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BARBIZON USA, INC. AND SUBSIDIARY AND AFFILIATE

CONSOLIDATED AND COMBINED
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders of
Barbizon USA, Inc. and Subsidiary and Affiliate
Tampa, Florida

Opinion

We have audited the accompanying consolidated and combined financial statements of Barbizon USA, Inc. and Subsidiary and Affiliate (the "Company"), which comprise the consolidated and combined balance sheets as of December 31, 2022 and 2021, and the related consolidated and combined statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the consolidated and combined financial position of the Company as of December 31, 2022 and 2021, and the consolidated and combined results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Combined Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated and Combined Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and combined financial statements in accordance with U.S. generally accepted accounting principles and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated and combined financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated and Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated and combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated and combined financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated and combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Moore, Colson + Company, P.C.

Atlanta, Georgia
August 9, 2023

BARBIZON USA, INC. AND SUBSIDIARY AND AFFILIATE
CONSOLIDATED AND COMBINED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,672,649	$ 8,390,700
Accounts receivable, net	484,066	535,050
Employee retention credit receivable	354,987	635,500
Prepaid competition expenses	73,761	70,911
Prepaid expenses and other assets	139,230	165,905
Total current assets	7,724,693	9,798,066
PROPERTY AND EQUIPMENT - NET	286,137	79,399
OTHER ASSETS:		
Advances to Barbizon International, Inc.	66,658	64,601
Advances to stockholders	37,972	37,972
Goodwill	6,389,864	6,389,864
Right-of-use asset, net	-	217,343
Deposits and other	12,155	17,305
Total other assets	6,506,649	6,727,085
TOTAL	$ 14,517,479	$ 16,604,550

LIABILITIES AND EQUITY

	2022	2021
CURRENT LIABILITIES:		
Paycheck Protection Program loan	$ -	$ 1,115,730
Current maturities of lease liability	-	221,430
Accounts payable and accrued expenses	2,782,407	2,027,950
Deferred revenues	3,593,691	4,331,912
Total current liabilities	6,376,098	7,697,022
LONG-TERM LIABILITIES -		
Advances from stockholder	100,000	100,000
EQUITY	8,041,381	8,807,528
TOTAL	$ 14,517,479	$ 16,604,550

See notes to consolidated and combined financial statements.

BARBIZON USA, INC. AND SUBSIDIARY AND AFFILIATE
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES	$ 18,486,105	$ 17,976,392
COST OF REVENUES	14,574,222	11,639,370
GROSS PROFIT	3,911,883	6,337,022
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,346,893	1,975,956
INCOME FROM OPERATIONS	1,564,990	4,361,066
OTHER INCOME:		
Employee retention credit income	-	1,334,265
Paycheck Protection Program loan forgiveness	1,115,730	1,115,739
Other income	103,395	70,085
Total other income	1,219,125	2,520,089
NET INCOME	$ 2,784,115	$ 6,881,155

See notes to consolidated and combined financial statements.

BARBIZON USA, INC. AND SUBSIDIARY AND AFFILIATE
CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	MEMBERS' EQUITY	COMMON STOCK	PAID - IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	EQUITY
Balances, December 31, 2020	$ -	$ -	$ 4,671,193	$ (2,444,820)	$ 2,226,373
Distributions	-	-	(300,000)	-	(300,000)
Net income	-	-	-	6,881,155	6,881,155
Balances, December 31, 2021	-	-	4,371,193	4,436,335	8,807,528
Distributions	-	-	(3,550,262)	-	(3,550,262)
Net income	-	-	-	2,784,115	2,784,115
Balances, December 31, 2022	$ -	$ -	$ 820,931	$ 7,220,450	$ 8,041,381

See notes to consolidated and combined financial statements.

BARBIZON USA, INC. AND SUBSIDIARY AND AFFILIATE
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,784,115	$ 6,881,155
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,620	26,134
Provision for doubtful accounts receivable	19,209	138,491
Paycheck Protection Program loan forgiveness	(1,115,730)	(1,115,739)
Non-cash lease expense	217,343	366,639
Changes in operating assets and liabilities:		
Accounts receivable	31,775	(92,678)
Employee retention credit receivable	280,513	-
Prepaid expenses	23,825	627,554
Deposits and other	5,150	-
Accounts payable and accrued expenses	754,457	239,167
Deferred revenues	(738,221)	(2,678,551)
Operating lease liability	(221,430)	(362,552)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,067,626	4,029,620
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of equipment	(233,358)	(65,344)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances to Barbizon International, Inc.	(2,057)	11,091
Proceeds from Paycheck Protection Program loan	-	1,115,730
Distributions	(3,550,262)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(3,552,319)	1,126,821
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,718,051)	5,091,097
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	8,390,700	3,299,603
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 6,672,649	$ 8,390,700

See notes to consolidated and combined financial statements.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Business

Barbizon USA, Inc. and Subsidiary and Affiliate (the "Company") operates licensed schools of modeling, acting, and personal improvement education, primarily offered to teenage girls. In addition to teaching basic modeling skills, the schools promote self-confidence, poise, and general personal development skills. The Company has entered into franchise agreements with Barbizon International, Inc. ("BI") for exclusive licenses from BI to use the Barbizon trade name and trademarks in certain areas. The Company is headquartered in Tampa, Florida and serves customers throughout the northeastern, midwestern, southeastern, and southwestern United States.

B. Basis of Presentation

The consolidated and combined financial statements include Barbizon USA, Inc. and its wholly-owned subsidiary, Barbizon USA, LLC ("BUSA"). BUSA is comprised of its wholly-owned subsidiary, Barbizon USA Southwest, LLC ("BSW"), and its affiliate, Barbizon Northeast, LLC ("BNE"). BNE has been combined as this entity shares common ownership and control. All material intercompany accounts and transactions have been eliminated.

C. Use of Estimates

The preparation of consolidated and combined financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results may differ from those estimates.

D. Concentrations of Credit Risk

The Company's cash deposits in a financial institution may at times exceed the amount insured by the Federal Deposit Insurance Corporation. Management continually monitors the soundness of these institutions and feels that the Company's exposure to loss is negligible.

The Company grants credit to its customers during the normal course of business and generally requires an initial deposit from its customers.

E. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally due under the terms of the Company's training and competition contracts which stipulate the billing and payment plan schedule. Unpaid receivables do not bear interest.

Account balances with unpaid amounts past the terms called for in the Company's contracts are considered past due. Allowances for doubtful accounts are provided for based on historical experience and management's evaluation of outstanding accounts receivable at the end of the period.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property and Equipment

Property and equipment are recorded at cost. Expenditures for improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is reflected in the consolidated and combined statements of income. Depreciation and amortization for financial statement purposes are provided using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Life
Leasehold improvements	Lease term
Furniture and fixtures	7 years
Office equipment	5 years

G. Goodwill

Goodwill is not amortized but is subjected to annual tests for impairment. Management determined that no impairment losses occurred during the years ended December 31, 2022 and 2021.

H. Right-of-Use Asset and Lease Liability

Right-of-use ("ROU") asset and lease liability are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses the implicit rate to discount the lease payments when it is readily determinable. When the Company's leases do not include an implicit rate that is readily determinable, the Company uses its incremental borrowing rate to determine the present value of lease payments. The Company's lease agreement includes both lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices.

For any new or modified leases, at the inception of the contract the Company determines whether a contract is or contains a lease. For leases with terms in excess of one year, the Company records ROU assets, which represent the Company's right to use an underlying asset for the lease term, and lease liabilities, which represent the Company's obligation to make lease payments arising from the lease. For short-term leases, defined as leases with terms of twelve months or less that do not include an option to purchase the underlying asset or extend the term that the lessee is reasonably certain to exercise, the Company has elected to exclude such amounts from operating lease assets and liabilities.

The Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* as of January 1, 2021 using the modified retrospective transition method. The Company did not record any adjustments to the opening balance of equity as of January 1, 2021 upon adopting the new guidance and recognized ROU asset and lease liability totaling $583,982.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Income Taxes

Barbizon USA, Inc. has elected "S Corporation" status under the Internal Revenue Code, which provides that, in lieu of corporate income taxes, the stockholders are taxed on the Company's taxable income. With respect to its state and local filing obligations, in certain jurisdictions Barbizon USA, Inc. has elected to pay income taxes on behalf of its stockholders. Barbizon USA, Inc. accounts for such payments as either an entity-level income tax or a transaction with the stockholders, which are accounted for as distribution, based on the laws and regulations of each jurisdiction.

Barbizon USA Southwest, LLC, a Limited Liability Company ("LLC"), is a disregarded entity for federal and state income tax purposes, and its taxable income is reported on the tax returns of its sole member, Barbizon USA, Inc. BNE is an LLC and has chosen to be treated as a partnership for federal and state income tax purposes. Accordingly, since a partnership is not a taxable entity for federal and state income tax purposes, the members are taxed on the LLC's taxable income.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions, if any, taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company has analyzed its tax positions taken and has concluded that as of December 31, 2022, there are no uncertain tax positions taken or expected to be taken.

J. Revenue Recognition

The Company enters into training and competition contracts with its customers and recognizes revenues as follows:

Training: Revenues related to training contracts are recognized over time based on the pattern of services delivered to the customer over the term of the contract. Such contracts are generally for a six-month term over which a total of 48 hours of training are provided to the customer. Revenue is recognized ratably over the term of the contract as training courses are completed. The transaction price and payment terms are specified in each contract. Payments collected from the customer in excess of revenues recognized related to such contracts are recorded as deferred revenues. Direct costs related to the services provided under these contracts are recognized as incurred.

Competition: Revenues related to competition contracts, which consist of both local competitions held by the Company and competitions held during the annual Passport to Discovery ("PTD") event are recognized at a point in time upon completion of the related competition. The transaction price and payment terms are specified in each contract. Payments collected from customers under these contracts are recorded as deferred revenue until the related competition is completed. Direct costs related to the services provided under these contracts are initially capitalized as "prepaid competition expenses" and then recognized as an expense when the related competition revenue is recognized.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Revenue Recognition (Continued)

Various economic factors affect revenues and cash flows. Training classes and competitions are conducted for customers and payments may be collected prior to the class or competition, as classes are conducted, or after classes are conducted based upon the terms of the contract. Training contracts provide for a refund policy upon proper cancellation notice by the customer. Refunds paid to the customer are based upon the percentage of the training program scheduled, less certain non-refundable fees. Competition contracts are non-refundable, but the Company generally allows customers who have entered into competition contracts but are unable to attend the scheduled competition to apply payments made towards that competition contract to a future competition.

K. Employee Retention Credit

The Company paid wages during the year ended December 31, 2021, which were eligible for the Employee Retention Credit ("ERC") governed by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Company adopted the following accounting policy related to the ERC. Once the Company expects to meet the eligibility criteria and pays the wages and other eligible costs necessary to claim the credit, it recognizes the credit earned as income on a systematic basis over the period in which the related wages and other eligible costs are incurred. The income is included in employee retention credit income in the accompanying consolidated and combined statements of income.

L. Advertising Costs

Advertising costs, included in "Cost of Revenues" on the consolidated and combined statements of income, are expensed as incurred and totaled approximately $4,711,000 and $2,599,000 for the years ended December 31, 2022 and 2021, respectively.

M. Cash Flow Information

The Company considers cash on hand, deposits in banks, and money market accounts as cash and cash equivalents for purposes of the consolidated and combined statements of cash flows.

For the year ended December 31, 2021, non-cash operating and financing activities excluded from the consolidated and combined statement of cash flows included settlement of advances to stockholders in lieu of cash distributions totaling $300,000.

There were no cash outlays for income taxes or interest for the years ended December 31, 2022 and 2021.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Variable Interest Entity

In general, a variable interest entity ("VIE") is a company, partnership, limited-liability company, trust or any other legal entity used to conduct activities or hold assets that either: (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

The Financial Accounting Standards Board ("FASB") guidance requires a VIE to be consolidated if a reporting entity that holds a variable interest (such as an ownership, contractual or other financial interest) in the VIE and the reporting entity has both: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary.

The Company determines whether it is the primary beneficiary of a VIE upon initial involvement with the VIE, and the Company reassesses whether it is the primary beneficiary of a VIE on an ongoing basis. The determination of whether the Company is the primary beneficiary of a VIE is based upon the facts and circumstances for the VIE and requires significant judgment.

Significant judgments made by the Company in evaluating whether or not the Company is the primary beneficiary of a VIE include identifying the activities that most significantly impact the economic performance of the VIE, identifying which variable interest holder has the power over those activities, and determining whether or not the Company's variable interest in the VIE is significant to the VIE. The determination of whether or not an entity is a VIE also requires significant judgment.

The Company has chosen to elect the ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which effectively expands the private company alternative for common control leasing arrangements to all private company common control arrangements as long as both the Company and the legal entities being evaluated for consolidation are not public business entities and are under common control. The accounting alternative provides an accounting policy election that the Company will apply to all current and future legal entities under common control that meet the following criteria for applying this alternative: (a) the reporting entity and the legal entity are under common control, (b) the reporting entity and the legal entity are not under common control of a public business entity, (c) the legal entity under common control is not a public business entity and (d) the reporting entity does not directly or indirectly have a controlling financial interest in the legal entity when considering ASU 2018-17. Additionally, under the accounting alternative, the Company is required to provide detailed disclosures about its involvement with and exposure to the legal entity under common control.

1. NATURE OF BUSINESS, BASIS OF PRESENTATION, AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, together with subsequent amendments, updates and extensions of the effective date (collectively "ASC 326"), which requires entities to measure all expected credit losses for financial instruments at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts.

ASC 326 will be effective for the Company beginning January 1, 2023 and requires a cumulative-effect adjustment to members' equity as of the beginning of the first reporting period in which the guidance is effective. The Company is in the process of evaluating the impact of ASC 326 on its consolidated and combined financial statements.

2. REVENUE RECOGNITION

Revenues for the years ended December 31, 2022 and 2021 consisted of the following disaggregated by revenue source:

	2022	2021
Training tuition	$ 10,153,538	$ 8,857,424
Competition - PTD	5,474,808	7,001,657
Competitions - local	2,494,188	1,806,938
Other	363,571	310,373
Total revenues	$ 18,486,105	$ 17,976,392
Revenue recognized over time	$ 10,153,538	$ 8,857,424
Revenue recognized at a point in time	8,332,567	9,118,968
Total revenues	$ 18,486,105	$ 17,976,392

During 2022 and 2021, revenues recognized from performance obligations related to prior periods (for example, due to changes in transaction price) were not material.

Contract Balances: Contract assets include certain costs to obtain and fulfill contracts as noted below. Contract liabilities represent obligations to transfer goods or services to a customer for which the Company has received consideration. Contract liabilities are reduced once control of the goods or services is transferred to the customer. The Company had no contract assets as of December 31, 2022 and 2021. The Company had contract liabilities of $3,593,691 and $4,331,912 at December 31, 2022 and 2021, respectively that are included in deferred revenue on the accompanying consolidated and combined balance sheets.

Costs to Obtain and Fulfill Contracts: The Company incurs certain incremental costs to obtain and fulfill revenue contracts. The Company has elected the practical expedient to expense such costs as incurred if the amortization period of the asset that would be recorded is one year or less. Costs related to assets that would have an amortization period of more than one year were not considered material as of and for the years ended December 31, 2022 and 2021.

3. ACCOUNTS RECEIVABLE, NET AND DEFERRED REVENUES

Accounts receivable, net consisted of the following at December 31, 2022 and 2021:

	2022	2021
Training contracts	$ 402,998	$ 372,926
Competition contracts	350,768	412,615
Total	753,766	785,541
Less: allowance for doubtful accounts	(269,700)	(250,491)
Accounts receivable, net	$ 484,066	$ 535,050

Deferred revenues consisted of the following at December 31, 2022 and 2021:

	2022	2021
Competition contracts - PTD	$ 1,480,923	$ 2,797,702
Competition contracts - local competitions	125,823	882,245
Training contracts	1,986,945	651,965
Total	$ 3,593,691	$ 4,331,912

4. PROPERTY AND EQUIPMENT - NET

Property and equipment - net consisted of the following at December 31, 2022 and 2021:

	2022	2021
Leasehold improvements	$ 280,993	$ 280,993
Furniture and fixtures	328,811	111,066
Office equipment	136,058	120,445
Total	745,862	512,504
Less: accumulated depreciation and amortization	(459,725)	(433,105)
Property and equipment - net	$ 286,137	$ 79,399

Depreciation expense for the years ended December 31, 2022 and 2021 totaled $26,620 and $26,134, respectively.

5. PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, the Company received loan proceeds of $1,115,739 from a bank pursuant to the Paycheck Protection Program ("PPP") governed by the CARES Act. The loan was in the form of a non-recourse note payable administered by the Small Business Administration ("SBA"). Under the CARES Act, the proceeds of the note payable were to be used for payroll costs, rent, mortgage interest and utilities during the 24-week period beginning on the date the loan was funded (the "covered period"). In addition, up to 100% of the principal and interest on the note payable may be forgiven.

The unsecured note payable bore interest at 1.0% and was scheduled to mature in April 2022. The note allowed for the deferral of principal and interest payments to the date the SBA sends the borrower's loan forgiveness amount to the lender. If the borrower did not apply for forgiveness, the deferral period would have lasted until ten months after the end of the covered period.

5. PAYCHECK PROTECTION PROGRAM LOAN (Continued)

During the covered period, the Company incurred eligible payroll expenses and other covered costs in excess of the total proceeds of $1,115,739. Management applied for full forgiveness of the balance and received notification in May 2021 that the loan principal and accrued interest had been fully forgiven, which is included in Paycheck Protection Program loan forgiveness in the accompanying consolidated and combined statements of income.

In March 2021, the Company received loan proceeds of $1,115,730 from a bank pursuant to the PPP governed by the CARES Act. The loan is in the form of a non-recourse note payable administered by the SBA. Under the CARES Act, the proceeds of the note payable are to be used for payroll costs, rent, mortgage interest and utilities during the applicable covered period elected by the Company. In addition, up to 100% of the principal and interest on the note payable maybe be forgiven by the SBA.

The unsecured note payable bore interest at 1.0% and was scheduled to mature in March 2023. The maturity date of the note could have been extended upon mutual agreement by the Company and the lender. The note allowed for the deferral of principal and interest payments to the date the SBA sends the borrower’s loan forgiveness amount to the lender. If the borrower did not apply for forgiveness, the deferral period would have lasted until ten months after the end of the covered period.

During the covered period, the Company incurred eligible payroll expenses and other covered costs in excess of the total proceeds of its PPP loan of $1,115,730. Management applied for full forgiveness of the balance and received notification in March 2022 that the loan principal and accrued interest had been fully forgiven, which is included in Paycheck Protection Program loan forgiveness in the accompanying consolidated and combined statements of income.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at December 31, 2022 and 2021:

	2022	2021
Accounts payable	$ 640,436	$ 371,583
Accrued expenses:		
Payroll	424,910	315,038
Royalties (Note 11)	1,554,087	1,307,363
Advertising (Note 11)	162,974	33,966
Total	$ 2,782,407	$ 2,027,950

7. COMMON STOCK

At December 31, 2022 and 2021, Barbizon USA, Inc. had 200 shares of no-par value common stock authorized, with 100 shares issued and outstanding.

8. LEASES

The Company leases its headquarters and various school facilities under non-cancelable operating lease agreements. Total rent expense, including month to month and other short-term leases, for the years ended December 31, 2022 and 2021 approximated $932,000 and $825,000, respectively.

8. LEASES (Continued)

The lease for the Company's headquarters was extended from July 31, 2022 to September 30, 2022, and then extended on a month-to-month basis from September 30, 2022 through December 2022. In December 2022, the Company relocated to a property owned by Cherry Street Real Estate, LLC, a related entity (Note 10 and 14). No lease agreement has been entered into and the Company makes no rental payments for occupying the property.

The following operating lease ROU asset and lease liability are included within the accompanying consolidated and combined balance sheets:

	2022	2021
Right-of-use asset, net - Operating lease	$ -	$ 217,343
Current maturities of lease liability - Operating lease	$ -	$ 221,430

The following operating and finance lease expenses are included in the accompanying consolidated and combined statements of income:

	2022	2021
Operating lease cost:	$ 221,421	$ 379,579
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	$ 231,307	$ 385,646
Remaining lease term	N/A	7 months
Weighted-average discount rate	5.50%	5.50%

9. OTHER COMMITMENTS

In July 2022, the Company entered into a group sales event agreement with a hotel for its annual Passport to Discovery competition in August 2023. The agreement calls for a sleeping room performance policy of $471,250, a food and beverage performance policy of $50,000 and resort fee of $81,250 consisting of an initial deposit of $50,000 paid in 2022 followed by a second deposit of $25,000 to be paid in 2023.

10. CO-BORROWING ARRANGEMENT

As of December 31, 2022 and 2021, the Company was the borrower, along with entities related through common ownership, Cherry Street Real Estate, LLC ("CSRE") and BI, for a term loan totaling $2,560,000 at inception which is payable in monthly payments of $15,426 of principal and interest at 3.88% beginning in March 2020 with outstanding principal and interest due in February 2030. The loan is secured by real property of CSRE and by substantially all assets of the Company and BI. Additionally, the stockholders are guarantors of the term loan. The outstanding balance on the term loan as of December 31, 2022 and 2021 was $2,307,373 and $2,399,226, respectively.

The arrangement regarding the term loan between the Company, BI, and CSRE is that CSRE will repay the term loan and expects to have the ability to do so both through future leasing arrangements and other income sources. The Company does not expect to repay any portion of the term loan under its arrangement with CSRE. Therefore, the term loan is considered an obligation of CSRE. However, if CSRE's ability to repay the term loan under its arrangement with the Company deteriorates, the portion of the term loan that the Company expects to be obligated to repay would become a liability of the Company.

11. RELATED PARTY TRANSACTIONS

The Company and BI are related by common ownership. In accordance with the Company's franchise agreements, the Company is required to pay monthly royalties to BI based on a percentage of the net collections received under training contracts. Royalties expense for the years ended December 31, 2022 and 2021 were $859,015 and $659,926, with $1,554,087 and $1,307,363 payable at December 31, 2022 and 2021, respectively.

The Company is also required to remit monthly payments to Barbizon National Advertising Committee, Inc. ("BNAC"), an affiliate of BI, for advertising services. Monthly advertising payments are based on a percentage of net collections received under training contracts from female customers. Advertising expense under this agreement totaled $286,338 and $219,975 for the years ended December 31, 2022 and 2021, respectively, with $162,974 and $33,966 payable at December 31, 2022 and 2021, respectively.

A significant part of the Company's working capital requirements is provided by its affiliates. BI and BNAC have provided the Company with the ability to defer payment on the monthly royalties and advertising payments due to them. BI and BNAC have committed to the Company that this support and deferred payment terms will continue, as necessary, for the foreseeable future.

The Company had outstanding non-interest bearing advances of $66,658 and $64,601 due from BI at December 31, 2022 and 2021, respectively, and were recorded as "Advances to Barbizon International, Inc." on the consolidated and combined balance sheets.

BUSA had outstanding non-interest bearing advances of $37,972 and $37,972 due from its stockholders at December 31, 2022 and 2021, respectively. In addition, BUSA had a $100,000 payable to one of its stockholders at December 31, 2022 and 2021.

12. RETIREMENT PLAN

The Company maintains a defined contribution plan under Section 401(k) (herein referred to as the "401(k) Plan") of the Internal Revenue Code. In order to participate in the 401(k) Plan, an employee must be twenty-one years old and have more than one year of service. Company contributions to the Plan are at the discretion of management. For the years ended December 31, 2022 and 2021, the Company elected to match 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions. Company matching contributions totaled $63,522 and $65,019 for the years ended December 31, 2022 and 2021, respectively.

13. CONCENTRATIONS

For the year ended December 31, 2022, the Company had two vendors who represented approximately 28% of total costs of revenues. There were no outstanding balances due to this vendor at December 31, 2022. For the year ended December 31, 2021, the Company had one vendor who represented approximately 12% of total costs of revenues. There were no outstanding balances due to this vendor at December 31, 2021.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 9, 2023, the date the consolidated and combined financial statements were available for issuance. Management has concluded that there were no significant events requiring disclosure in the consolidated and combined financial statements other than as disclosed below.

In February 2023, the Company received final payment of the employee retention credit receivable.

On July 1, 2023, the Company entered into a lease agreement for its headquarters with Cherry Street Real Estate, LLC. The lease agreement has a 5 year term through June 30, 2028 with monthly rental payments of $25,000 throughout the term of the agreement.