



FINANCIAL STATEMENTS

Years ended March 31, 2020 and 2019

# THE MARKETING ALLIANCE, INC.

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Shareholders  
The Marketing Alliance, Inc.

We have audited the accompanying consolidated financial statements of The Marketing Alliance, Inc. and subsidiaries, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Marketing Alliance, Inc. and subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*UHY* LLP

Albany, New York  
July 16, 2020

**THE MARKETING ALLIANCE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
As of March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,130,973	\$ 3,636,824
Investments	6,762,510	8,566,183
Accounts receivable	12,642,870	11,086,215
Inventory	45,414	82,360
Current portion of notes receivable	334,751	257,720
Prepaid expenses	336,411	363,362
Total current assets	<u>22,252,929</u>	<u>23,992,664</u>
<b>PROPERTY AND EQUIPMENT</b> , net	<u>1,072,685</u>	<u>1,765,521</u>
<b>OTHER ASSETS</b>		
Notes receivable, net of current portion	737,014	693,177
Deposits and other assets	80,028	120,392
Operating lease right-of-use assets	3,091,711	-
Goodwill	883	624,600
Intangible assets, net	28,815	125,137
Deferred taxes	60,800	-
Total other assets	<u>3,999,251</u>	<u>1,563,306</u>
	<u>\$ 27,324,865</u>	<u>\$ 27,321,491</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 10,561,067	\$ 9,047,225
Lines of credit payable	-	4,750,000
Current portion of notes payable	681,104	687,029
Current portion of operating lease liability	769,364	-
Current portion of deferred lease incentive	-	58,853
Total current liabilities	<u>12,011,535</u>	<u>14,543,107</u>
<b>LONG-TERM LIABILITIES</b>		
Lines of credit payable	4,125,000	-
Notes payable	1,207,000	1,888,104
Operating lease liability, net of current portion	2,682,211	-
Deferred taxes	-	425,400
Long-term portion of deferred lease incentive	-	363,178
Total long-term liabilities	<u>8,014,211</u>	<u>2,676,682</u>
Total liabilities	<u>20,025,746</u>	<u>17,219,789</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, no par value; 50,000,000 shares authorized, 8,032,266 shares issued and outstanding	903,023	903,023
Retained earnings	6,396,096	9,198,679
Total shareholders' equity	<u>7,299,119</u>	<u>10,101,702</u>
	<u>\$ 27,324,865</u>	<u>\$ 27,321,491</u>

See notes to consolidated financial statements.

**THE MARKETING ALLIANCE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended March 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Insurance commission and fee revenue	\$ 31,024,429	\$ 29,212,096
Family entertainment revenue	3,066,578	4,453,741
Construction revenue	1,586,158	1,058,206
Other insurance revenue	456,770	457,875
Total revenues	<u>36,133,935</u>	<u>35,181,918</u>
Insurance distributor related expenses:		
Distributor bonuses and commissions	23,946,102	21,745,680
Business processing and distributor costs	1,645,974	1,544,819
Depreciation	8,900	7,000
	<u>25,600,976</u>	<u>23,297,499</u>
Costs of construction:		
Direct and indirect costs of construction	1,263,877	791,364
Depreciation	52,386	68,930
	<u>1,316,263</u>	<u>860,294</u>
Family entertainment costs of sales	837,456	1,276,464
Total costs of revenues	<u>27,754,695</u>	<u>25,434,257</u>
Net operating revenue	<u>8,379,240</u>	<u>9,747,661</u>
General and administrative expenses:		
Compensation	2,890,504	3,507,151
Administrative and other	683,077	721,361
Rent and occupancy	1,430,169	1,695,065
Professional fees	315,957	406,146
Technology	207,593	195,037
Insurance	440,904	463,952
Travel and meetings	256,106	273,210
Depreciation and amortization	466,261	650,063
Goodwill and long-lived asset impairment charge	725,255	416,408
Payroll related	208,318	248,016
Office	465,185	562,189
Licenses and dues	2,635	2,996
Postage	19,580	25,232
Telephone	40,272	35,749
Telemarketing, advertising and promotional	10,600	5,000
Total general and administrative expenses	<u>8,162,416</u>	<u>9,207,575</u>
Operating income	<u>216,824</u>	<u>540,086</u>
Other income (expense):		
Investment loss, net	(1,714,458)	(88,937)
Interest expense	(316,180)	(371,050)
Interest rate swap, fair value adjustment loss	(61,710)	(31,444)
Interest rate swap settlement income	10,167	14,658
Net gain on disposal of property, equipment, and operating entities	182,139	256,638
(Loss) income before provision for income taxes	<u>(1,683,218)</u>	<u>319,951</u>
Income tax (benefit) expense	(406,765)	50,200
Net (loss) income	<u>\$ (1,276,453)</u>	<u>\$ 269,751</u>

See notes to consolidated financial statements.

**THE MARKETING ALLIANCE, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years Ended March 31, 2020 and 2019**

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
April 1, 2018	8,032,266	\$ 903,023	\$ 9,491,187	\$ 10,394,210
Dividends paid	-	-	(562,259)	(562,259)
Net income	-	-	269,751	269,751
March 31, 2019	8,032,266	\$ 903,023	\$ 9,198,679	\$ 10,101,702
<b>Dividends paid</b>	-	-	<b>(1,526,130)</b>	<b>(1,526,130)</b>
<b>Net loss</b>	-	-	<b>(1,276,453)</b>	<b>(1,276,453)</b>
<b>March 31, 2020</b>	<b><u>8,032,266</u></b>	<b><u>\$ 903,023</u></b>	<b><u>\$ 6,396,096</u></b>	<b><u>\$ 7,299,119</u></b>

*See notes to consolidated financial statements.*

**THE MARKETING ALLIANCE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (1,276,453)	\$ 269,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	527,547	725,993
Amortization of right-of-use asset	1,174,295	-
Goodwill and long-lived asset impairment charge	725,255	416,408
Stock based compensation	-	(75,694)
Realized and unrealized investment losses	1,768,461	184,285
Deferred taxes	(486,200)	(219,300)
Interest rate swap fair value adjustment	61,710	31,444
Gain on disposal of property, equipment, and operating entities	(182,139)	(256,638)
Amortization of deferred lease incentive	-	(61,587)
Changes in operating assets and liabilities:		
Accounts receivable	(1,556,655)	(2,168,287)
Inventory	36,946	12,775
Prepaid expenses and other assets	26,951	146,404
Deposits and other assets	40,364	24,540
Accounts payable and accrued expenses	1,452,132	1,639,375
Operating lease liability	(1,236,462)	-
Reimbursement from landlord of leasehold incentive	-	125,000
Net cash provided by operating activities	<u>1,075,752</u>	<u>794,469</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(152,843)	(253,365)
Proceeds from sale of property, equipment, operating entities	495,055	256,638
Principal payments received on promissory notes	153,965	140,484
Proceeds from sale of investments	6,123,769	3,070,980
Purchases of investments	(6,088,557)	(3,194,246)
Advances under promissory notes	(274,833)	(139,413)
Net cash provided by (used in) investing activities	<u>256,556</u>	<u>(118,922)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(1,526,130)	(562,259)
Principal payments on notes payable	(687,029)	(717,619)
Net (payments) advances under lines of credit	(625,000)	810,000
Net cash used in financing activities	<u>(2,838,159)</u>	<u>(469,878)</u>
Change in cash and cash equivalents	(1,505,851)	205,669
Cash and cash equivalents, beginning of period	3,636,824	3,431,155
Cash and cash equivalents, end of period	<u>\$ 2,130,973</u>	<u>\$ 3,636,824</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the period for:		
Interest	<u>\$ 343,980</u>	<u>\$ 364,461</u>
<b>NON-CASH INVESTING ACTIVITIES</b>		
Right-of-Use Asset	<u>\$ 4,266,006</u>	<u>\$ -</u>
Operating Lease Liability	<u>\$ 4,688,037</u>	<u>\$ -</u>

See notes to consolidated financial statements.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Marketing Alliance, Inc. (the “Company”) is a consortium of independent life insurance general agents located throughout the United States. Headquartered in St. Louis, Missouri, the Company provides the benefits of pooled production and resources, including access to carriers and services, that otherwise may not be available to the agents.

The Company, through six subsidiaries (nine in 2019), provides family entertainment in Florida, Missouri and North Carolina under the name “Monkey Joe’s.”

The Company, through a subsidiary, provides construction, heavy equipment and trenching services in Iowa.

**Adoption of New Accounting Standards:**

**Leases:**

Effective April 1, 2019, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, “Leases (ASC Topic 842)” (“ASU 2016-02”) using the modified retrospective transition approach as of the period of adoption. The Company’s financial statements for periods prior to April 1, 2019 were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASC Topic 842 and previous accounting principles generally accepted in the United States of America (“GAAP”) is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Upon adoption of ASC Topic 842, the Company recorded approximately \$4,266,000 million of right-of-use assets, net of deferred lease incentive, associated with operating leases in our consolidated balance sheet, \$1,064,000 of current liabilities associated with operating leases in other current liabilities in our consolidated balance sheet and \$3,624,000 of long-term liabilities associated with operating leases in other long-term liabilities in our consolidated balance sheet.

**Significant Accounting Policies**

**Basis of accounting and principles of consolidation:**

The Company’s policy is to prepare its financial statements on the accrual basis. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

<u>Entity</u>	<u>Year operations began</u>
TMA Marketing, Inc. (“Marketing”)	2004
Empire Construction and Trenching (“Empire”)	2011
TMA Realty, Inc. (“Realty”)	2014
TMA Play Pines, Inc.	2015
TMA Play Gastonia, Inc.	2015
TMA Play Pineville, Inc.	2015
TMA Play University Inc.	2015
TMA Play Matthews, Inc.	2015
TMA Play Rivers, Inc.	2016
TMA Play MO, Inc.	Inactive
TMA Play IL, Inc.	Inactive
TMA Play Sunrise, Inc.	Inactive
TMA Technologies, Inc. (“Technologies”)	Inactive
Felton McCrary Brokerage, Inc. (“Felton”)	Inactive

All significant intercompany accounts and transactions have been eliminated.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant Accounting Policies (Continued)**

**Revenue recognition:**

All of the Company's sources of revenue are separately presented in the consolidated statements of operations. Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Sales and other government taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense.

Commission and fee income from insurance carriers, including production bonuses and deferred first year commissions, is earned as of the effective date of coverage. Commission income is recognized when the policy has been placed and collection of the premium is probable. At this point all performance obligations have been satisfied. The Company recognize commissions on premiums directly billed by carriers as revenue when we have obtained the data necessary to reasonably determine such amounts. Historically, we have not been able to reasonably determine these types of commission revenues until we have received the cash or other specific information from the carriers.

Construction revenue from contracts with customers from long-term contracts primarily on the percentage-of-completion method of accounting for fixed price construction contracts or on the cost-plus fee contract method. Under the fixed price method, revenue is determined by applying the percentage-of-completion of contracts in each year to estimated final revenue on a ratio of costs incurred to date to total estimated costs. Revenue under the cost-plus fee method is recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost to cost method. That method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term. Costs of construction include all direct material and labor costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. Change orders are not recognized in revenue until recovery is probable and collectability is probable. Revenues recognized in excess of amounts billed are included in accounts receivable. Contracts normally have only one performance obligation.

Family entertainment revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit card at the point of sale. Revenues are recognized on a daily basis on the spend at each location. Revenues related to gift cards and discount entertainment tickets are deferred and recognized when redeemed, since at the time of purchase the liability transfers to the franchisor.

**Cash and cash equivalents:**

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. From time to time, the Company has on deposit with certain banks and brokerage firms, cash and cash equivalents which exceed the amount subject to Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) limits. The Company attempts to mitigate this risk by depositing its cash and cash equivalents with high credit quality institutions.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant Accounting Policies (Continued)**

**Inventory:**

Inventories from construction and family entertainment operations are measured at the lower of cost or net realizable value. Inventory consists of construction raw materials, food, beverages, merchandise, paper products and other supplies which are valued at the lower of cost or net realizable value using the First-In, First-Out method.

**Investments:**

Investments consist principally of common stocks, preferred stocks, mutual funds, fixed income securities, limited partnership interest, and notes receivable. Investments are classified as trading securities and are stated at fair value or cost. Net realized gains and losses, as well as unrealized gains and losses, are reflected in the statements of operations.

**Fair value measurements:**

The Company follows the accounting for fair value measurements and disclosures for financial assets and liabilities, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and fair value measurements should be determined based on assumptions that market participants would use in pricing an asset or liability.

The accounting for fair value measurements and disclosures for financial assets and liabilities establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three general levels: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

**Income taxes:**

The Company follows guidance issued by the Financial Accounting Standards Board ("FASB") regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

None of the Company's federal or state income tax returns is currently under examination by the Internal Revenue Service ("IRS") or state authorities.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant Accounting Policies (Continued)**

**Income taxes (Continued)**

Deferred taxes are provided on the asset and liability method whereby deferred taxes are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A tax valuation allowance is established as needed, to reduce net deferred tax assets to the amount expected to be realized.

**Interest rate swap agreement:**

The Company entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its variable rate term loan (Note 12). The swap agreement is a contract to exchange the debt obligation's variable rate interest payments for fixed rate interest payments on certain notional amounts expiring in October 2022. The notional amount of the interest rate swap agreement is used to measure amounts to be paid or received and does not represent the amount of exposure or credit loss. The actual market or credit exposure of this type of financial instrument is significantly less than the notional amount. The primary risk associated with the swap is the inability of the counterparty to meet the terms of the contract. The Company does not expect the counterparty to fail to meet its respective obligations. The agreement matures in October 2022. The interest rate swap is included in accounts payable and accrued expenses as of March 31, 2020 and 2019. The Swap was terminated June 3, 2020 for a breakage fee of \$32,000 (see Note 12).

FASB ASC 815, *Derivatives and Hedging*, requires the Company to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value in the consolidated balance sheet and recognizing the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income as appropriate. The interest rate swap is considered a free standing derivative and is not designated as a hedge.

**Property and equipment:**

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided utilizing straight line and accelerated methods over estimated useful lives ranging from 5 to 40 years.

**Notes receivable:**

Notes receivable are stated at unpaid principal balances, less an allowance for uncollectable amounts. Interest is recognized over the term of the note, and is calculated using the simple interest method on principal amounts outstanding. Notes are considered impaired when based on current information or factors, it is probable that the Company will not collect the principal and interest payments according to the loan agreement. Notes are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the notes are impaired or collection of interest is doubtful. At March 31, 2020 there was an allowance of \$67,000, none for March 31, 2019.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant Accounting Policies (Continued)**

**Goodwill and purchased intangible assets:**

The Company's methodology for allocating the purchase price relating to acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. The Company assigns assets acquired (including goodwill) and liabilities assumed as of the date of acquisition.

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends and lower projections of profitability that may impact future operating results.

The Company amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The Company assesses the fair value of the assets based on the amount of the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of an asset, plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

Intangible assets are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. The Company evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization.

We performed our annual impairment analysis and recorded goodwill and intangible impairment charge of \$405,866 and \$349,300 for the years ended March 31, 2020 and 2019, respectively related to the Monkey Joe locations.

**Long-lived asset impairment:**

Long-lived assets include property and equipment and indefinite-lived intangible assets. Property and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Management uses considerable judgment to determine key assumptions, including projected revenue, and appropriate discount rates. We performed our annual asset impairment test as of March 31, 2020 and 2019. For the year ended March 31, 2020 and 2019 we recognized an impairment loss on long-lived assets of \$319,389 and \$67,108, respectively at our Monkey Joe locations.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant Accounting Policies (Continued)**

**Estimates:**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Reclassifications:**

Certain amounts where appropriate have been reclassified in the prior year to conform to the current year presentation.

**Subsequent events:**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 16, 2020 the date the financial statements were available for issuance.

**Recent Accounting Pronouncements**

**Fair Value Measurement:**

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for us April 1, 2020, and earlier adoption is permitted. The Company is currently evaluating the impact of adoption of ASU 2018-13 on the consolidated financial statements.

**NOTE 2 — INVESTMENTS**

Investments are comprised of:

	<u>2020</u>	<u>2019</u>
Investments at fair value	\$ 5,762,510	\$ 7,566,183
Common stock, recorded at cost	1,000,000	1,000,000
	<u>\$ 6,762,510</u>	<u>\$ 8,566,183</u>

The cost, fair value and gross unrealized gains and losses of its fair value investments recorded at fair value by major security type are as follows:

	<u>March 31, 2020</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Common stocks	\$ 4,956,597	\$ 1,214,675	\$ 974,593	\$ 5,196,679
Fixed income securities	154,924	-	100,000	54,924
Limited partnership	236,461	274,446	-	510,907
	<u>\$ 5,347,982</u>	<u>\$ 1,489,121</u>	<u>\$ 1,074,593</u>	<u>\$ 5,762,510</u>

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 2 — INVESTMENTS (Continued)**

	<b>March 31, 2019</b>			<b>Fair Value</b>
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
Common stocks	\$ 4,809,846	\$ 1,566,305	\$ 220,677	\$ 6,155,474
Fixed income securities	158,490	-	100,000	58,490
Mutual funds	186,347	31,975	42,840	175,482
Limited partnership	450,000	726,737	-	1,176,737
	<u>\$ 5,604,683</u>	<u>\$ 2,325,017</u>	<u>\$ 363,517</u>	<u>\$ 7,566,183</u>

Proceeds from the sale of investments were \$6,123,769 for the year ended March 31, 2020, resulting in gross realized gains of \$1,586,021 and realized losses of \$1,770,008.

Proceeds from the sale of investments were \$3,070,980 for the year ended March 31, 2019, resulting in gross realized gains of \$719,228 and realized losses of \$248,273.

Investments are pledged as collateral pursuant to margin and borrowing agreements entered into by the Company. No amounts were outstanding at March 31, 2020 and 2019 under the margin agreements.

Net investment income for 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Interest and dividend income	\$ 160,969	\$ 179,623
Realized (losses) gains on investments, net	(183,987)	470,955
Unrealized losses on investments, net	(1,584,474)	(655,240)
Investment management fees	(106,966)	(84,275)
Net investment income	<u>\$ (1,714,458)</u>	<u>\$ (88,937)</u>

In connection with notes receivable due from a private company, the Company received two warrants to purchase 300,000 shares of stock in the private company at rates ranging from \$1.20 to \$5.00 per share or current share price, whichever is lower, depending on when the warrants are exercised. The warrants of 150,000 each, were amended in October 2018 to change the expiration dates. The warrants can be exercised at any time through May 2022 and September 2024. The fair value of the warrants was determined to be zero at both the date of receipt, date of amendment, and March 31, 2020.

The Company follows ASU 2016-01 to account for non-marketable securities. The Company adjusts the carrying value of non-marketable equity securities to fair value upon observable transactions for identical or similar investments of the same issuer or impairment (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense), net. No adjustment of the nonmarketable securities was required for the years ended March 31, 2020 and 2019.

**THE MARKETING ALLIANCE, INC.**  
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**NOTE 2 — INVESTMENTS (Continued)**

The impairment model for equity investments subject to this election is a single-step model. Under the single-step model, the Company is required to perform a qualitative assessment each reporting period to identify impairment. When a qualitative assessment indicates an impairment exists, the Company would estimate the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment.

Investments without readily determinable fair value at cost less impairment and including adjustments for observable price changes are as follows:

	<u>2020</u>	<u>2019</u>
Common Stock	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

During 2017, the Company invested approximately \$1,000,000 in the common stock of a private company. The Company owns under 10% of the common stock at March 31, 2020.

**NOTE 3 — FAIR VALUE MEASUREMENTS**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at March 31, 2020 and 2019:

*Common and preferred stocks, and fixed income securities:* Valued at the closing price reported on the active market on which the individual securities are traded. Securities traded on inactive markets are valued by reference to similar instruments are categorized in Level 2. Securities which are not traded on active or inactive markets and no comparable assets exist are categorized in Level 3 and are valued using internal models.

*Mutual funds:* Valued at the daily closing price as reported by the fund.

*Limited partnership investment:* There is one limited partnership investment. The investment is valued using data as provided by the general partner. This limited partnership actively trades and invests (by establishing both "long" and "short" positions) in domestic and foreign equity securities and options, equity futures contracts and options, other private placement investments, and securities issued or guaranteed by the United States government and related instruments.

*Interest Rate Swap:* Valued at fair value derived from mid-market values. A single value for each derivative transaction is used, even if comprised of multiple legs. Value has been measured based on estimates of the amount needed to settle the agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models. The interest rate swap was a liability value of \$34,000 as of March 31, 2020. As of March 31, 2019 the swap had an asset value of \$28,000. The swap was terminated June 3, 2020 for a breakage fee of \$32,000 (see Note 12).

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 — FAIR VALUE MEASUREMENTS (Continued)**

The following table presents the fair value hierarchy for the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2020:

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 3,968,238	\$ 1,165,050	\$ 63,391	\$5,196,679
Fixed income	-	-	54,924	54,924
Limited partnership	-	-	510,907	510,907
Insignificant Level 3 Assets	-	-	-	-
Total assets at fair value	<u>\$ 3,968,238</u>	<u>\$ 1,165,050</u>	<u>\$ 629,222</u>	<u>\$5,762,510</u>

The following table presents the fair value hierarchy for the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019:

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 4,994,648	\$ 1,089,000	\$ 71,826	\$6,155,474
Fixed income	-	-	58,490	58,490
Mutual funds	175,482	-	-	175,482
Limited partnership	-	-	1,176,737	1,176,737
Insignificant Level 3 Assets	-	-	-	-
Total assets at fair value	<u>\$ 5,170,130</u>	<u>\$ 1,089,000</u>	<u>\$ 1,307,053</u>	<u>\$7,566,183</u>

The following is a roll-forward of Level 3 fair value instruments for the years ended March 31, 2020 and 2019:

	Limited Partnership Interest	Common Stocks	Fixed Income	Other
Balance, April 1, 2018	\$ 1,517,167	\$ 62,948	\$ 100,000	\$ -
Unrealized loss relating to instruments still held at the reporting date	(140,429)	(5,933)	-	-
Purchases and (redemptions)	(200,001)	14,811	(41,510)	-
Balance, March 31, 2019	1,176,737	71,826	58,490	-
Unrealized loss relating to instruments still held at the reporting date	(452,291)	(8,435)	-	-
Redemptions	(213,539)	-	(3,566)	-
Balance, March 31, 2020	<u>\$ 510,907</u>	<u>\$ 63,391</u>	<u>\$ 54,924</u>	<u>\$ -</u>

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 3 — FAIR VALUE MEASUREMENTS (Continued)**

Quantitative information about Level 3 Fair Value Investments:

	<u>Fair Value at March 31, 2020</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>
Fixed income securities	\$ 54,924	Discounted expected cash flows	Probability of default (50%) Discount rate 4.5%
Common stocks	\$ 63,391	Conversion rate of recent private transaction	Recent private transaction rates
Limited partnership investment	\$ 510,907	See (A) below	See (A) below
Insignificant Level 3 Assets	\$ -	See (B) below	See (B) below

- (A) Securities that are listed on a national securities exchange or NASDAQ or over-the-counter market are valued at the last reported sales price on the last day of the year, or the last reported bid and asked price. Securities for which market quotations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures established by the General Partner, such as pricing models, discounted cash flow methodologies or similar techniques.
- (B) Represents the aggregate amount of Level 3 assets measured at fair value on a recurring basis that are individually and in the aggregate insignificant.

The nature and risk of certain investments by major category at March 31, 2020 are presented as follows:

	<u>Fair Value</u>	<u>Redemption Provisions</u>
Limited Partnership	\$510,907	Quarterly with 30 days notice

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company's investment committee, which reports to the Board of Directors, sets the valuation policies for investments and is responsible for the determination of fair value.

The investment committee, together with independent investment advisors, (1) compares price changes between periods to current market conditions, (2) compares trade prices of securities to fair value estimates, (3) compares prices from multiple pricing sources, and (4) performs ongoing due diligence to confirm that independent pricing services use market-based parameters for valuation. Valuation approaches are reviewed on an ongoing basis and revised as necessary based on changing market conditions to ensure values represent a reasonable exit price.

**NOTE 4 — ACCOUNTS RECEIVABLE**

Accounts receivable at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Commissions receivable	\$ 2,277,701	\$ 2,170,830
Deferred first year commissions	10,318,353	8,872,477
Construction receivables	27,360	32,775
Other	19,456	10,133
	<u>\$ 12,642,870</u>	<u>\$ 11,086,215</u>

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 5 — NOTES RECEIVABLE**

Notes receivable at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Distributor notes receivable, in aggregate monthly installments of approximately \$19,700 including interest at a rate of 5% per annum, final maturity in June 2027. The notes are generally collateralized by amounts payable pursuant to individual distribution agreements and security interests in certain assets of the distributors. Certain notes are personally guaranteed by principals of the distributors.	\$1,004,375	\$ 950,897
Note receivable of \$145,000 net of imputed interest of \$10,610 (at 5%), net of allowance for doubtful amounts of \$67,000 (see Note 6)	<u>67,390</u>	<u>-</u>
Total notes receivable	1,071,765	950,897
Less current portion	<u>334,751</u>	<u>257,720</u>
Long-term portion	<u>\$ 737,014</u>	<u>\$ 693,177</u>

The Company loans money to its distributor agencies primarily to provide them with working capital.

Estimated future principal payments to be received as of March 31, 2020 are as follows:

2021	\$ 334,751
2022	148,308
2023	75,523
2024	19,056
2025	480,185
Thereafter	<u>13,942</u>
	<u>\$1,071,765</u>

**NOTE 6 — INTANGIBLE ASSETS AND GOODWILL**

Intangible assets and goodwill changes are as follows for each of the years ended March 31:

	<b>Beginning Balance, April 1, 2019</b>	<b>Amortization</b>	<b>Impairment/ Disposal</b>	<b>Ending Balance, March 31, 2020</b>
Covenants Not To Compete	\$ 446,600	\$ -	\$ (265,800)	\$ 180,800
Franchise Agreements	475,000	-	(212,150)	262,850
Accumulated Amortization	<u>(796,463)</u>	<u>(37,475)</u>	<u>419,103</u>	<u>(414,835)</u>
	<u>\$ 125,137</u>	<u>\$ (37,475)</u>	<u>\$ (58,847)</u>	<u>\$ 28,815</u>
Goodwill	<u>\$ 624,600</u>	<u>\$ -</u>	<u>\$ (623,717)</u>	<u>\$ 883</u>

**THE MARKETING ALLIANCE, INC.**  
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**NOTE 6 — INTANGIBLE ASSETS AND GOODWILL (Continued)**

	<b>Beginning Balance, April 1, 2018</b>	<b>Amortization</b>	<b>Impairment</b>	<b>Ending Balance, March 31, 2019</b>
Covenants Not To Compete	\$ 446,600	\$ -	\$ -	\$ 446,600
Franchise Agreements	475,000	-	-	475,000
Accumulated Amortization	<u>(726,003)</u>	<u>(70,460)</u>	<u>-</u>	<u>(796,463)</u>
	<u>\$ 195,597</u>	<u>\$ (70,460)</u>	<u>\$ -</u>	<u>\$ 125,137</u>
Goodwill	<u>\$ 973,900</u>	<u>\$ -</u>	<u>\$ (349,300)</u>	<u>\$ 624,600</u>

Amortization expense for the years ended March 31, 2020 and 2019 was \$37,475 and \$70,460, respectively.

For the year ended March 31, 2020 and 2019 we recorded a goodwill and intangible asset impairment of \$405,866 and \$349,300, respectively, at our Monkey Joe's locations. Revenue challenges continue at these locations as well as increased competition from varying types of family entertainment venues. Additionally during the last quarter of the year ended March 31, 2020 we are impacted by government forced closures due to COVID-19.

Since April, 1, 2019 the Company has sold the assets of two Monkey Joes' and one Monkey Joe's was sold for its equipment and ongoing operations. One was sold with approximately thirty-two months remaining on the current lease as of March 31, 2020, which the Company is still a guarantor for rent on the remaining months behind the purchaser. The guaranty supports total remaining lease payments which approximate \$320,000 as of March 31, 2020. Total cash proceeds from the sales were approximately \$165,000, a short term receivable of \$30,000 paid prior to March 31, 2020, and a note receivable approximating \$145,000 less imputed interest of \$10,000, less an allowance for doubtful accounts of \$67,000. Total loss on the sale of the assets was approximately \$73,000. Write off of goodwill was approximately \$277,000 was part of the loss on the sale of the assets.

Estimated amortization for the next five years is as follows:

2021	\$ 14,016
2022	10,568
2023	<u>4,231</u>
	<u>\$ 28,815</u>

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020 and 2019**

**NOTE 7 — PROPERTY AND EQUIPMENT**

Net property and equipment is comprised of the following at March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Office equipment, furniture and fixtures	\$ 2,645,758	\$ 3,706,430
Construction equipment	1,204,321	1,457,191
Building	216,000	216,000
Leasehold improvements	1,033,648	1,073,558
Land	29,604	29,604
	<u>5,129,331</u>	<u>6,482,783</u>
Less accumulated depreciation	<u>4,056,646</u>	<u>4,717,262</u>
	<u>\$ 1,072,685</u>	<u>\$ 1,765,521</u>

Depreciation expense was \$490,072 and \$655,533 for the years ended March 31, 2020 and 2019, respectively.

An asset impairment charge of \$319,389 and \$67,108 was recorded for the years ended March 31, 2020, respectively.

**NOTE 8 — LINES OF CREDIT**

The Company had five lines of credit available:

The first line of credit borrowing was under a \$3,500,000 short-term bank line of credit facility. Borrowings under the line of credit bear interest at the London Interbank Offered Rate ('LIBOR') plus 2% (2.99% at March 31, 2020), and is collateralized by all accounts receivable, inventory and property and equipment. The credit facility contains both financial and non-financial covenants and matures April 30, 2020. At March 31, 2020, \$3,250,000 was outstanding. At March 31, 2019, \$2,850,000 was outstanding.

Under a second line of credit, the Company had available a \$500,000 (\$750,000 as of March 31, 2019) revolving line of credit bearing interest based on changes in an independent index which is the Highest Wall Street Journal Prime Base Lending Rate. Interest on the unpaid balance of the note will be calculated using a rate of .25 percentage points over the Index. The credit facility requires an annual 30 day clean-up period. The index at March 31, 2020 is 3.25%, resulting in a rate of 3.5%. The note is due on demand. At March 31, 2020, \$500,000 was outstanding, and at March 31, 2019 \$725,000 was outstanding.

Under the third line of credit, the Company had available a \$1,000,000 demand grid note credit facility. Borrowings under the note bear interest at prime plus one quarter percent (3.5% at March 31, 2020) and are due on demand. The credit facility is subject to an annual review by the lender. At March 31, 2020, \$375,000 was outstanding. At March 31, 2019, \$950,000 was outstanding.

Under the fourth line of credit, the Company had available a \$250,000 revolving line of credit facility. Borrowings under the note bear interest at prime plus 1.5% (with a floor of 4.75%) (4.75% at March 31, 2020) and is due on demand. The credit facility requires an annual 30 day clean-up period, is subject to an annual review by the lender and requires that the Company maintain a minimum deposit account balance of \$250,000 with the lender. At March 31, 2020 there were no amounts outstanding. At March 31, 2019, \$225,000 was outstanding.

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 — LINES OF CREDIT** (Continued)

Under the fifth line of credit commencing on December 1, 2018, the Company had available a \$750,000 revolving term note credit facility. Borrowings under the note bear interest at a fixed rate of 2.7%, with a maturity date of December 30, 2019. In connection with the revolving term note the Company executed a pledge agreement of the Company's deposit accounts of \$750,000. This line of credit was closed during December of 2019, and the pledged collateral was subsequently released.

Subsequent to year end on June 3, 2020 all lines of credit were paid off and closed in connection with a new term loan financing. A new line of credit of \$1,000,000 was established with a bank as part of the payoff of existing line of credit balances. See Note 12 for additional details on the refinancing terms.

**NOTE 9 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses at March 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 298,848	\$ 347,114
Technology benefits	183,982	181,678
Distributor commissions	2,632,428	2,291,939
Deferred first year commissions	7,030,531	5,477,535
Accrued compensation	400,757	595,503
Other	14,521	153,456
	<u>\$10,561,067</u>	<u>\$9,047,225</u>

**NOTE 10 — INCOME TAXES**

Income tax expense (benefit) at March 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Current	\$ 79,435	\$ 269,500
Deferred	(486,200)	(219,300)
	<u>\$ (406,765)</u>	<u>\$ 50,200</u>

Deferred tax assets and liabilities at March 31, 2020 and 2019 were attributable to the following:

	<u>2020</u>	<u>2019</u>
Deferred Tax Assets:		
Stock appreciation compensation	\$ 50,700	\$ 50,700
Intangible assets	77,800	139,800
Capital loss carryforwards	109,100	-
Other	6,100	5,600
Impairment on investment other than temporary	23,500	23,500
Total gross deferred tax assets	<u>267,200</u>	<u>219,600</u>
Deferred Tax Liabilities:		
Unrealized gains on investments	(125,800)	(435,000)
Property and equipment	(80,600)	(210,000)
Total gross deferred tax liabilities	<u>(206,400)</u>	<u>(645,000)</u>
Total net deferred tax assets (liabilities)	<u>\$ 60,800</u>	<u>\$ (425,400)</u>

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 10 — INCOME TAXES (Continued)**

The reconciliation of income tax (benefit) expense calculated at the Federal tax statutory rate to the Company's effective rate is set forth below:

	2020		2019	
	\$	%	\$	%
Tax at federal statutory rate	\$ (353,500)	21%	\$ 67,200	21%
State income taxes, net of federal benefit	(47,100)	3%	11,200	3%
Permanent differences	(7,800)	0%	(5,800)	-2%
Prior year accrual adjustment	-	0%	(24,700)	-7%
Other	1,635	0%	2,300	1%
	\$ (406,765)	24%	\$ 50,200	16%

**NOTE 11 — LEASES**

The following table presents the components of our right-of-use assets and liabilities related to leases and their classification in our consolidated balance sheet at March 31, 2020:

Components of lease balances	
Assets:	
Right-of-Use-Assets	\$ 3,091,711
Liabilities:	
Current portion of operating lease liabilities	\$ 769,364
Operating lease liabilities - long term	2,682,211
	\$ 3,451,575

The Company determines if an arrangement is a lease at inception of the contract. Our right-of-use assets represent our right to use the underlying assets for the lease term and our lease liabilities represent our obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use our estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. Our incremental borrowing rates are based on rates our bank would provide us on a fixed rate over the term of the lease.

Operating leases are primarily for real estate for our Monkey Joe locations. As of March 31, 2020 there are no finance leases. Our real estate lease agreements typically have initial terms of five to 10 years, and our equipment lease agreements typically have initial terms of three years. Leases with an initial term of 12 months or less ("short-term leases") are not recorded in our consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that can extend the lease term usually for five years. The exercise of lease renewal options is at the Company's sole discretion. In general, the Company does not consider renewal options to be reasonably likely to be exercised, therefore renewal options are generally not recognized as part of our right-of-use assets and lease liabilities. Certain leases also include options to purchase the leased property. The useful life of assets and leasehold improvements are limited by the expected lease term, unless there is a

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 — LEASES** (Continued)

transfer of title or purchase option reasonably certain of exercise. The majority of the Company's equipment leases have terms of three years.

Certain of our lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. Our lease agreements do not contain any material residual value guarantees, restrictions or covenants.

We have elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. We have also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases.

The following table presents the components of our operating lease expense and their classification in our Consolidated Statement of Operations for the year ended March 31, 2020:

<b>Components of lease expense</b>	<b>Classification on Consolidated Statement of Operations</b>	<b>March 31, 2020</b>
Operating lease expense - real estate	Rent and occupancy	\$ 1,121,946
Variable lease expense	Rent and occupancy	308,223
		<u>\$ 1,430,169</u>
Operating lease expense - equipment	Included in office expense	<u>\$ 37,200</u>

The weighted-average lease terms and discount rates for operating leases are presented in the following table:

	<b>March 31, 2020</b>
Weighted-average remaining lease term (years)	5.25
Weighted-average discount rate	4.25%

Cash flow and other information related to leases is included in the following table:

	<b>Year Ended March 31, 2020</b>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows for operating leases	\$ 1,159,146
Right-of-use assets in exchange for operating leases	\$ -
Right-of-use assets leases terminated	\$ (332,685)

**THE MARKETING ALLIANCE, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 — LEASES (Continued)**

Future maturities of lease liabilities at March 31, 2020 are presented in the following table:

	<b>Operating Leases</b>
2021	\$ 967,683
2022	891,891
2023	555,703
2024	496,424
2025	499,104
Thereafter	<u>525,710</u>
Total lease payments	3,936,515
Less: Imputed interest	<u>484,940</u>
Total lease obligation	3,451,575
Less: Current portion	<u>769,364</u>
Long-term lease obligation	<u><u>2,682,211</u></u>

**NOTE 12 — LONG-TERM DEBT**

Long-term debt as of March 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Note payable to a bank, payable in 84 monthly principal payments ranging from \$50,731 to \$62,717 per month plus interest, payments commenced on November 30, 2015. The interest rate on the note is 2% plus LIBOR (2.99% at March 31, 2020). The note matures on October 31, 2022. The note is collateralized by all deposits at the bank, accounts receivable, inventory and property and equipment and contains both financial and non-financial covenants.	\$1,888,104	\$2,575,133
Less current portion	<u>681,104</u>	<u>687,029</u>
Long-term portion	<u><u>\$ 1,207,000</u></u>	<u><u>\$ 1,888,104</u></u>

On June 3, 2020, the Company entered into a loan agreement with a bank to refinance all of its existing debt including \$4,125,000 in line of credit balance. Pursuant to the loan agreement, the bank was providing the Company with a sixty month secured term loan based on a seven year amortization in the amount of \$5.9 million. The term loan bears interest at fixed rate of 3.35%, with repayment beginning on July 3, 2020. The loan agreement also requires a sixty-seven percent collateral amount with the bank throughout the loan term on the note payable balance. The loan also has both financial and non-financial covenants that first require financial covenant testing for the period ending March 31, 2021. In addition, the agreement also establishes a line of credit balance of \$1,000,000 with the bank, with an interest rate of the one month LIBOR plus 1.75% with a 3% floor. The loans are also collateralized by all accounts receivable, inventory and property and equipment. All other lines of credit were required to be closed and balances settled. In accordance with ASC

**THE MARKETING ALLIANCE, INC.**  
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**NOTE 12 — LONG-TERM DEBT (Continued)**

470-10-45-14(a), the Company reclassified a portion of the existing debt and line of credit balance to long-term on the balance sheet given the Company had the intent and ability to refinance the short-term obligations.

The future principal maturities below include the \$4,125,000 line of credit balances as of March 31, 2020 which were settled with proceeds from the refinancing along with the \$1,888,104 in term note debt that was subsequently refinanced.

Future principal maturities at March 31, 2020 are as follows:

<u>Period Ending March, 31</u>	
2021	\$ 681,104
2022	780,000
2023	807,000
2024	834,000
2025	862,000
Thereafter	<u>2,049,000</u>
	<u><u>\$6,013,104</u></u>

Subsequent to year end the Company and its subsidiaries (the “Borrowers”), were granted loans (the “Loans”) from a bank for approximately \$520,000, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The Loans, which were in the form of Notes, mature in a minimum of two years and bears interest at a rate of 1% per annum. The Notes may be prepaid by the Borrowers at any time prior to maturity with no prepayment penalties. Funds from the Loans may only be used for payroll costs, costs used to continue group health care benefits, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Company expects to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

**NOTE 13 — SHAREHOLDERS’ EQUITY**

The Company announced on April 22, 2019, that its Board of Directors authorized a cash dividend of \$0.19 per share for shareholders of record as of May 10, 2019. The dividend was paid on May 30, 2019.

The Company announced December 7, 2018, that its Board of Directors authorized a special cash dividend of \$0.07 per share for shareholders of record January 4, 2019. The dividend was paid in January 2019.

Subsequent to March 31, 2020 the Company announced June 4, 2020, that its Board of Directors authorized a dividend of \$0.05 per share for shareholders of record June 19, 2020. The dividend was paid on June 30, 2020.

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**NOTE 14 — COMMITMENTS AND CONTINGENCIES**

**Legal Contingency**

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Company's financial position.

**Surety Bond**

Empire, as a condition for entering into some of its construction contracts, had outstanding surety bonds of \$2.1 million and \$2.6 million as of March 31, 2020 and 2019, respectively. These surety bonds are collateralized by certain contracts receivable and is guaranteed by the Company.

**Lease Obligation**

The Company is still a guarantor (rent only) on a lease at the site of a business that was sold in December of 2019. The remaining lease obligation payments as of March 31, 2020 approximate \$320,000.

**COVID-19**

The outbreak of the COVID-19 viral pandemic in our fourth quarter of 2020 has brought a virtual stop to the economies of most countries. Global and domestic responses to the coronavirus disease (COVID-19) outbreak continue to rapidly evolve. The initial effect, which centered around global financial markets, has since spread to all businesses. As the situation continues to unfold, management will need to find ways to continue to address the disruption of business operations that has resulted from the virus' spread. The spread of COVID-19 has resulted in our Monkey Joe operations being closed due to government mandated closures. The Company expects to be able to continue its operations and sales are expected to restore to historical levels upon reopening of the US economy.

The extent of COVID-19's effect on the Company's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Company's finances. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Company's activities, results of operations, financial condition and cash flow.

**NOTE 15 — CONCENTRATIONS**

During the year ended March 31, 2020, the Company derived approximately 52% of its commission and fee income from two insurance carriers. During the year ended March 31, 2019, the Company derived approximately 72%, of its commission income from four insurance carriers.

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**NOTE 16 — BENEFIT PLANS**

**Profit Sharing Plan**

The Company has a qualified profit sharing plan with 401(k) deferred compensation provisions. Substantially all employees are eligible to participate in the plan. The plan provides for both matching and discretionary contributions determined by the Board of Directors. Contributions under the plan were approximately \$68,700 and \$60,500 for the years ended March 31, 2020 and 2019, respectively.

**Stock Appreciation Plan**

The Company maintains a stock appreciation plan (the “SAP”) for a member of management. Units of stock are allocated under a compensation agreement at a specified price per unit. The Company recognizes the estimated compensation cost of these stock appreciation units over the vesting term.

Under the agreement, stock appreciation units were granted on April 1, 2010, 2011, 2012, 2013 and 2014. Stock units cliff vest at the end of a five year period. All options are vested as of March 31, 2019. Upon vesting, the value is calculated as the difference between the current fair value of the Company stock and the specified price per unit multiplied by the number of shares and paid in cash. The liability under the plan was approximately \$216,300 and \$408,900 at March 31, 2020 and 2019, respectively.

Additionally, the stock appreciation units, whether vested or not vested, are entitled to receive payment in an amount equal to the actual cash dividends paid on shares of common stock, as of and when such dividends are paid.

**NOTE 17 — RELATED PARTY TRANSACTIONS**

The Company has entered into a service agreement with an affiliate of one of its brokers/agents for bookkeeping and other administrative services provided for the benefit of the Company. Administrative service fees and rent paid to the affiliated entity approximated \$477,300 and \$472,000 for the years ended March 31, 2020 and 2019, respectively.

The Company compensates its Board of Directors for attendance at its meetings. In addition, the Company compensates its Directors for work performed on behalf of the Company outside of their duties as Board members. Such compensation, which is computed and paid at an hourly rate commensurate with experience and expertise as determined by the Board of Directors, is classified as a component of compensation in the accompanying consolidated statement of operations.