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ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2017 AND 2016

MONDAY



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ROCHESTER ELECTRONICS, LTD.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To The Stockholders
Rochester Electronics, Ltd.
16 Malcolm Hoyt Drive
Newburyport, MA 01950

We have reviewed the accompanying consolidated balance sheets of Rochester Electronics, Ltd. as of October 31, 2017 and 2016, and the related consolidated statements of income and retained earnings and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements


Management is responsible for the preparation and the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



RYAN & COSCIA, P.C.
May 30, 2018

ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED BALANCE SHEETS
AS OF OCTOBER 31,

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash	\$ 1,057,917	\$ 1,160,802
Accounts Receivable, Net	2,205,245	981,539
Other Current Assets	<u>254,989</u>	<u>188,990</u>
TOTAL CURRENT ASSETS	<u>3,518,151</u>	<u>2,331,331</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Property and Equipment	452,632	420,975
Less: Accumulated Depreciation	<u>(210,198)</u>	<u>(164,588)</u>
NET PROPERTY AND EQUIPMENT	<u>242,434</u>	<u>256,387</u>
<u>OTHER LONG-TERM INVESTMENTS</u>		
Organization Costs, Net	<u>11,530</u>	<u>16,678</u>
TOTAL OTHER LONG-TERM INVESTMENTS	<u>11,530</u>	<u>16,678</u>
TOTAL ASSETS	<u>\$ 3,772,115</u>	<u>\$ 2,604,396</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>CURRENT LIABILITIES:</u>		
Accounts Payable - Trade	\$ 82,997	\$ 78,380
Accrued Expenses	1,046,094	347,949
Note Payable	<u>214,000</u>	<u>40,000</u>
TOTAL CURRENT LIABILITIES	<u>1,343,091</u>	<u>466,329</u>
<u>STOCKHOLDERS' EQUITY:</u>		
Common Stock 200,000 Shares Authorized, 4,000		
Issued and Outstanding	2,606	2,606
Retained Earnings	<u>2,426,418</u>	<u>2,135,461</u>
TOTAL STOCKHOLDERS' EQUITY	<u>2,429,024</u>	<u>2,138,067</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,772,115</u>	<u>\$ 2,604,396</u>


Nov 5, 2018
 DIRECTOR PAUL N. GERSICH
 APPROVED FINANCIAL STATEMENTS

See independent accountants' review report & notes to financial statements

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ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED OCTOBER 31,

	<u>2017</u>	<u>2016</u>
<u>SERVICE REVENUE</u>	\$ 7,138,411	\$ 5,136,650
<u>OPERATING EXPENSES:</u>		
Salaries & Wages	3,668,006	2,486,544
Payroll Tax Expense	201,894	144,538
Accounting Services	253,720	88,882
Advertising	22,398	1,449
Amortization Expense	5,148	7,375
Bank Service Charges	13,822	11,405
Car Allowance	15,001	8,870
Consulting	407,743	623,423
Depreciation	45,610	36,490
Dues & Subscriptions	11,528	6,105
Employee Benefits	321,022	190,350
Employee Recruitment	56,558	12,106
Entertainment	85,805	50,069
Filing Fees	140	0
Freight	0	7,382
Insurance	18,682	12,992
Miscellaneous Expense	1,570	10,516
Office Expense	87,082	61,073
Postage	4,668	3,094
Professional Fees	133,693	37,184
Rent	444,071	328,963
Repairs & Maintenance	53,458	36,272
Selling Expense	3,564	3,841
Taxes – Real Estate	42,602	38,305
Telephone	81,548	67,301
Trade Shows	3,899	2,099
Travel	337,299	308,568
Utilities	9,811	8,522
TOTAL OPERATING EXPENSES	<u>6,330,342</u>	<u>4,593,718</u>
INCOME FROM OPERATIONS	<u>808,069</u>	<u>542,932</u>
<u>OTHER INCOME:</u>		
Interest Income	127	1,125
Gain (Loss) on Disposition of Assets	6,387	0
Gain (Loss) on Foreign Currency Exchange	(31)	(83,979)
TOTAL OTHER INCOME (LOSS)	<u>6,483</u>	<u>(82,854)</u>
<u>INCOME TAX EXPENSE:</u>		
Corporate Income Tax – Massachusetts	4,950	4,011
Corporate Income Tax – United Kingdom	44,873	33,186
Corporate Income Tax – China	72,582	63,478
Corporate Income Tax – Germany	18,912	26,906
Corporate Income Tax – Japan	50,441	15,184
Corporate Income Tax - Singapore	10,098	0
TOTAL INCOME TAX EXPENSE	<u>201,856</u>	<u>142,765</u>
NET INCOME	<u>\$ 612,696</u>	<u>\$ 317,313</u>

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ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED OCTOBER 31,

	<u>2017</u>	<u>2016</u>
BEGINNING RETAINED EARNINGS	\$ 2,135,461	\$ 1,818,148
NET INCOME	612,696	317,313
DIVIDEND DISTRIBUTIONS	(300,000)	0
CURRENCY EXCHANGE ADJUSTMENT	<u>(21,739)</u>	<u>0</u>
ENDING RETAINED EARNINGS	<u>\$ 2,426,418</u>	<u>\$ 2,135,461</u>

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ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31,

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 612,696	\$ 317,313
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	45,610	36,490
(Gain) Loss on Disposal of Fixed Assets	0	17,429
Changes in Operating Assets & Liabilities:		
(Increase) Decrease in Accounts Receivable	(1,223,706)	(152,464)
(Increase) Decrease in Other Assets	5,148	7,012
(Increase) Decrease in Other Current Assets	(65,999)	(43,388)
Increase (Decrease) in Accounts Payable	4,617	(8,821)
Increase (Decrease) in Accrued Expenses	698,145	48,540
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>76,511</u>	<u>222,111</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	(31,657)	(90,242)
NET CASH USED IN INVESTING ACTIVITIES	<u>(31,657)</u>	<u>(90,242)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Increase (Decrease) in Other Liabilities	174,000	0
Dividend Distribution	(300,000)	0
Gain (Loss) Currency Exchange Adjustment	(21,739)	0
NET CASH USED IN FINANCING ACTIVITIES	<u>(147,739)</u>	<u>0</u>
INCREASE (DECREASE) IN CASH	(102,885)	131,869
CASH, BEGINNING OF YEAR	<u>1,160,802</u>	<u>1,028,933</u>
CASH, END OF YEAR	<u>\$ 1,057,917</u>	<u>\$ 1,160,802</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

<u>Cash Paid For:</u>		
Income Taxes	\$ 201,856	\$ 142,765

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ROCHESTER ELECTRONICS, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation - Rochester Electronics, Ltd., of Newburyport, Massachusetts was organized on February 1, 1995. The Company acts as a manufacturer's marketing representative and maintains offices in China, the United Kingdom, Germany, Tokyo, Singapore and Japan. In 2015 the Corporation established a Singapore legal corporate entity, Rochester Electronics, Pte, Ltd. The Germany branch ceased operations in 2015, all activity was transferred to a Germany legal corporate entity, Rochester Electronics, GmbH. The offices are all branch offices with the exception of the two legal entities.

Accounts Receivable - At October 31, 2017 and 2016, the allowance for doubtful accounts was \$0.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Fixed Assets - All fixed assets are stated at cost. Depreciation is calculated over the estimated service lives using straight line and accelerated methods. Expenditures for major renewals and betterments are capitalized, while expenditures for repairs and maintenance are expensed in the period incurred.

Fair Value - The Company reports its qualifying assets and liabilities in accordance with the Fair Value Measurements and Disclosures Standards under U.S. GAAP. These standards define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. This policy establishes a fair value framework that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value framework are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered active.

Level 3 - Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Partnership's qualifying assets or liabilities are recorded at fair value using Level 1 inputs.

Revenue Recognition - Revenue is recognized on the basis of reimbursable costs incurred during the period plus a 12.5% service fee. Singapore is the only division with a 6.0% service fee. Revenues and expenses are recorded in U.S. dollars using the exchange rate at the time of the transaction.

Cash Equivalents - The Company defines its cash and cash equivalents to include only cash on hand, demand deposits and investments with original maturities of three months or less, with essentially no market risk.

Advertising - The Corporation expenses advertising costs as they are incurred. The expense for the years ending October 31, 2017 and 2016 were \$22,398 and \$1,449, respectively.

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ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Subsequent Events - Management has evaluated subsequent events through May 30, 2018, the date the financial statements were available to be issued.

Income Taxes - Effective February 1, 1995, the Corporation elected to be treated as a Subchapter "S" Corporation. The Corporation is not subject to United States Federal or State Corporate Income Taxes; however, they are subject to State Excise Taxes. The Company is subject to branch taxes in the United Kingdom, China, Japan and Germany and corporate taxes in Germany (GmbH) and Singapore (Pte. Ltd).

Foreign Currency Transactions - All transactions are accounted for in U.S. dollars. Foreign currency exchange gains or losses are recorded on the effect of differences in exchange rates between the recording of and the subsequent collection or payment of various assets and liabilities.

The average exchange rates used for October 31 are as follows:

	<u>2017</u>	<u>2016</u>
United Kingdom Pound	\$ 1.35	\$ 1.35
China Yuan Renminbi	\$.145	\$.145
Germany Euros	\$ 1.10	\$ 1.10
Japanese Yen	\$.009	\$.009
Singapore Dollar	\$.734	\$.748

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Major Customer - The Company received 100% of its revenues from an affiliated corporation.

Cash Balances at a Single Financial Institution – The Company maintains cash balances in financial Institutions located in the United Kingdom, China, Germany, Tokyo, Singapore, Japan, and United States. The UK Financial Services Compensation Scheme (FSCS) insures Bank Accounts up to the first 85,000£ in 2017 and 2016. The cash accounts exceeded the limits for October 31, 2017 and 2016 by 248,405£ (335,347 USD) and 393,307£ (530,964 USD), respectively. The Company monitors its balances and its banking relationships regularly to minimize any risk.

Cash balances on October 31 in U.S. Dollars were:

	<u>2017</u>	<u>2016</u>
United Kingdom	\$ 618,551	\$ 760,464
China	31,803	44,620
USD Account - GMBH	241,070	26,755
Germany	62,744	125,586
Japan	44,922	25,494
US dollars	42,063	163,053
Singapore	16,764	14,830
	<u>\$ 1,057,917</u>	<u>\$ 1,160,802</u>

ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2017 AND 2016

NOTE 3 - OTHER CURRENT ASSETS

Other Current Assets at October 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Massachusetts Corporate Excise Tax Deposit	\$ 4,913	\$ 0
Prepaid Insurance	25,614	1,455
Prepaid Miscellaneous	28,337	9,418
Prepaid Rent	19,018	19,580
Prepaid Travel	856	10,450
Security Deposit	94,456	82,755
VAT Reclaimable	44,295	36,046
IRC Section 444 Deposits	37,500	29,286
	<u>\$ 254,989</u>	<u>\$ 188,990</u>

NOTE 4 - ACCRUED EXPENSES

Accrued Expenses at October 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Foreign Tax	\$ 104,851	\$ 58,065
Mass Corporate Tax	0	2,630
Accrued VAT Payable	82,447	0
Payroll	682,599	117,963
Miscellaneous	176,197	169,291
	<u>\$ 1,046,094</u>	<u>\$ 347,949</u>

NOTE 5 - RENT

The Corporation entered into a new lease agreement in the United Kingdom commencing January 1, 2012 for a term of ten years and six months. The first six months is rent-free. The base annual rent payments commencing on June 30, 2012 is for the first five years. The annual rent is payable in advance in four equal quarterly payments of \$20,925. The lease has an escalation clause of 2.5% compounded per annum. The agreed annual rent after five years will be approximately \$95,063 and will further increase to \$107,143 at the end of the tenth year. The option to break the lease in the fifth year has expired.

The Corporation entered into a new three-year lease agreement in Shanghai, China commencing on June 16, 2016, which will expire on June 15, 2019. The base annual rent of \$127,084 is payable in advance monthly in installments of approximately \$10,590, plus management fees.

The Corporation leases offices in Munich, Germany under an at will lease. The right to terminate the contract is available to the Lessor and Lessee with a ten-week notice. The initial base monthly rent was \$1,654 plus 2.5% over base after the first year. The lease is revised annually. The current base monthly rent is approximately \$2,672.

On June 28, 2016, the Corporation entered into a one-year renewable lease agreement commencing January 1, 2017 in Tokyo, Japan. The lease agreement was renewed on August 14, 2017 for the 2018 calendar year. The base monthly rent is \$9,646 ending on December 31, 2018.

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ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2017 AND 2016

NOTE 5 - RENT (CONT.)

On September 1, 2015, the Corporation entered into a three-year lease agreement in Singapore. The base monthly rent is \$3,773, payable in advance. The lease expires on August 31, 2018 and is renewable for an additional two-year term.

The future minimum commitments under these leases are:

Year Ending October 31:

2018	\$	275,395
2019		169,195
2020		95,063
2021		95,063
2022		<u>104,373</u>
	\$	<u>739,089</u>

NOTE 6 - UNCERTAINTY IN INCOME TAXES

The Company has adopted the provisions of the Accounting for Uncertainty in income taxes topic under generally accepted accounting principles in the United States of America. This guidance addresses the accounting uncertainty in income taxes recognized in Company's financial statements and prescribes a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It also provides related guidance on measurement classification, interest and penalties and disclosures. As a result of the implementation of this guidance, the Company has determined that it has no uncertain tax positions requiring accrual and disclosure. The adoption of these standards had no financial statement effect on the Company. The Company files tax returns for United States Federal and Massachusetts reporting purposes. The Company is not under audit in any jurisdiction for any period and its tax returns are current. Generally, tax years are open for Internal Revenue Service audit for up to three years.