

ROCHESTER ELECTRONICS, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020



ROCHESTER ELECTRONICS, LTD.

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INDEPENDENT ACCOUNTANT'S 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, 2021 and 2020, and the related consolidated statements of income and retained earnings and consolidated cash flows for the years then ended, and the related notes to 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, PC

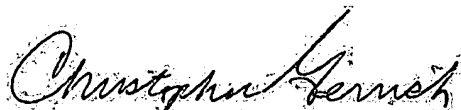
Ryan & Coscia, P.C.
June 1, 2022

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

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash	\$ 4,654,666	\$ 2,650,321
Accounts Receivable, Net	9,341,303	2,376,156
Other Current Assets	<u>1,467,175</u>	<u>884,756</u>
TOTAL CURRENT ASSETS	<u>15,463,144</u>	<u>5,911,233</u>
<u>PROPERTY AND EQUIPMENT:</u>		
Property and Equipment	775,772	682,586
Leasehold Improvements	372,407	351,886
Less: Accumulated Depreciation	<u>(485,015)</u>	<u>(398,527)</u>
NET PROPERTY AND EQUIPMENT	<u>663,164</u>	<u>635,945</u>
<u>OTHER LONG-TERM INVESTMENTS</u>		
Organization Costs, Net	<u>0</u>	<u>0</u>
TOTAL OTHER LONG-TERM INVESTMENTS	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 16,126,308</u>	<u>\$ 6,547,178</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>CURRENT LIABILITIES:</u>		
Accounts Payable - Trade	\$ 3,075,936	\$ 476,966
Accrued Expenses	6,071,096	923,416
Note Payable	<u>715,000</u>	<u>397,965</u>
TOTAL CURRENT LIABILITIES	<u>9,862,032</u>	<u>1,798,347</u>
<u>STOCKHOLDERS' EQUITY:</u>		
Common Stock 200,000 Shares Authorized, 4,000 Issued and Outstanding	2,606	2,606
Retained Earnings	<u>6,261,670</u>	<u>4,746,225</u>
TOTAL STOCKHOLDERS' EQUITY	<u>6,264,276</u>	<u>4,748,831</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 16,126,308</u>	<u>\$ 6,547,178</u>



Financial Statements are approved by Christopher J. Gerrish,
Director of Rochester Electronics, LTD
July 7, 2022

See independent accountant's review report & notes to the consolidated financial statements

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

	<u>2021</u>	<u>2020</u>
SERVICES REVENUE	\$ 18,868,764	\$ 11,243,146
<u>OPERATING EXPENSES:</u>		
Salaries and Wages	11,607,105	6,515,048
Payroll Tax Expense	686,642	448,439
Accounting Services	249,071	222,329
Advertising	641,703	415,680
Amortization Expense	0	186
Bank Service Charges	22,222	19,454
Car Allowance	23,330	22,327
Consulting	466,014	121,538
Depreciation	86,488	80,399
Dues and Subscriptions	17,059	18,402
Employee Benefits	1,152,958	689,875
Employee Recruitment	61,371	38,838
Entertainment	21,084	60,546
Filing Fees	0	0
Insurance	56,447	21,700
Miscellaneous Expense	2,535	9,197
Office Expense	109,235	86,330
Postage	4,197	7,425
Professional Fees	287,460	205,229
Rent	842,869	694,636
Repairs and Maintenance	57,793	43,550
Selling Expense	4,772	123
Taxes – Real Estate	50,240	49,852
Telephone	100,044	98,344
Travel	115,357	256,264
Utilities	13,630	16,900
TOTAL OPERATING EXPENSES	<u>16,679,626</u>	<u>10,142,611</u>
INCOME FROM OPERATIONS	<u>2,189,138</u>	<u>1,100,535</u>
<u>OTHER INCOME:</u>		
Interest Income	6,914	5,316
Interest Expense	(10,871)	(9,273)
Gain (Loss) on Foreign Currency Exchange	(43,896)	0
Other Income	88,442	167,829
TOTAL OTHER INCOME (LOSS)	<u>40,589</u>	<u>163,872</u>
<u>INCOME TAX EXPENSE:</u>		
Corporate Income Tax – Massachusetts	57,700	34,800
Corporate Income Tax – United Kingdom	124,980	71,360
Corporate Income Tax – China	197,105	133,643
Corporate Income Tax – France	25,012	0
Corporate Income Tax – Germany	155,952	40,344
Corporate Income Tax – Japan	80,718	62,484
Corporate Income Tax – Singapore	72,815	79,014
TOTAL INCOME TAX EXPENSE	<u>714,282</u>	<u>421,645</u>
NET INCOME	<u>\$ 1,515,445</u>	<u>\$ 842,762</u>

See independent accountant's review report & notes to the consolidated financial statements

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

	<u>2021</u>	<u>2020</u>
BEGINNING RETAINED EARNINGS	\$ 4,746,225	\$ 3,903,463
NET INCOME	1,515,445	842,762
DIVIDEND DISTRIBUTIONS	0	0
CURRENCY EXCHANGE ADJUSTMENT	<u>0</u>	<u>0</u>
ENDING RETAINED EARNINGS	<u>\$ 6,261,670</u>	<u>\$ 4,746,225</u>

See independent accountant's review report & notes to the consolidated financial statements

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

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 1,515,445	\$ 842,762
Adjustment to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	86,488	80,399
(Gain) Loss on Disposal of Fixed Assets	0	0
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(6,965,147)	(223,114)
(Increase) Decrease in Other Assets	0	185
(Increase) Decrease in Other Current Assets	(582,419)	13,189
Increase (Decrease) in Accounts Payable	2,598,970	(49,064)
Increase (Decrease) in Accrued Expenses	5,147,680	338,895
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,801,017</u>	<u>1,003,252</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	(113,707)	(36,488)
NET CASH USED IN INVESTING ACTIVITIES	<u>(113,707)</u>	<u>(36,488)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Increase (Decrease) in Other Liabilities	0	11,965
Dividend Distributions	0	0
Proceeds from Issuance of Long-Term Debt	715,000	0
Payments on Long-Term Debt	(397,965)	0
Gain (Loss) Currency Exchange Adjustment	0	0
NET CASH USED IN FINANCING ACTIVITIES	<u>317,035</u>	<u>11,965</u>
INCREASE (DECREASE) IN CASH	2,004,345	978,729
CASH, BEGINNING OF YEAR	<u>2,650,321</u>	<u>1,671,592</u>
CASH, END OF YEAR	<u>\$ 4,654,666</u>	<u>\$ 2,650,321</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

<u>Cash Paid For:</u>		
Income Taxes	\$ 381,826	\$ 375,698

See independent accountant's review report & notes to the consolidated financial statements

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ROCHESTER ELECTRONICS, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020

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, Singapore, Canada, France, Japan, Poland and Sweden. 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, 2021 and 2020, 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 Corporation'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. 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, 2021 and 2020 were \$641,703 and \$415,680, respectively.

ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2021 AND 2020

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

Management Review of Subsequent Events - Management has evaluated subsequent events through June 1, 2022, 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, Germany, and France 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>2021</u>	<u>2020</u>
United Kingdom Pound	\$ 1.35	\$ 1.35
China Yuan Renminbi	\$.145	\$.145
Euros (France and Germany)	\$ 1.10	\$ 1.10
Japan Yen	\$.009	\$.009
Singapore Dollar	\$.734	\$.734
Canada Dollar	\$.760	\$.760
Poland Zloty	\$.250	\$.000
Sweden Krona	\$.1145	\$.000

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, Singapore, Japan, Canada and United States. The UK Financial Services Compensation Scheme (FSCS) insures Bank Accounts up to the first 85,000£ in 2021 and 2020. The cash accounts exceeded the limits for October 31, 2021 and 2020 by 765,744£ (1,033,754 USD) and 707,637£ (955,310 USD), respectively. The Company monitors its balances and its banking relationships regularly to minimize any risk.

ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2021 AND 2020

NOTE 2 – CONCENTRATIONS OF CREDIT RISK (CONT.)

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

	<u>2021</u>	<u>2020</u>
United Kingdom	\$ 1,148,504	\$ 1,182,955
China	13,807	57,609
Germany - USD Account	1,928,628	372,266
Germany - EURO Account	239,314	339,571
Japan	457,395	410,559
United States	22,143	1,076
Singapore - USD Account	26	502
Singapore Dollar	321,563	196,925
France	379,727	0
Canada	143,559	88,858
	<u>\$ 4,654,666</u>	<u>\$ 2,650,321</u>

NOTE 3 - OTHER CURRENT ASSETS

Other Current Assets at October 31 consist of the following:

	<u>2021</u>	<u>2020</u>
Prepaid Insurance	\$ 39,370	\$ 45,515
Prepaid Miscellaneous	119,643	104,461
Prepaid Travel	15,046	49,055
Security Deposit	370,769	340,732
VAT Reclaimable	859,847	287,493
IRC Section 444 Deposits	62,500	57,500
	<u>\$ 1,467,175</u>	<u>\$ 884,756</u>

NOTE 4 - ACCRUED EXPENSES

Accrued Expenses at October 31 consist of the following:

	<u>2021</u>	<u>2020</u>
Foreign Tax	\$ 524,767	\$ 210,863
Mass Corporate Tax	0	6,300
Accrued Miscellaneous	1,927,800	289,020
Accrued Payroll	3,618,529	417,233
	<u>\$ 6,071,096</u>	<u>\$ 923,416</u>

ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2021 AND 2020

NOTE 5 - RENT

The Corporation entered into a 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 three-year lease agreement in Shanghai, China commencing June 16, 2016 and expiring on June 15, 2019. The lease was renewed for an additional three-year term expiring June 15, 2022 and was renewed again for an additional three-year term expiring on June 15, 2025. The base monthly rent is approximately \$11,473, payable in advance.

The Corporation entered into a three-year lease agreement in Guangdong, China commencing August 1, 2020 and expiring on July 31, 2023. The base monthly rent is \$2,194. The lease is renewable.

The Corporation entered into a three-year lease agreement in Chengdu, China commencing February 1, 2020 and expiring on January 31, 2023. The base monthly rent is \$1,639 for the first two years and increases to \$1,758 in the third year.

The Corporation entered into a two-year lease agreement in Beijing, China commencing May 1, 2021 and expiring on April 30, 2023. The base monthly rent is \$4,260, payable in advance.

The Corporation leased 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 lease was terminated in January, 2019. On November 1, 2018, the Corporation entered into a five-year lease agreement in Munich, Germany. The base monthly rent is approximately \$10,995 payable in advance. The first four months were rent free. The lease expires on October 31, 2023 and is renewable for an additional five-year term.

On September 1, 2018, the Corporation entered into a two-year lease agreement in Tokyo, Japan. The base monthly rent was approximately \$17,048, payable in advance. The lease expired on August 31, 2020 and was not renewed. The Corporation entered into a three-year lease agreement commencing September 1, 2020 and expiring on August 31, 2023. The base monthly rent is approximately \$19,114.

The Corporation entered into a one-year lease agreement in Osaka, Japan commencing June 1, 2021 and expiring on May 31, 2022. The base monthly rent is \$2,931. The lease was renewed for an additional one-year term, expiring May 31, 2023. The base monthly rent is \$3,077.

The Corporation entered into a three-year lease agreement in Singapore commencing September 1, 2015. The lease expired August 31, 2018 and was renewed for an additional two-year term expiring on August 31, 2020. The lease was renewed for an additional three-year term ending August 31, 2023. The monthly base rent is \$4,635.

The Corporation entered into a three-year lease agreement in Singapore commencing January 1, 2018 for additional office space. The base monthly rent is approximately \$1,854 payable in advance. The lease expired on December 31, 2020 and was renewed for an additional one-year term expiring December 31, 2021. The lease was renewed again for an additional one-year term expiring on December 31, 2022.

See independent accountant's review report

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ROCHESTER ELECTRONICS, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
OCTOBER 31, 2021 AND 2020

NOTE 5 - RENT (CONT.)

The Corporation entered into a three-year lease agreement in Toulouse, France commencing July 1, 2021 and expiring on June 30, 2024. The base monthly rent is \$3,127.

The Corporation entered into a three-year lease agreement in Warsaw, Poland commencing October 1, 2021 and expiring September 30, 2024. The base monthly rent is \$2,902.

The future minimum commitments under these leases are:

Year Ending October 31:

2022	\$	860,548
2023		736,872
2024		301,758
2025		193,189
2026		107,143
	\$	<u>2,199,510</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.

NOTE 7 - SUBSEQUENT EVENTS

After the year end, in December, 2021 and February, 2022, the Company began the process of establishing Branch Offices in Guadalajara, Mexico and Quebec, Canada.