

OTC Markets Advisor Insights Podcast

Weinberg & Company, P.A.

Season 1 | Episode 4

- OTC Markets Group: From OTC Markets Global headquarters in New York City, you're listening to Advisor Insights where we feature professionals that will address the issues that affect the small cap companies that trade on the OTC Markets. Today, I would like to welcome Corey Fischer, firm managing partner of the certified public accounting firm Weinberg & Co, which recently joined OTC Markets Premium Provider Directory. With almost 30 years as a CPA, Corey has extensive experience working with micro and small cap companies, and a special expertise in consumer products, technology, entertainment, and energy. Welcome, Corey.
- Corey Fischer: Good morning
- OTC Markets Group: Corey, after spending your last 15 years with Weinberg, can you tell our listeners about the firm and your role within the firm?
- Corey Fischer: Our firm focuses in auditing middle market public companies, firms that are traditionally trade in the small cap and micro cap space. I'm the firm managing partner for the last 15 years, as you mentioned. Prior to that, I was with Deloitte & Touche, and after I left Deloitte & Touche I was also CFO for a certain public company, so I have a very good mixture of public and prime.
- OTC Markets Group: Regarding Weinberg, can you tell us a bit about the sort of companies that they work with whether it's industry or market cap?
- Corey Fischer: We tend to work with companies that are trading in a small cap or micro cap space. Their market cap could be from just start-up and development companies that are going to public process, up to companies that have about \$100 million in market cap. That traditionally has been our space. At certain times, those companies do go above \$100 million, so we're used to working with companies at all ranges.
- OTC Markets Group: As mentioned earlier, Weinberg did recently join the Premium Provider Directory, and I know you have knowledge about the OTCQX Market and the OTCQB Market. Companies that trade on those markets require audited financial statements by a PCAOB auditor. Can you please tell our listeners the difference between a PCAOB registered auditor and a CPA that's not PCAOB registered?
- Corey Fischer: Yes. PCAOB means Public Company Accounting Oversight Board. PCAOB is a sister organization to the Securities and Exchange Commission, and the PCAOB is charged with the oversight of the accounting firms that audit public companies. So, to audit a public company, you have to be registered with the PCAOB, which implies that if you are registered with the PCAOB, you are subject to their inspection program, which means the PCAOB actually comes out and audits those member firms and makes a judgment on their quality of the work they do. Difference between a PCAOB firm and a non-PCAOB firm would be really the familiarity and expertise that that firm has with dealing with public companies. There are a lot of great firms out there that are non-PCAOB, but they really don't understand complexities in the markets that are specific to public companies. If you deal with a PCAOB firm, that are trained in those areas.
- OTC Markets Group: Going along with that, what should a public company that, for example, is trading on the OTCQX market, let's say they're looking for a PCAOB auditor, what are they looking for in a

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PCAOB auditor?

Corey Fischer:

Well, I think the most important thing is that when you pick a PCAOB firm to audit, you have to understand the expertise of the people within that firm. There are a lot of firms out there that are PCAOB registered, but if that quality of the individual doing the audit within that firm is not good, then it could ultimately have implications on the company that chooses that firm as the auditor. The PCAOB's main function is to do inspections in the firm, so it is very easy for a potential company that is looking for a PCAOB auditor to find that quality of that firm because these inspection reports are posted on the PCAOB website.

So, if the PCAOB through their inspection process has found deficiencies in the work of that auditor, you can easily see that on the PCAOB website. You also really need to find out if there have been any enforcement or SEC actions against these firms. Those are also posted on the PCAOB website or on the SEC website, because any type of action against the PCAOB firm could inhibit the company from raising equity or other problems down the line because of the problems.

So, the most important thing is a company has to do some research on the firm, ask to look to see in their PCAOB inspection report. Should also see the types of companies that they have audited and the number of clients that that company has, because lots of times some firms get a little overanxious and they bring in too many clients, which causes the deficiency of the work and they can't really service those companies. So, you got to look at the breadth of the company and the expertise of the partners, and also the PCAOB inspection report.

OTC Markets Group:

Okay. You started talking about accounting reporting requirements for these companies. What are the differences between companies that are SEC reporting versus alternative reporting companies, or SEC registered firms versus non-registrants?

Corey Fischer:

Right. Well, the big difference is that if you are in the SEC boarding system, which means that you registered with the SEC, and an IPO, reverse merger, you are required to be part of the SEC periodic reporting system, which means that on an annual basis, you have to file audited financial statements via a PCAOB registered firm, and that gets included in your Form 10-K, and on a quarterly basis you have to file a Form 10-Q, which will include three-month and year-to-date financial statements, and those financial statements have to be reviewed by the same PCAOB audit firm. Then on a continual basis, there are other [DK 00:06:14] requirements, recording requirements for significant transactions, that are required by the SEC that may not be required or provided if you are not an SEC registered company.

OTC Markets Group:

Public companies have seen an easing up of some accounting rules for these smaller cap, micro cap companies. Can you talk about these?

Corey Fischer:

Yes, absolutely. In the last few years there have been dramatic changes, certainly of the biggest accounting rules, one of which was the revenue recognition rule. That really became effective a couple years ago for public companies. Private companies now, that rule has now become effective, so there really isn't a difference as we speak, but there is one rule as it relates to lease accounting, which became effective for all public companies a year or two ago but is still transitioning in for private companies, and that rule is a major change because up until the implementation of that rule, most leases were not on the balance sheet. Because of the new rule, leases get capitalized and it causes a significant difference in the

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presentation of the balance sheet where you're bringing forward a lot of these lease obligations as debt. That rule has not yet transitioned for private companies.

The other big difference is if you are a bigger company, under the Sarbanes-Oxley Act you are required to have a system of financial statement and disclosure procedures that is certified by the effectiveness of which is certified by the management of the company, and was also subject to audit. It was a very costly in-kind consuming matter for all involved under the current SEC rules. Companies that are under \$100 million in revenue have now been exempted from that audit requirement, so there is a little bit of easing up of that particular rule. Secondly, if you are going public, you are a public company under the [Rigid Rules 00:08:08] Companies Act, there are certain allowances for transitioning into public company rules from a private to a public company up to five years and supplying certain pronouncements, so there is a little bit of help there. Right now, we're sort of in a period that there haven't been any changes in accounting rules, so I think pretty much public and private is the same except for the leases requirement.

OTC Markets Group: Okay, and Corey, we are going through this pandemic still. Can you talk about COVID and how COVID itself is affecting the accounting reporting standards for all these public companies or what companies may need to be thinking about as we continue on with this pandemic, and hopefully we are on the tail end, but we're still looking at it for the foreseeable future, so what do companies need to be thinking about?

Corey Fischer: Well, the most important thing is that companies need to look at their current liquidity and they have to make a projection of their liquidity going forward. Companies inherently prepare some financial statements of the company from its current cash flow has the ability to sustain operations all for 15 months from whenever it releases its financial statements. Because of the COVID situation, a lot of companies, particularly in certain industries, have been devastated. Because of that, we're seeing more and more growing concern issues where a company may not be able to predict from its current operations that has enough cash flow to sustain operations and pay its existing debt.

Secondly what's happened is a lot of assets that a company may have is its receivables and things like that. Even though they may have been validly owed to the company, because their customers are having problems, those problems may translate into the ability to collect those receivables. If you have supply chain issues, you may not be able to get inventory items delivered to you. So, companies now have to spend a lot of time looking at any potential impairment issues that the customers and vendors may be facing because of their particular situation.

Thirdly, one of the more important things now is the SEC, and nearly almost all of the SEC companies now are expanding their liquidity and M&A discussions to talk about the effects of COVID on the company and its future operations. The SEC has recently put out a lot of literature saying they're requesting companies to let the reader of the financial statement know what the impact of COVID is even if there is no impact, part of the full disclosure, the early warning. Many companies have not been affected by COVID, like some technology and other industries are doing quite well. Other companies, industries, obviously entertainment, real estate, have its own set of issues. Some companies, because of the effects of COVID and because of the estimates that are appearing on financial statements, are being very challenged now.

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If you're a real estate company, you have a lot of tenants and you're expecting revenue estimate how much of that rent's going to be collected, what the impairment is on your properties, so obviously we've seen things in the entertainment industry, some of the big movie chains, some of the restaurant chains, have all been forced to give growing concerned opinions, and that begs the questions about impairments on assets. Really difficult.

OTC Markets Group: And the use of non-GAAP metrics, and I've been seeing this term EBITDAC. Can you talk a bit about that as well? What does EBITDAC stand for? I think everyone knows what EBITDA stands for, but what does that extra C stand for?

Corey Fischer: Well, I think what you're probably referring to, EBITDA - taxes, depreciation, now I guess some people have stuck the C on there for COVID, but basically when a company presents financial statements, it presents its financial statements in a that you must generally accepted accounting methods, US GAAP, and those are ways applying tools in the SEC and you put out press releases. When you talk about earnings, you're talking about your GAAP earnings. Over the past few years a trend has developed, companies present non-GAAP information. That non-GAAP information usually will take you, GAAP number.

Let's say you have a net loss of \$1 million, but in there are things like interest, depreciation. A lot of public companies have non-cash costs that are for the issuance of stock, that non-cash costs. These things are traditionally and it gets you to a non-GAAP number, so if you have a million-dollar net loss but \$100,000 was depreciation, \$200,000 was non-tangible, \$500,000 of GAAP, \$500,000 related to the issuance of non-cash costs such as stock compensation, you really only lost \$300,000, and that's kind of what's important to the reader.

So, the SEC allows you to make that presentation. You can't give it prominence in your press releases or your 10-K, but you can disclose they are supplemental information. You have to put some disclosures there. Because of the COVID, people may try to define some of the losses. As to COVID, I don't think I've seen that yet because it's really ... It's not a specific thing like the non-cash costs. You may have lost significant earnings this year because of the loss in sales, but you can't really define them based upon COVID. So, I think that non-GAAP companies should use it, especially the smaller start-up companies that have a lot of non-cash costs, and it is there and it's available for companies to use as a metric to explain to its shareholders and investors, and to the market, the real cash operations.

OTC Markets Group: Well, Corey, thanks for joining us today. It was great to speak with you. For all those interested in speaking with Corey and/or Weinberg, you can find Weinberg & Co listed in the OTC Markets Premium Provider Directory.

**This is an autogenerated transcript and may contain typos.*