARK44, LLC

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2019

REVENUE	
Project fees	\$ 2,686,373
Retainer fees	15,809,223
Pass through advertising	12,202,762
Intercompany	<u>594,382</u>
TOTAL REVENUE	<u>31,292,740</u>
COST OF SALES	
Pass through advertising gross up	<u>12,202,762</u>
TOTAL COST OF SALES	<u>12,202,762</u>
Gross Profit	<u>19,089,978</u>
General and Administrative Expenses (Schedule A)	<u>17,647,135</u>
Operating Income	<u>1,442,843</u>
OTHER INCOME	
Intercompany management fees	235,784
Interest income	<u>6,209</u>
Total Other Income	<u>241,993</u>
OTHER EXPENSES	
Loss on disposal of fixed assets	<u>50,444</u>
Total Other Expenses	<u>50,444</u>
Income Before Income Taxes	<u>1,634,392</u>
Provision for Income Taxes	<u>440,444</u>
Net Income	<u>1,193,948</u>
Retained Earnings, April 1, 2018	5,534,305
Dividends	<u>500,000</u>
Retained Earnings, March 31, 2019	<u>\$ 6,228,253</u>

SPARK44, LLC

GENERAL AND ADMINISTRATIVE EXPENSES (SCHEDULE A)

FOR THE YEAR ENDED MARCH 31, 2019

Advertising costs	\$	59,898
Association activities and dues		45,796
Audit and accountancy		94,983
Bank charges		9,660
Bonuses and incentives		868,141
Cleaning and repairs		158,116
Company cars		134,872
Contractors		97,534
Depreciation and amortization		181,431
Employee insurance		955,463
Employer taxes		790,060
Insurances		38,526
IT costs		817,906
Legal fees		122,262
Licenses and registration		34,554
Market development costs		30,188
Newspapers and subscriptions		79
Office equipment rent		25,831
Other employee benefits		48,212
Pension costs		315,761
Postage and dispatch		10,303
Property taxes		7,835
Recruitment		258,927
Rent		1,095,203
Research and materials		21,583
Salaries		10,148,846
Severance expenses		560,354
Staff events		47,403
Stationary and supplies		64,437
Telecommunication		143,431
Training and conferences		45,435
Travel and entertainment		371,874
Utilities		<u>42,231</u>
Total General and Administrative Expenses	\$	<u>17,647,135</u>

SPARK44, LLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	1,193,948
Adjustment to reconcile excess of revenues over expenses to cash flows provided by operating activities	
Depreciation and amortization	181,431
Loss on disposal of fixed assets	50,444
(Increase) decrease in:	
Trade accounts receivable - related party	406,915
Trade accounts receivable	(197,500)
Unbilled production costs	(2,434,283)
Work in process	83,302
Employee receivables	(5,109)
Miscellaneous receivables	(19,986)
Prepaid expenses	(18,309)
Prepaid insurance	24,361
Prepaid income taxes	382,241
Unbilled receivables	(120,999)
Deposits	207,333
Deferred rent	335,870
Increase (decrease) in:	
Accounts payable	(470,649)
Accrued payroll	32,108
Sales tax payable	(7)
Accrued expenses	550,998
Accrued bonuses	(243,817)
Accrued vacation	(81,316)
Accrued production costs	<u>2,002,908</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,859,884</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(279,011)
Proceeds from disposition of property and equipment	<u>550</u>
CASH USED IN INVESTING ACTIVITIES	<u>(278,461)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Dividends	(500,000)
Intercompany loans received	<u>527,916</u>
CASH PROVIDED BY FINANCING ACTIVITIES	<u>27,916</u>
NET INCREASE IN CASH	1,609,339
CASH, April 1, 2018	<u>1,508,562</u>
CASH, March 31, 2019	<u>\$ 3,117,901</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for income taxes	\$ 58,467
Cash paid during the year for interest	\$ -

SPARK44, LLC

Notes to the Financial Statements

March 31, 2019

NOTE 1– NATURE OF ORGANIZATION

Nature of Activities

Spark44, LLC (the "Company") is a Delaware Limited Liability Company. The Company was formed in 2010. The Company is part of a global agency that uses the joint venture model approach with Jaguar Land Rover (JLR) and other clients to deliver marketing communication services. The Company is 100% owned by Spark44 (JV) Limited, a foreign company based in London, England. Spark44(JV) Limited has operations through its subsidiaries in the Americas, Asia, Europe, Africa, the Middle East and Australia.

NOTE 2– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Fiscal Year

These financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States. The Company's year-end is March 31.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include money market accounts which have maturities of three months or less. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

The Company at March 31, 2019 and periodically throughout the year has maintained balances in various operating and money market accounts in excess of federally insured limits. At March 31, 2019, the Company's uninsured cash balance totaled \$2,867,901 at HSBC Bank, which is net of the \$250,000 covered by the Federal Deposit Insurance Corporation deposit insurance coverage.

Trade Accounts Receivable

Trade accounts receivable from customers are uncollateralized customer obligations due under normal trade terms. Trade receivables are stated at the amount billed to the customer. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice. The Company, by policy, routinely assesses the financial strength of its customer. As a result, the Company believes that its accounts receivable credit risk exposure is limited and it has not experienced significant write-downs in its accounts receivable balances. As of March 31, 2019, the Company had outstanding trade accounts receivable of \$197,500.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk include only trade accounts receivable. In the opinion of management, the accounts receivable are fully collectible so no provision has been made for uncollectible accounts.

In the fiscal-year ended March 31, 2019, one customer counted for 98% of sales. At March 31, 2019, trade accounts receivable for that customer were \$3,456,875

SPARK44, LLC

Notes to the Financial Statements

March 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straightline method over the estimated useful lives of the assets, which range from 5 to 7 years. Leasehold improvements are amortized over the shorter of the useful life of the related assets or the lease term. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income for the period.

Intercompany Accounts Receivable

During the year, sales included \$19,089,978 to JLR, an entity which owns 50.5% of the holding company, Spark44 (JV) Ltd. Sales terms to JLR are similar to those for non-related customers. At year-end, the Company reported receivables of \$8,169,358 from such sales. Management expects that all amounts are collectible; as such, no amounts have been provided as an allowance for doubtful accounts. At March 31, 2019, intercompany accounts receivable were \$3,456,875.

Related Party Transactions

The Company receives fees from related companies for management type services. In the year ended March 31, 2019, the Company charged management fees of \$235,784 to the related parties.

Leasing Arrangements

The Company leased two offices in 2018. The Company decided to close the Los Angeles office in 2018 and consolidated operations at the New York office. The Company leases the New York facility under a non-cancelable operating lease expiring on October 31, 2025. The current minimum monthly rental payment is \$54,100.

Revenue Recognition

Revenue consists of amounts earned from customers through various marketing communication services. Sales are recorded as revenue at the time services are performed.

Deferred Rent

The Company records rent expense for its operating leases on a straight-line basis over the term of the lease. Deferred rent results from the difference between increasing monthly cash rent payments and straight-line expense. In the year ended March 31, 2019, the Company recognized expense in the amount of \$985,680 through reduction of deferred rent in the amount of \$335,870. The unamortized portion of the rent remaining is \$377,236.

Pension

The Company offers a 401(k) plan to all employees that qualify. The plan requires matching contributions by the Company of up to 5% of each participating employee's gross salary. Contributions by the Company totaled \$315,761 of pension expense for the year ended March 31, 2019.

Income Taxes

The Company, with the consent of its member, has elected to be taxed as a C corporation. Provisions for income taxes are based on taxes payable or refundable in the current year.

As of March 31, 2019, the Company had no uncertain tax positions, or interest or penalties, that qualify for either recognition or disclosure in the financial statements.

SPARK44, LLC

Notes to the Financial Statements

March 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Dividend

On March 25, 2019, the Company declared a cash dividend of \$500,000 paid on March 25, 2019, to the sole shareholder.

Subsequent Events

The Company has evaluated subsequent events through May 29, 2019, which is the date the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

Depreciation of property and equipment is provided using the straight-line method. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the asset are capitalized.

Major categories of property and equipment, including their depreciable lives are as follows:

	Cost	Lives in years
Leasehold improvements	\$ 122,463	7
Computer hardware	627,000	5
Furniture and fixtures	71,911	7
Communication equipment	16,043	5
Software	6,496	3
Less Accumulated depreciation	<u>(529,053)</u>	
TOTAL	<u>\$ 314,860</u>	

Depreciation expense reported for the year ended March 31, 2019 was \$181,431.

NOTE 4 – INCOME TAXES

The components of the provision for income taxes are as follows:

Federal income tax	\$ 278,360
New York income tax	52,566
California income tax	47,287
Illinois income tax	2,000
New York City income tax	56,972
Georgia income tax	2,000
Rhode Island income tax	<u>1,259</u>
TOTAL	<u>\$ 440,444</u>

The Company has not provided for deferred income taxes as such amounts are immaterial.

SPARK44, LLC

Notes to the Financial Statements

March 31, 2019

NOTE 5 – OPERATING LEASES

The following is a schedule of future lease payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year as of March 31, 2019:

March 31	
2020	\$ 666,780
2021	680,112
2022	693,708
2023	707,592
2024	721,740
After 2024	<u>1,487,076</u>
Total Minimum lease payments	<u>\$4,957,008</u>