MOORE COLSON

CPAs and Advisors

BARBIZON USA, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT ACCOUNTANT'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have reviewed the accompanying consolidated financial statements of Barbizon USA, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Report on 2022 Financial Statements

The 2022 consolidated financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated August 9, 2023. We have not performed any auditing procedures since that date.

Moore, Colson + Company, P.C.

Atlanta, Georgia
August 8, 2024

BARBIZON USA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,266,374	$ 6,672,649
Accounts receivable, net	405,194	484,066
Employee retention credit receivable	-	354,987
Interest receivables	27,450	-
Prepaid competition expenses	66,146	73,761
Prepaid expenses and other assets	179,113	139,230
Total current assets	7,944,277	7,724,693
PROPERTY AND EQUIPMENT - NET	252,750	286,137
OTHER ASSETS:		
Advances to Barbizon International, Inc.	-	66,658
Advances to stockholders	37,972	37,972
Goodwill	6,389,864	6,389,864
Right-of-use asset, net	1,130,586	-
Deposits and other	25	12,155
Total other assets	7,558,447	6,506,649
TOTAL	$ 15,755,474	$ 14,517,479

LIABILITIES AND EQUITY

	2023	2022
CURRENT LIABILITIES:		
Current maturities of lease liability	$ 217,410	$ -
Accounts payable and accrued expenses	2,407,141	2,782,407
Deferred revenues	3,230,917	3,593,691
Total current liabilities	5,855,468	6,376,098
LONG-TERM LIABILITIES:		
Lease liability, net of current maturities	913,176	-
Advances from Barbizon International, Inc.	695,779	-
Advances from stockholder	100,000	100,000
Total long-term liabilities	1,708,955	100,000
EQUITY	8,191,051	8,041,381
TOTAL	$ 15,755,474	$ 14,517,479

See notes to consolidated financial statements and independent accountant's review report.

BARBIZON USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES	$ 17,713,002	$ 18,486,105
COST OF REVENUES	14,113,255	14,574,222
GROSS PROFIT	3,599,747	3,911,883
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,327,756	2,346,893
INCOME FROM OPERATIONS	1,271,991	1,564,990
OTHER INCOME:		
Paycheck Protection Program loan forgiveness	-	1,115,730
Other income	262,798	103,395
Total other income	262,798	1,219,125
NET INCOME	$ 1,534,789	$ 2,784,115

See notes to consolidated financial statements and independent accountant's review report.

BARBIZON USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	MEMBERS' EQUITY	COMMON STOCK	PAID - IN CAPITAL	RETAINED EARNINGS	EQUITY
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
Distributions	-	-	(1,385,119)	-	(1,385,119)
Net income	-	-	-	1,534,789	1,534,789
Balances, December 31, 2023	$ -	$ -	$ (564,188)	$ 8,755,239	$ 8,191,051

See notes to consolidated financial statements and independent accountant's review report.

BARBIZON USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,534,789	$ 2,784,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,070	26,620
Provision for doubtful accounts	-	19,209
Recoveries of credit losses	(118,700)	-
Paycheck Protection Program loan forgiveness	-	(1,115,730)
Non-cash lease expense	102,375	217,343
Changes in operating assets and liabilities:		
Accounts receivable	197,572	31,775
Employee retention credit receivable	354,987	280,513
Interest receivables	(27,450)	-
Prepaid expenses	(32,268)	23,825
Deposits and other	12,130	5,150
Accounts payable and accrued expenses	(375,266)	754,457
Deferred revenues	(362,774)	(738,221)
Operating lease liability	(102,375)	(221,430)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,239,090	2,067,626
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of equipment	(22,683)	(233,358)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from (to) Barbizon International, Inc., net	762,437	(2,057)
Distributions	(1,385,119)	(3,550,262)
NET CASH USED IN FINANCING ACTIVITIES	(622,682)	(3,552,319)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	593,725	(1,718,051)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	6,672,649	8,390,700
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 7,266,374	$ 6,672,649
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -		
Acquisition of right-of-use asset through the assumption of lease liability	$ (1,232,961)	$ -

See notes to consolidated financial statements and independent accountant's review report.

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

A. Nature of Business

Barbizon USA, Inc. and Subsidiary (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 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"). All material intercompany accounts and transactions have been eliminated.

C. Use of Estimates

The preparation of consolidated 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, Net and Allowance for Credit Losses

Accounts receivable, net 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.

The Company recognizes an allowance for credit losses in an amount equal to current expected credit losses. The estimation of the allowance is based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and reasonable and supportable expectations of future conditions, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The Company assesses collectability by pooling receivables, if and where similar characteristics exist, and evaluates receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. Credit loss expense is recognized in selling, general, and administrative expense.

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 are removed from the accounts, and the resulting gain or loss is reflected in the consolidated statements of income. Depreciation for financial statement purposes is 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, 2023 and 2022.

H. Right-of-Use Asset and Lease Liability

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 ROU assets and lease liabilities.

ROU assets and lease liabilities 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.

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.

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

I. Income Taxes (Continued)

Barbizon USA, LLC, and its wholly-owned subsidiary Barbizon USA Southwest, LLC, Limited Liability Companies ("LLC"), are disregarded entities for federal and state income tax purposes, and their taxable income are reported on the tax returns of its sole member, Barbizon USA, Inc. Accordingly, since a partnership is not a taxable entity for federal and state income tax purposes, the members are taxed on the LLCs' 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 analyzed its tax positions taken and concluded that as of December 31, 2023 and 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.

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.

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

K. Advertising Costs

Advertising costs, included in "Cost of Revenues" on the consolidated statements of income, are expensed as incurred and totaled approximately $4,459,000 and $4,711,000 for the years ended December 31, 2023 and 2022, respectively.

L. 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 statements of cash flows.

There were no cash outlays for income taxes or interest for the years ended December 31, 2023 and 2022.

M. 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.

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

M. Variable Interest Entity (Continued)

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.

N. Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Board (“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 measured at amortized cost at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The Company adopted ASC 326 as of January 1, 2023 using the modified retrospective transition method. The adoption of ASC 326 did not have a material impact on the Company’s consolidated financial statements.

O. Subsequent Events

Subsequent events have been evaluated through August 8, 2024, the date the consolidated financial statements were available for issuance.

2. REVENUE RECOGNITION

Revenues for the years ended December 31, 2023 and 2022 consisted of the following disaggregated by revenue source:

	2023	2022
Training tuition	$ 10,850,787	$ 10,153,538
Competition - PTD	4,556,171	5,474,808
Competitions - local	1,949,609	2,494,188
Other	356,435	363,571
Total revenues	$ 17,713,002	$ 18,486,105
Revenue recognized over time	$ 10,850,787	$ 10,153,538
Revenue recognized at a point in time	6,862,215	8,332,567
Total revenues	$ 17,713,002	$ 18,486,105

2. REVENUE RECOGNITION (Continued)

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, 2023 and 2022. The Company had contract liabilities of $3,230,917 and $3,593,691 at December 31, 2023 and 2022, respectively, that are included in deferred revenue on the accompanying consolidated 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, 2023 and 2022.

3. ACCOUNTS RECEIVABLE, NET AND DEFERRED REVENUES

Accounts receivable, net consisted of the following at December 31, 2023 and 2022:

	2023	2022
Training contracts	$ 222,687	$ 402,998
Competition contracts	333,507	350,768
Total	556,194	753,766
Less: allowance for credit losses	(151,000)	-
Less: allowance for doubtful accounts	-	(269,700)
Accounts receivable, net	$ 405,194	$ 484,066

Deferred revenues consisted of the following at December 31, 2023 and 2022:

	2023	2022
Competition contracts - PTD	$ 1,722,504	$ 1,480,923
Competition contracts - local competitions	155,993	125,823
Training contracts	1,352,420	1,986,945
Total	$ 3,230,917	$ 3,593,691

4. PROPERTY AND EQUIPMENT - NET

Property and equipment - net consisted of the following at December 31, 2023 and 2022:

	2023	2022
Leasehold improvements	$ -	$ 280,993
Furniture and fixtures	351,494	328,811
Office equipment	135,128	136,058
Total	486,622	745,862
Less: accumulated depreciation and amortization	(233,872)	(459,725)
Property and equipment - net	$ 252,750	$ 286,137

Depreciation expense for the years ended December 31, 2023 and 2022 totaled $56,070 and $26,620, respectively.

5. PAYCHECK PROTECTION PROGRAM LOAN

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 statements of income.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at December 31, 2023 and 2022:

	2023	2022
Accounts payable	$ 415,483	$ 640,436
Accrued expenses:		
Payroll	265,213	424,910
Royalties (Note 11)	1,577,535	1,554,087
Advertising (Note 11)	148,910	162,974
Total	$ 2,407,141	$ 2,782,407

7. COMMON STOCK

At December 31, 2023 and 2022, 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, 2023 and 2022 approximated $836,000 and $932,000, respectively.

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 ("CSRE"), a related entity (Note 10). No lease payments were made until a lease agreement with CSRE was executed on July 1, 2023. The term of the agreement is from July 1, 2023 to June 30, 2028, and requires monthly lease payments of $25,000 throughout the term of the lease.

8. LEASES (Continued)

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

	2023	2022
Right-of-use asset, net - Operating lease	$ 1,130,586	$ -
Current maturities of lease liability - Operating lease	$ 217,410	$ -
Lease liability, net of current maturities - Operating lease	$ 913,176	-

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

	2023	2022
Operating lease cost:	$ 150,000	$ 221,421
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows	$ 150,000	$ 231,307
Remaining lease term	4.50 years	N/A
Weighted-average discount rate	8.00%	5.50%

9. OTHER COMMITMENTS

In July 2023, the Company entered into a group sales event agreement with a hotel for its annual Passport to Discovery competition in July/August 2024. The agreement calls for a sleeping room performance policy of $487,500, 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 2023 followed by a second deposit of $25,000 paid in 2024.

10. CO-BORROWING ARRANGEMENT

As of December 31, 2023 and 2022, the Company was the borrower, along with entities related through common ownership, 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, 2023 and 2022 was $2,211,304 and $2,307,373, 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, 2023 and 2022 were $776,018 and $859,015, with $1,577,535 and $1,554,087 payable at December 31, 2023 and 2022, 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 $258,673 and $286,338 for the years ended December 31, 2023 and 2022, respectively, with $148,910 and $162,974 payable at December 31, 2023 and 2022, 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 $695,779 due to BI at December 31, 2023 and $66,658 due from BI at December 31, 2022.

The Company had outstanding non-interest bearing advances of $37,972 due from its stockholders at December 31, 2023 and 2022. In addition, BUSA had a $100,000 payable to one of its stockholders at December 31, 2023 and 2022.

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, 2023 and 2022, 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 $68,759 and $63,522 for the years ended December 31, 2023 and 2022, respectively.

13. CONCENTRATIONS

For the year ended December 31, 2023, the Company had two vendors who represented approximately 29% of total costs of revenues. There were no outstanding balances due to these vendors at December 31, 2023. 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 these vendors at December 31, 2022.