CCOM GROUP, INC.

CCOM GROUP, INC.

FINANCIAL STATEMENTS
AND RELATED FOOTNOTES

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2021 AND 2020

CCOM GROUP, INC. AND SUBSIDIARIES

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CCOM GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2021	December 31, 2020
Assets	(Unaudited)	
Current assets:		
Cash	$296,154	$388,267
Accounts receivable, net of allowance for doubtful accounts of $664,162and $766,459, respectively	11,699,412	10,305,665
Inventory	23,575,963	20,936,936
Prepaid expenses and other current assets	821,064	749,053
Total current assets	36,392,593	32,379,921
Property and equipment, net	1,520,783	1,095,506
Goodwill	1,416,928	1,416,929
Other assets - noncurrent	576,835	188,824
Deferred income tax asset - noncurrent	2,231,909	2,548,575
	$42,139,048	$37,629,755
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under credit facility - revolving credit	$9,492,568	$9,151,368
Notes payable, current portion	161,629	627,009
Trade payables	5,450,050	5,892,126
Accrued liabilities	3,189,541	2,450,810
Income taxes payable	-	2,850
Total current liabilities	18,293,788	18,124,163
Notes payable, non-current portion	378,061	2,247,742
Deferred income tax liability - noncurrent	354,000	354,000
Total liabilities	19,025,849	20,725,905
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, $.05 par value, 2,500,000 shares authorized, 284,612 shares issued and outstanding, liquidation preference of $1,423,060	14,231	14,231
Common stock, $.05 par value, 20,000,000 shares authorized, 9,154,928 shares issued and outstanding	457,746	457,746
Additional paid-in capital	12,596,853	12,596,853
Retained earnings	10,044,369	3,835,020
Total stockholders' equity	23,113,199	16,903,850
	$42,139,048	$37,629,755

The accompanying notes are an integral part of these condensed consolidated financial statements.

CCOM GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)

	For the Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2021	2020	2021	2020
Sales	32,310,514	28,185,554	91,076,042	77,279,836
Cost of sales	23,297,783	20,784,055	66,207,351	57,300,683
Gross profit	9,012,731	7,401,499	24,868,691	19,979,153
Selling, general and administrative expenses, net	7,365,369	6,169,708	20,273,021	18,242,620
Operating income	1,647,362	1,231,791	4,595,670	1,736,533
Gain on Early Extinguishment of debt	2,285,256	-	2,285,256	-
Other income	42,121	44,026	139,719	179,364
Interest expense, net;	(83,722)	(78,525)	(252,551)	(297,736)
Income before income tax expense	3,891,017	1,197,292	6,768,094	1,618,161
Income tax expense	275,853	279,849	558,745	456,948
Net income	3,615,164	917,443	6,209,349	1,161,213
Income per common share:				
Basic	$0.38	$0.10	$0.66	$0.12
Diluted	$0.37	$0.09	$0.64	$0.12
Weighted average common shares outstanding:				
Basic	9,154,928	9,154,928	9,154,928	9,154,928
Diluted	9,439,540	9,439,540	9,439,540	9,439,540

The accompanying notes are an integral part of these condensed consolidated financial statements.

CCOM GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
For Nine Months Ended September 30, 2021
(Unaudited)

	Number of shares						
	Redeemable Convertible Preferred Stock	Common Stock	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earning	Total Stockholders' Equity
Balance at December 31, 2020	284,612	9,154,928	$14,231	$457,746	$12,596,853	$3,835,020	$16,903,850
Net Income	-	-	-	-	-	13,839	13,839
Balance at March 31, 2021	284,612	9,154,928	$14,231	$457,746	$12,596,853	$3,848,859	$16,917,689
Net Income	-	-	-	-	-	2,580,346	2,580,346
Balance at June30, 2021	284,612	9,154,928	$14,231	$457,746	$12,596,853	$6,429,205	$19,498,035
Net Income	-	-	-	-	-	3,615,164	3,615,164
Balance at September 30, 2021	284,612	9,154,928	$14,231	$457,746	$12,596,853	$10,044,369	$23,113,199

The accompanying notes are an integral part of these condensed consolidated financial statements.

CCOM GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For The Nine Months Ended September 30, 2021	2020
Cash flows from operating activities:		
Net income	$ 6,209,349	$ 1,161,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	316,666	316,666
Provision for doubtful accounts	62,395	274,627
Depreciation and amortization	384,870	309,633
Net gain on sale of property and equipment	(6,200)	(12,300)
Forgiveness of financing	(2,285,256)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,456,142)	151,870
Inventory	(2,639,027)	(1,196,752)
Prepaid expenses and other current assets	(72,011)	273,993
Other assets – noncurrent	(388,011)	109,474
Trade payables	(442,076)	1,051,231
Accrued liabilities	738,731	(280,992)
Income taxes payable	(2,850)	(24,625)
Net cash provided by operating activities	420,438	2,134,038
Cash flows from investing activities:		
Additions to property and equipment	(741,119)	(228,920)
Proceeds from disposal of property and equipment	6,200	12,300
Net cash used in investing activities	(734,919)	(216,620)
Cash flows from financing activities:		
Repayments of notes payable	(118,832)	(86,670)
Issuance of financing	-	2,285,256
Borrowings (repayments) under credit facility - revolving credit, net	341,200	(4,022,898)
Net cash provided by (used in) financing activities	222,368	(1,824,312)
(Decrease) / Increase in cash	(92,113)	93,106
Cash - beginning of year	388,267	193,448
Cash - end of year	$ 296,154	$ 286,554

The accompanying notes are an integral part of these condensed consolidated financial statements.

CCOM GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2021(Unaudited)

1. Summary of Significant Accounting Policies and Practices

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as permitted by the interim reporting requirements. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2020 Annual Financial Statements and Related Footnotes for the years ended December 31, 2020 and 2019 dated April 27, 2021.

We have only one operating segment.

Inventory is comprised of finished goods and is stated at the lower of cost (first-in, first-out method)

Recent Issued Accounting Pronouncements

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases* (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases with terms less than twelve months) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. *ASU 2016- 02* will be effective for nonpublic businesses for fiscal years beginning after December 15, 2021. Early application is permitted. The Company is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - *Credit Losses* (Topic 326) Measurement of Credit Losses on Financial Instruments. The amendments in Topic 326 remove the thresholds that entities apply to measure credit losses on financial instruments measured at amortized cost, such as loans and trade receivables, and held-to-maturity securities. Under current U.S. GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. The guidance under ASU 2016-13 will require entities under the new current expected credit loss ("CECL") model to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount that an entity expects to collect over the instrument's contractual life. The new CECL model is based upon expected losses rather than incurred losses. The ASU is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the effect that this new guidance will have on the consolidated financial statements and related disclosures.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

2. <u>Financing Arrangements</u>

The Company and KeyBank are parties to a Credit and Security Agreement dated as of October 18, 2011, as amended (the "KeyBank Agreement"). The KeyBank Agreement, based on the September 18, 2019 amendment, provides for a revolving credit facility under which the Company may borrow up to the lesser of (i) $20,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than $9,000,000) of the lower of cost or market of eligible inventory, or $10,500,000 during any Inventory Advance Limit Increase Period, defined as the period from March 1 to May 31 of each calendar year, less designated reserves and extended the maturity date to September 18, 2022. Any Temporary Increase Amount during any Temporary Increase Period is subject to the Company having then met the Temporary Increase Conditions (as each of these terms are defined).

Borrowings bear interest at 2.0% above the Eurodollar Rate (as defined) or 1.75% above the Eurodollar Rate if the Fixed Charge Coverage Ratio (as defined) is above 2.0, or the Base Rate (as defined), and are secured by a first lien on substantially all of the Company's assets, as well as a pledge of the stock of CCOM Group, Inc.'s operating subsidiaries. The facility contains covenants relating to the financial condition of the Company and its business operations. Among other things, the covenants require that as of December 31, 2020, the Company maintain a consolidated net worth of at least $10,613,752 and a Fixed Charge Coverage Ratio of 1.1. As of September 30, 2021, the Company's Eurodollar Rate was 1.875% and Base Rate was 2.025%, and the Company was in compliance with the loan covenants.

During the nine months ended September 30, 2021, the Company borrowed an aggregate of $100,126,763 and repaid an aggregate of $99,785,563 under the revolving credit facility with KeyBank. As of September 30, 2021, the balance outstanding under the facility was $9,492,568 and availability was $8,702,231.

The Company believes that the KeyBank credit facility is sufficient to finance its current operating needs. The business of the Company will be materially and adversely affected if KeyBank substantially reduces the amount of the credit availability under the terms of the facility or KeyBank demands payment and the Company is unable to refinance the facility, or if liquidity is otherwise substantially reduced.

All increases to the Borrowing Base were made pursuant to the KeyBank Agreement that provides, in the event the Company then meets the Temporary Increase Conditions, for KeyBank to make up to $500,000 in additional loans to the Company to match loans in the same aggregate amount that one or more Investor Subordinated Creditors (as defined) elect to make.

On July 1, 2013, Peter Gasiewicz was appointed Chief Executive Officer of the Company. The Company will be considered in default of the KeyBank Agreement in the event Peter Gasiewicz shall cease to hold the position of Chief Executive Officer, or a similar or higher position of the Company and the Company shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of KeyBank, necessary for the successful management of the Company. Additionally, the facility restricts, among other things, the payment of dividends, and further restricts, subject to specified exceptions, subordinated debt, purchase of securities, and the merger and sale of the Company. The KeyBank Agreement terminates on September 18, 2022.

3. Notes Payable

Notes payable consist of the following at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Various term notes payable: (collateralized by equipment, the purchase of which such notes financed) with aggregate monthly principal and interest installments of $16,426 and $15,279 for 2021 and 2020, respectively, bearing interest between 0.0% and 7.1%.	$539,690	$589,495
PPP loans payable. Neither principle nor interest is due for a 16-month deferral period through August 20, 2021. Up to 100% of this loan may be forgiven subject to bank approval in accordance with SBA guidelines. Any outstanding principal of the loan that is not forgiven under the PPP loan program at the end of the deferral period will convert to a term loan with an interest rate of 1% payable in equal installments of principal and interest of $96,214.02 over the next 24 months starting August 20, 2021. The Company was notified in August 2021 that it received 100% loan forgiveness from the SBA. The forgiveness will be recognized as a gain on debt extinguishment in other income.	-	2,285,256
	539,690	2,874,751
Less current installments	(161,629)	(627,009)
	$378,061	$2,247,742

Maturities of notes payable are as follows:

2021	$40,684
2022	157,561
2023	141,780
2024	102,209
2025	52,950
Thereafter	44,506
	$539,690

4. Net Income Per Common Share

Our basic and diluted earnings per share are computed using the two-class method. The two-class method is an earnings allocation method that determines net income per share for each class of common stock and participating securities according to their participation rights in dividends and undistributed earnings or losses. Convertible preferred stock, whose holders are entitled to a dividend when and if any are declared on the Company's common stock, are considered participating securities. Per share amounts are computed by dividing net income available to common shareholders by the weighted average shares outstanding during each period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the three and nine months ended September 30, 2021 and 2020, convertible preferred stock, convertible into 284,612 shares of common stock were included as common stock equivalents when calculating diluted earnings per share.

A reconciliation of the numerators and denominators of the basic and diluted per share computations follows:

	For the Three months ended September 30,		For the Nine months ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net income	$ 3,615,164	$ 917,443	$ 6,209,349	$ 1,161,213
Less distributed and undistributed income allocated to participating securities	(109,001)	(27,662)	(187,218)	(35,012)
Net Income (Attributable to Common Shareholders	$ 3,506,163	$ 889,781	$ 6,022,131	$ 1,126,201
Denominator:				
Weighted average common shares (Basic)	9,154,928	9,154,928	9,154,928	9,154,928
Weighted average common shares including assumed conversions (Diluted)	9,439,540	9,439,540	9,439,540	9,439,540

5. Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows:

	For the Nine months ended September 30,	
Cash paid during the period for:	2021	2020
Interest	$251,044	$288,563
Supplemental disclosure of non-cash financing and investing activities:		
Notes issued for purchase of fixed assets	$69,027	$254,232

6. Business and Credit Concentrations

The largest supplier accounted for 46% and 39% of the Company's purchases for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, the Company's outstanding balance payable to this supplier was $1,403,243. The loss of this supplier could have a material adverse effect upon the Company's business for a short-term period.

7. Commitments and Contingencies

(a) Leases

The Company records lease payments via the straight-line method and, for leases with step rent provisions whereby the rental payments increase over the life of the lease, the Company recognizes the total minimum lease payments on a straight-line basis over the lease term. The Company is obligated under operating leases for warehouse, office facilities and certain office equipment which amounted to $2,681,696 and $2,608,541 for the nine months ended September 30, 2021 and 2020, respectively, and is included in selling, general and administrative expenses.

At September 30, 2021, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

2021	$ 911,119
2022	3,043,052
2023	2,440,864
2024	1,912,230
2025	1,782,526
Thereafter	4,705,203
Total	$14,794,994

(b) Litigation

There are no changes with regard to the litigation since the company filed its 2020 Annual Financial Statements and Related Footnotes for the years ended December 31, 2020, and 2019 dated April 27, 2021 other than one new case filed against The RAL Supply Group, Inc. The Company anticipates that this new case will be dismissed. All other information provided as to the pending cases remains the same.

8. Related Party Transactions

The Company leases five warehouses and stores from related parties. The Company paid these related parties rent expense of $269,814 and $264,785 during the three months ended September 30, 2021 and 2020, respectively. The Company paid these related parties rent expense of $811,597 and $798,427 during the nine months ended September 30, 2021 and 2020, respectively.