Regional Brands Inc.
Audited Financial Statements
As of and for the Years Ended December 31, 2023 and 2022

REGIONAL BRANDS INC.

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Board of Directors and Stockholders
Regional Brands Inc.

Opinion
We have audited the accompanying consolidated financial statements of Regional Brands Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 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.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 18, 2024

REGIONAL BRANDS INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2023	**2022**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,633,789	$ 4,939,748
Short-term investments	987,000	1,260,317
Accounts receivable, net of allowance for credit losses of $100,000	3,409,386	6,393,061
Inventories, net	949,672	850,102
Contract assets	3,099,082	3,620,187
Prepaid expenses and other current assets	555,346	645,368
Total current assets	16,634,275	17,708,783
Equipment, net	256,074	255,713
Right-of-use lease assets, net	1,097,613	1,391,948
Goodwill	3,045,481	3,045,481
Other assets	415,905	473,534
Deferred taxes	881,352	958,130
Total assets	$ 22,330,700	$ 23,833,589
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 688,230	$ 1,370,694
Accrued expenses and other current liabilities	731,506	915,836
Dividends payable	-	1,812,354
Line of credit	-	-
Current portion of right-of-use lease liability	372,535	358,164
Current portion of subordinated term note	250,000	250,000
Contract liabilities	1,047,376	1,691,842
Total current liabilities	3,089,647	6,398,890
Right-of-use lease liability	725,078	1,033,784
Subordinated term note	845,000	1,500,000
Total liabilities	4,659,725	8,932,674
Commitments (Note 9)		
Stockholders' equity:		
Preferred stock $.01 par value, 50,000 shares authorized; issued and outstanding - none	-	-
Common stock $.00001 par value, 3,000,000 shares authorized; 1,198,977 and 1,208,236 shares issued and outstanding at December 31, 2023 and 2022, respectively	12	12
Additional paid-in capital	18,459,765	18,497,676
Accumulated deficit	(788,802)	(3,596,773)
Total stockholders' equity	17,670,975	14,900,915
Total liabilities and stockholders' equity	$ 22,330,700	$ 23,833,589

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

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2023	**2022**
Sales	$ 35,968,552	$ 31,960,111
Cost of sales	25,038,910	23,259,859
Gross profit	10,929,642	8,700,252
Operating expenses (income):		
Selling	3,820,198	3,740,678
General and administrative	3,609,853	3,562,240
Employee retention credit	-	(189,547)
Total operating expenses	7,430,051	7,113,371
Operating income	3,499,591	1,586,881
Other income (expense):		
Other income	180,129	46,309
Interest expense	(78,684)	(97,000)
Interest income	87,625	-
Total other income (expense)	189,070	(50,691)
Income before income taxes	3,688,661	1,536,190
Income tax expense	(880,690)	(384,788)
Net income	$ 2,807,971	$ 1,151,402
Income per common share - basic	$ 2.33	$ 0.95
Income per common share - diluted	$ 2.28	$ 0.95
Weighted average common shares outstanding - basic	1,204,177	1,211,117
Weighted average common shares outstanding – diluted	1,234,045	1,214,382

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

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Accumulated	Stockholders'
	Shares	Amount	Paid-in capital	Deficit	Equity
Balance at January 1, 2022	1,211,939	$ 12	$ 18,464,284	$ (2,935,821)	$ 15,528,475
Acquisition of common stock	(3,703)	-	(53,695)	-	(53,695)
Equity based compensation	-	-	87,087	-	87,087
Net income	-	-	-	1,151,402	1,151,402
Cash dividend declared	-	-	-	(1,812,354)	(1,812,354)
Balance at December 31, 2022	1,208,236	12	18,497,676	(3,596,773)	14,900,915
Acquisition of common stock	(9,259)	-	(124,996)	-	(124,996)
Equity based compensation	-	-	87,085	-	87,085
Net income	-	-	-	2,807,971	2,807,971
Balance at December 31, 2023	1,198,977	$ 12	$ 18,459,765	$ (788,802)	$ 17,670,975

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

REGIONAL BRANDS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			
		2023		2022
Cash flows from operating activities:				
Net income	$	2,807,971	$	1,151,402
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Equity based compensation		87,085		87,087
Depreciation and amortization		111,631		146,724
Unrealized (gain) loss on investments		(9,826)		75,146
Change in inventory obsolescence reserve		(1,370)		(80,706)
(Gain) loss on sale of equipment		(15,011)		1,515
Deferred income taxes		76,778		195,547
Changes in operating assets and liabilities:				
Accounts receivable		2,983,675		(2,792,563)
Inventories		(98,199)		(173,497)
Contract assets		521,105		(1,462,409)
Prepaid expenses and other assets		147,650		1,124,845
Right-of-use lease assets		294,335		272,422
Accounts payable		(682,464)		446,207
Accrued expenses and other current liabilities		(184,330)		219,416
Right-of-use lease liabilities		(294,335)		(272,422)
Contract liabilities		(644,466)		348,149
Net cash provided by (used in) operating activities		5,100,229		(713,137)
Cash flows from investment activities:				
Net sale of short-term investments		283,143		-
Purchase of equipment		(134,481)		(37,041)
Proceeds from sale of equipment		37,500		930
Net cash provided by (used in) investment activities		186,162		(36,111)
Cash flows from financing activities:				
Payment of subordinated term note		(655,000)		(250,000)
Acquisition of common stock		(124,996)		(53,695)
Cash dividend paid		(1,812,354)		(3,029,848)
Net cash used by financing activities		(2,592,350)		(3,333,543)
Net increase (decrease) in cash and cash equivalents		2,694,041		(4,082,791)
Cash and cash equivalents at beginning of year		4,939,748		9,022,539
Cash and cash equivalents at end of year	$	7,633,789	$	4,939,748
Cash paid for:				
Income taxes	$	762,300	$	-
Interest	$	86,000	$	100,100

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

REGIONAL BRANDS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regional Brands Inc. (“the Company”, “we” and “us”) is a holding company formed to acquire substantial ownership in regional companies with strong brand recognition, stable revenues and profitability. The Company has been pursuing a business strategy whereby it was seeking to engage in an acquisition, merger or other business combination transaction with undervalued businesses (each, a “Target Company”) with a history of operating revenues in markets that provide opportunities for growth.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, B.R. Johnson, LLC (“BRJ LLC”). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and be based on events different from those assumptions. Future events and their effects cannot be predicted with certainty; estimating, therefore, requires the exercise of judgment. Thus, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained. We believe the most significant estimates and judgments are associated with revenue recognition for our contracts, including estimating costs and the recognition of unapproved change orders and claims.

Common Shares Issued and Earnings Per Share - Common shares issued are recorded based on the value of the shares issued or consideration received, including cash, services rendered or other non-monetary assets, whichever is more readily determinable. The Company presents basic and diluted earnings per share. Basic earnings per share reflect the actual weighted average number of shares issued and outstanding during the period. Diluted earnings per share are computed including the number of additional shares that would have been outstanding if dilutive potential shares had been issued. In a loss period, the calculation for basic and diluted earnings (loss) per share is considered to be the same, as the impact of potential common shares issued is anti-dilutive.

Fair Value of Financial Instruments - Financial instruments include cash, accounts receivable, accounts payable, accrued expenses, line of credit and long-term debt. Fair values were assumed to approximate carrying values for these financial instruments because of their immediate or short-term maturity and the fair value of the line of credit and long-term debt approximates the carrying value as the stated interest rates approximate market rates currently available to the Company.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurement Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company’s valuation techniques used to measure the fair value of money market funds, certificate of deposits, and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.

The tables below present the Company's assets and liabilities measured at fair value on a recurring basis aggregated by the level in the fair value hierarchy within which those measurements fall.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets	Level 1	Level 2	Level 3	December 31, 2023
Marketable Equity Securities	$ 987,000	$ -	$ -	$ 987,000
Cash and Money Market Funds	$7,633,789	$ -	$ -	$ 7,633,789

Assets	Level 1	Level 2	Level 3	December 31, 2022
Marketable Equity Securities	$1,260,317	$ -	$ -	$ 1,260,317
Cash and Money Market Funds	$4,939,748	$ -	$ -	$ 4,939,748

The Company did not have any fair value measurements within Level 2 or Level 3 of the fair value hierarchy as of December 31, 2023 or 2022.

Cash Equivalents – All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Amounts included in cash equivalents in the accompanying consolidated balance sheet are money market funds and certificates of deposit whose adjusted costs approximate fair value.

Short-Term Investments – The Company's investments consist of investments in marketable equity related securities. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The investments are classified as either short-term or long-term based on the nature of each security and its availability for use in current operations. The investments are carried at fair value using quoted market prices in active markets for each marketable security. Unrealized gains or losses on securities are recognized as a component of other income included in our consolidated statements of income.

Consolidated Statement of Cash Flows Data - Noncash transactions include approximately $81,000 and $90,000 for leases entered into during the years ended December 31, 2023 and 2022, respectively, and dividends declared and payable of $1,812,354 during the year ended December 31, 2022.

Revenue Recognition - The Company recognizes revenue under ASC Topic 606, revenue recognition. We recognize revenue when the following criteria are met: 1) Contract with the customer has been identified; 2) Performance obligations in the contract have been identified; 3) Transaction price has been determined; 4) The transaction price has been allocated to the performance obligations; and 5) Revenue is recognized when (or as) performance obligations are satisfied.

A significant portion of our revenue is derived from long-term contracts and is recognized using the percentage of completion ("POC") method, primarily based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract. We utilize the cost-to-cost approach to estimate POC as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. Significant estimates that impact the cost to complete each contract are costs of materials, components, equipment, labor and subcontracts; labor productivity; schedule durations, including subcontractor or supplier progress; liquidated damages; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. All business lines utilize the POC method, which are supported by specific written documents, which include contract price, scope, and payment terms. Our contract price is fixed for the scope of work specified and we generally have no variable consideration. We frequently negotiate change orders for additional work to be performed which typically relate to the initial performance obligation. Our customer payment terms are typical for our industry. For most contracts under the POC method, progress payments, less retainage, are made shortly after the contractor receives payments from the owner. For the remainder of our business, standard terms require that amounts due are paid 30 days after invoice date. For the business accounted for using the POC method, we have determined that we have one performance obligation due to the high degree of inter-dependability and highly integrated nature of the work. Performance obligations for the remainder of our business are generally supported by written contracts or purchase orders, which require the delivery of goods or services and the revenue is recognized upon shipment of those goods or performance of the services. The majority of our performance obligations are typically completed within one year.

We have elected the practical expedients for not adjusting the promised amount of consideration for the effects of financing components when, at contract inception, the period between the transfer of goods or service and when the customer pays is expected to be less than one year and for recognizing incremental costs of obtaining a contract as incurred as they would otherwise have been amortized over one year or less. We have made an accounting policy election to treat any common carrier shipping and handling activities as a fulfillment cost, rather than a separate obligation or promised service.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales and usage taxes are excluded from revenues. Costs incurred on jobs in process include all direct material and labor costs and certain indirect costs. General and administrative and precontract costs are charged to expense as incurred.

Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates. Revisions in estimated profits for contracts accounted for under the POC method are made in the period in which circumstances requiring the revision become known. During 2023 and 2022, the effect of changes in estimated contract costs increased gross profit by approximately $222,000 and $66,000, respectively, increased net income by approximately $164,000 and $49,000, respectively, and increased income per common share (net of income taxes) by $0.13 and $0.04, respectively.

The asset, "Contract Assets" represents costs and estimated earnings in excess of billings from revenues recognized in excess of amounts billed. The liability, "Contract Liabilities" represents billings in excess of costs and estimated earnings from billings in excess of revenues recognized. The contract assets balance as of January 1, 2022 was approximately $2,158,000 and the contract liabilities balance was $1,344,000.

Retainage, included in contract assets, represents the amounts withheld from billings by the Company's clients pursuant to provisions in the contracts and may not be paid to the Company until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees. The Company does not have any significant financing components as payment is received at the time or shortly after customers are billed, with typical payment terms of net 30 days.

Accounts Receivable and Allowance for Credit Losses - Accounts receivable are recorded at their invoiced amount, net of any allowance for credit losses, and do not bear interest. As of December 31, 2023 and 2022, we had billed retainage receivables of approximately $536,000 and $410,000, respectively, which are included in contract assets in the accompanying consolidated balance sheets. As of January 1, 2022, we had accounts receivable, net of credit losses of approximately $3,738,000.

We determine an allowance for credit losses under the guidance of ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires us to use a current expected credit loss model ("CECL") that will immediately recognize an estimate of credit losses that are expected to occur over the life of the financial instruments, primarily our trade accounts receivables. The Company estimates its expected credit losses based on the expected losses on its receivables based on a variety of data, including current economic conditions in the Company's industry and the credit status of the Company's customers.

Inventories - Inventories are valued at the lower of cost (first-in, first-out) or net realizable value for purchased goods. We maintain an allowance for slow-moving and unused inventories based on the historical trend and estimates. The allowance was approximately $11,000 and $12,000 as of December 31, 2023 and 2022, respectively.

Equipment- Equipment is stated at cost. Depreciation and amortization is computed using straight-line methods at rates adequate to amortize the cost of the various classes of assets over their estimated service lives, ranging from two to fifteen years.

Long-Lived Assets, Identifiable Intangible Assets and Goodwill – Long-lived assets, identifiable intangibles assets and goodwill are reviewed periodically for impairment or when events or changes in circumstances indicate that full recoverability of net asset balances through future cash flows is in question. With respect to goodwill, the Company tests for impairment on an annual basis or in interim periods if an event occurs or circumstances change that may indicate the fair value is below its carrying amount. Factors that could trigger an impairment review include the following: (a) significant underperformance relative to expected historical or projected future operating results; (b) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and (c) significant negative industry or economic trends.

Impairments of long-lived assets are recognized if future undiscounted cash flows from operations are not expected to be sufficient to recover the carrying value of the long-lived assets. The carrying amounts are then reduced to fair value, which is typically determined by using a discounted cash flow model.

When performing its evaluation of goodwill and identifiable intangible assets for impairment, the Company may elect to perform a qualitative assessment that considers economic, industry and company-specific factors. If, after completing the assessment, it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value, the Company proceeds to a quantitative test. The Company may also elect to perform a quantitative test instead of a qualitative test. Quantitative testing requires a comparison of the fair value of the reporting unit to its carrying value. The Company uses the discounted cash flow method to estimate the fair value of the reporting unit. The discounted cash flow method incorporates various assumptions, the most significant being projected revenue growth rates, operating margins and cash flows, the terminal growth rate and the weighted average cost of capital. If the carrying value of the reporting unit exceeds its fair value, goodwill is considered impaired and any loss must be measured.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There were no other impairment charges recorded in the accompanying consolidated statements of operations for the years ended December 31, 2023 and 2022.

Acquisitions - We account for our acquisitions under ASC Topic 805, *Business Combinations and Reorganizations* ("ASC Topic 805"). ASC Topic 805 provides guidance on how the acquirer recognizes and measures the consideration transferred, identifiable assets acquired, liabilities assumed, non-controlling interests, and goodwill acquired in a business combination. ASC Topic 805 also expands required disclosures surrounding the nature and financial effects of business combinations.

When we acquire a business, we allocate the purchase price to the assets acquired and liabilities assumed in the transaction at their respective estimated fair values. We record any premium over the fair value of net assets acquired as goodwill. The allocation of the purchase price involves judgments and estimates both in characterizing the assets and in determining their fair value. The way we characterize the assets has important implications, as long-lived assets with definitive lives, for example, are depreciated or amortized, whereas goodwill is tested annually for impairment. With respect to determining the fair value of assets, the most subjective estimates involve valuations of long-lived assets, such as property, plant, and equipment as well as identified intangible assets. We use all available information to make these fair value determinations and may engage independent valuation specialists to assist in the fair value determination of the acquired long-lived assets. The fair values of long-lived assets are determined using valuation techniques that use discounted cash flow methods, independent market appraisals and other acceptable valuation techniques.

Concentration of Credit Risk – The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk as a result of any non-performance by the financial institutions. As of December 31, 2022, three customers had individual balances that exceeded 10% of total accounts receivable and when aggregated, represent approximately 33% of total accounts receivable. There were no such concentrations of customer accounts receivable balances at December 31, 2023.

Equity-Based Compensation Expense – The Company accounts for stock-based and equity-based compensation under the provisions of FASB ASC 718 "Stock Compensation." This statement requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. We adopted ASU 2018-07, "Compensation – Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting" effective January 1, 2019, as required. The FASB issued this update as part of its simplification initiative. The amendments in this update expand the scope of Topic 718 to include share-based payments for acquiring goods and services from nonemployees. Since we have issued a relatively small number of stock options to nonemployees, the adoption of this standard on our consolidated financial statements and related disclosures was not material.

Income Taxes – The Company accounts for income taxes with the recognition of estimated income taxes payable or refundable on income tax returns for the current year and for the estimated future tax effect attributable to temporary differences and carryforwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized in the immediate future.

The Company reviews tax positions taken to determine if it is more likely than not that the position would be sustained upon examination resulting in an uncertain tax position. The Company did not have any material unrecognized tax benefits at December 31, 2023 and 2022. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. During 2023 and 2022, the Company recognized no interest and penalties.

Leases – We account for leases under Topic ASC 842, "Leases", which uses a two-model approach to classify leases as operating or finance leases (formerly, capital leases); however, most leases, regardless of classification type, are recorded on the balance sheet. We recognize a lease liability based on the present value of the future lease payments, with an offsetting entry to recognize a right-of-use ("ROU") asset. We use a discount rate to determine the present value based on the rate implicit in the lease, if readily determinable, or our incremental borrowing rate.

Our current lease agreements, which include real estate and vehicles, are operating leases. Accordingly, lease expense is recognized on a straight-line basis over the lease term. We have elected not to record leases with terms of 12 months or less on the balance sheets.

NOTE 1. NATURE OF BUSINESS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements Adopted

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which significantly changes the impairment model for most financial instruments. Prior to the adoption of ASU-2016-13, guidance required the recognition of credit losses based on an incurred loss impairment methodology that reflects losses once the losses are probable. Under the newly adopted standard, the Company uses a current expected credit loss model ("CECL") that immediately recognizes an estimate of credit losses that are expected to occur over the life of the financial instruments that are in the scope of this update, including trade receivables. The CECL model uses a broader range of reasonable and supportable information in the development of credit loss estimates. The Company adopted the new guidance on a modified retrospective basis as of January 1, 2023. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment", which eliminated the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment is determined by using the difference between the carrying amount and the fair value of the reporting unit. For the Company, the standard was effective for annual and interim impairment tests performed during its year ended December 31, 2023 and has been applied prospectively. The impact of adopting this accounting standard had no effect on the Company's consolidated financial statements.

New Accounting Pronouncements Issued

In December 2023, the FASB issued ASU 2023-09 "Income Taxes (Topics 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for our year beginning January 1, 2025, with early adoption permitted. We are currently evaluating the potential effect that the updated standard will have on our consolidated financial statement disclosures.

No other recently issued or effective ASU had, or is expected to have, a material effect on the Company's results of operations, financial condition, or liquidity.

Reclassifications - Certain reclassifications have been made to amounts in the 2022 consolidated financial statements to conform to the 2023 presentation.

Subsequent Events – These consolidated financial statements have not been updated for subsequent events occurring after March 18, 2024, which is the date these consolidated financial statements were available to be issued.MR

NOTE 2. REVENUES AND CONTRACTS IN PROCESS

The following table presents our revenues disaggregated by contracts accounted for using the percentage of completion method:

	Year Ended December 31,	
	2023	**2022**
Contracts under percentage of completion	$ 31,339,045	$ 26,958,083
All other	4,629,507	5,002,028
Total revenue	$ 35,968,552	$ 31,960,111

Projects with costs and estimated earnings recognized to date in excess of cumulative billings is reported on the accompanying consolidated balance sheets as contract assets. Projects with cumulative billings in excess of costs and estimated earnings recognized to date is reported in the accompanying consolidated balance sheets as contract liabilities.

NOTE 2. REVENUES AND CONTRACTS IN PROCESS (CONTINUED)

The following is information with respect to uncompleted contracts:

	December 31,	
	2023	2022
Costs incurred on uncompleted contracts	$ 22,993,035	$ 19,115,192
Retainage included in contract assets due to being conditional on something other than solely passage of time	535,623	410,056
Estimated earnings	7,422,666	4,927,799
	30,951,324	24,453,047
Less: billings to date	28,899,618	22,524,702
	$ 2,051,706	$ 1,928,345

Included in the balance sheet as follows:		
Under current assets:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,563,459	$ 3,210,131
Retainage included in contract assets due to being conditional on something other than solely passage of time	535,623	410,056
Contract assets	3,099,082	3,620,187
Under current liabilities:		
Contract liabilities	(1,047,376)	(1,691,842)
	$ 2,051,706	$ 1,928,345

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed. As of December 31, 2023, the aggregate amounts of the transaction prices allocated to the remaining performance obligations, for contracts to be recognized using the percentage of completion method, were approximately $20.0 million.

NOTE 3. EQUIPMENT

Equipment is summarized as follows:

	Estimated	December 31,	
	Useful Life	2023	2022
Vehicles	3 – 5 years	$ 415,492	$ 372,488
Warehouse and shop tools and equipment	2 – 15 years	470,787	470,788
Office and showroom furniture and computer equipment	2 – 7 years	245,522	243,287
Computer software	2 – 5 years	191,668	184,030
		1,323,469	1,270,593
Less accumulated depreciation and amortization		(1,067,395)	(1,014,880)
		$ 256,074	$ 255,713

The Company had depreciation and amortization expense of $111,631 and $146,724 for the years ended December 31, 2023 and 2022, respectively.

NOTE 4. DEBT

Credit Facility

BRJ LLC has a Credit and Security Agreement with KeyBank, N.A. ("KeyBank"), dated November 1, 2016 ("Credit Agreement") that includes revolving loans and letters of credit with a sublimit of $250,000 for letters of credit. The letters of credit expired on December 31, 2022 and were not renewed. An Amended Agreement dated June 27, 2023 ("2023 Amended Note") provides for borrowings up to $5,000,000 and requires a consolidated Fixed Charge Coverage Ratio ("FCCR") of not less than 1.15 to 1.00 at the end of each fiscal quarter, as calculated for the four (4) consecutive fiscal quarterly periods ending on such date. The Company was in compliance with such terms for each fiscal quarter of 2023 and 2022.

NOTE 4. DEBT (CONTINUED)

Amounts borrowed under the Credit Agreement are payable upon demand of KeyBank, or the lenders, or upon acceleration as a result of an event of default, as defined in the Credit Agreement. The Credit Agreement is secured by substantially all of our assets and contains customary financial and other covenant requirements, including, but not limited to, a FCCR as described above.

Interest under the Credit Agreement is payable monthly and accrues interest at the prime rate plus 1.5%. The Credit Agreement also requires the payment of certain fees. The effective interest rate at December 31, 2023 and 2022 was 10.00% and 8.25%, respectively. There were no aggregate borrowings outstanding under the Credit Facility at December 31, 2023 and 2022.

Subordinated Term Note

On November 1, 2016, BRJ LLC issued a $2,500,000 subordinated promissory note as part of the purchase price of its acquisition of BRJ Inc. (the "Subordinated Term Note"). The Subordinated Term Note is payable to BRJ Inc. and accrues interest at a rate of 5.25% per annum, payable quarterly, with the principal due in equal quarterly installments of $62,500. During 2023, the Company made a principal payment of $405,000 in addition to the required quarterly principal payments and the maturity date was extended to November 30, 2026.

Maturities of Long-Term Debt

Scheduled maturities of long-term debt (exclusive of lease liabilities) at December 31, 2023 are as follows:

Year	Amount
2024	$ 250,000
2025	250,000
2026	595,000
	$1,095,000

NOTE 5. STOCKHOLDERS' EQUITY

In 2023 and 2022, the Company purchased 9,259 and 3,703 shares, respectively, of its common stock for a total of $124,996 and $53,695, respectively.

On December 19, 2022, the Company's Board of Directors declared a Special Dividend payable in cash on or about January 31, 2023 in the amount of $1.50 per share to holders of record of the Company's common stock as of January 17, 2023. The total amount to be paid was $1,812,354.

On December 21, 2021, the Company's Board of Directors declared a Special Dividend payable in cash on or about January 31, 2022 in the amount of $2.50 per share to holders of record of the Company's common stock as of January 14, 2022. The total amount paid was $3,029,848.

NOTE 6. EQUITY INCENTIVE PLANS

2016 Equity Incentive Plan

On April 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "Equity Incentive Plan"), which was amended and restated as of June 15, 2017. The maximum number of shares of the Company's common stock available for issuance under the Equity Incentive Plan through the grant of non-qualified stock options, restricted stock, restricted stock units and other awards is 130,000. Awards may be granted to employees, officers, directors, consultants, agents, advisors and independent contractors of the Company and its related companies. Stock based compensation includes expenses related to all stock-based awards. Such awards include options, warrants and stock grants. On December 21, 2021, the Company granted to its Chairman of the Board 36,833 options with an exercise price of $13 per share and expire after 15 years. The grant date fair value of such shares is $8.78 per share. Ten percent of the shares vested immediately and the remaining shares vest in 54 equal monthly installments. The Company issued stock options in April 2016 with a grant date fair value of $6.29 per share that vested in 60 equal monthly installments and expire after 15 years.

The Company records share based payments under the provisions of FASB ASC 718 "Compensation - Stock Compensation". Stock based compensation expense is recognized over the requisite service period based on the grant date fair value of the awards. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

NOTE 6. EQUITY INCENTIVE PLANS (CONTINUED)

The Company estimated the expected volatility based on data used by its peer group of public companies. The expected term was estimated using the simplified method. The risk-free interest rate assumption was determined using the equivalent U.S. Treasury bonds yield over the expected term. As of the date of grant of options in 2021 and prior, the Company had never paid any regular cash dividends and although a special dividend was declared in both 2021 and 2022, it is uncertain whether regular cash dividends will be paid in the foreseeable future. The Company assumed an expected dividend yield of zero when the options were granted. The 2016 Equity Incentive Plan includes an antidilution provision that preserves the economic benefits of the option holders under transactions such as the Special Dividend. The fair value of the stock option immediately before the Special Dividend shall be equal to its fair value immediately after, therefore the stock option price was reduced as a result of the Special Dividends declared in 2021 and 2022. The tables below reflect the adjusted stock option prices.

The significant assumptions used in determining the grant date fair value for the options granted in 2021 were volatility of 50%, expected term of 7 years, risk-free interest rate of 1.40% and no expected dividend payments.

No options were granted, exercised, cancelled or forfeited during 2022 and 2023. A summary of all stock options is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding, December 31, 2023	79,429	$ 12.46	10.4 years	$ -
Exercisable, December 31, 2023	61,013	$ 12.30	9.6 years	$ -
Expected to vest, December 31, 2023	18,416	$ 13.00	12.9 years	$ -

During 2023 and 2022, stock compensation expense for options vested was approximately $64,700.

At December 31, 2023, there was approximately $162,000 of unrecognized compensation cost related to non-vested options. This cost is expected to be recognized over a weighted average period of approximately 2.5 years.

Value Appreciation Units

BRJ LLC adopted the B.R. Johnson, LLC 2020 Incentive Plan in order to induce eligible employees to continue to dedicate service to the Company and to contribute to its success. The incentive plan provides for the grant of Value Appreciation Units ("VAU"). Each unit represents one-tenth of one percent of the Common Membership Interests of BRJ LLC. The unit value is the difference between the Fair Market Value of a Common Membership Interest on the Measurement Date less the Base Amount ($4,860 for units granted in 2020). If a participant is employed with BRJ LLC on the date of a change in control, the Measurement Date is the date of the change in control. If employment with BRJ LLC terminates prior to a change in control due to death, disability or termination without cause (voluntary or involuntary), then the Measurement Date for the participant's vested units is the date of termination of employment and the unit value of the participant's vested units is the appreciation in the value of one-tenth of one percent of the Common Membership Interests between the grant date and such Measurement Date. The payment of such vested units will not be made until the consummation of a change in control.

We account for the VAUs under the provisions of FASB ASC 718 "Compensation - Stock Compensation." Compensation expense is recognized over the requisite service period based on the grant date fair value of the awards. The fair value of each VAU is estimated on the date of grant using the Black-Scholes option-pricing model.

The Company estimated the expected volatility based on the trading of the Company's stock, as its only operating subsidiary is BRJ LLC.

The expected term was estimated based on the expected time period of a change in control and the demographics of the participants. The risk-free interest rate assumption was determined using the equivalent U.S. Treasury bonds yield over the expected term. BRJ LLC makes distributions related to the Company's Common Membership Interests for income taxes only, therefore, we used an expected dividend yield of zero. The significant assumptions used in determining the grant date fair value were volatility of 75%, expected term of 5 years and risk-free interest rate of 0.29%. The VAUs vest monthly over a 5-year period. Forfeitures are accounted for when they occur.

NOTE 6. EQUITY INCENTIVE PLANS (CONTINUED)

During 2020 a total of 70 VAUs were granted (none in 2023 and 2022), and in 2023 and 2022, there were no VAUs exercised, cancelled or forfeited. A summary of all VAUs is as follows:

	Units	Base Amount Per Unit	Expected Term	Aggregate Intrinsic Value
Outstanding, December 31, 2023	70	$4,860	5 years	$0.00
Exercisable, December 31, 2023	47.2	$4,860	5 years	$0.00
Nonvested, December 31, 2023	22.8	$4,860	5 years	$0.00

During 2023 and 2022, the fair value of the VAUs that vested amounted to approximately $22,400 in each year and stock compensation expense for the VAUs vested was approximately $22,400 in each year. The weighted-average grant date fair value per unit of the VAUs vested during 2023 and 2022 was $1,600.

At December 31, 2023, there was approximately $36,500 of unrecognized compensation cost related to non-vested VAUs. This cost is expected to be recognized over a weighted average period of approximately1.6 years.

NOTE 7. EMPLOYEE RETIREMENT PLAN

BRJ LLC maintains a defined contribution retirement plan under Section 401(K) of the Internal Revenue Code. All full-time employees of BRJ LLC are eligible to participate. The total employer contributions to the plan were approximately $119,000 and $130,000 during 2023 and 2022, respectively.

NOTE 8. RELATED PARTY TRANSACTIONS

On April 8, 2016, the Company entered into a Management Services Agreement (the "MSA"), between the Company and Ancora Advisors, LLC ("Ancora"), whereby Ancora agreed to provide specified services to the Company in exchange for a quarterly management fee in an amount equal to 0.14323% of the Company's stockholders' equity (excluding cash and cash equivalents) as shown on the Company's consolidated balance sheet as of the end of each fiscal quarter of the Company. The management fee with respect to each fiscal quarter is payable no later than 10 days following the issuance of the Company's consolidated financial statements for such fiscal quarter, and in any event no later than 60 days following the end of each fiscal quarter. For 2023 and 2022, Ancora agreed to waive payment of the management fees.

BRJ LLC has a relationship with a union qualified commercial window subcontractor, Airways Door Service, Inc. ("ADSI"), which is advantageous in situations that require union installation and repair services. Certain BRJ LLC's employees, including two members of its Board of Managers, own ADSI. BRJ LLC paid ADSI for its services approximately $2,310,000 and $1,996,000 during 2023 and 2022, respectively. In addition, BRJ LLC provides ADSI services utilizing an agreed-upon fee schedule. These services include accounting, warehousing, equipment use, employee benefit administration, risk management coordination and clerical functions. The fee for these services was approximately $131,000 for each of 2023 and 2022.

BRJ LLC leases a facility from its current and former employees and the related terms and amounts are included in Note 9 below.

NOTE 9. LEASES AND COMMITMENTS

Leases primarily relate to BRJ LLC's offices, warehouses, operating facilities and automobiles. Lease expense was approximately $442,000 and $458,000 for the years ended December 31, 2023 and 2022, respectively. The lease terms range in length from 36 to 72 months. Certain leases contain renewal options that we are not reasonably certain to exercise and therefore have been excluded from the future minimum lease payments. The weighted-average remaining lease term as of December 31, 2023 and 2022 is 3.3 years and 4.1 years, respectively. The weighted-average discount rate used to determine the present value of future lease payments is 7.04%. The Company uses its incremental borrowing rate to determine the present value of lease payments because the implicit rate in each lease is not readily determinable.

NOTE 9. LEASES AND COMMITMENTS (CONTINUED)

The future minimum lease payments under the lease agreements and a reconciliation to the amount of the net present value of such payments at December 31, 2023 are as follows:

2024	$	424,945
2025		310,331
2026		306,331
2027		156,331
2028		6,857
Total		1,204,795
Discount on future payments		(107,182)
Lease liability at December 31, 2023		1,097,613
Current portion		(372,535)
	$	725,078

BRJ LLC is a member of a captive insurance entity, to provide for the potential liabilities for certain risks including workers' compensation, general liability, and automotive. Liabilities associated with the risks that are retained by us are not discounted and are estimated, in part, by considering historical claims experience, demographic factors and severity factors. As of December 31, 2023 and 2022, no liability has been recorded because a material liability for additional costs is considered remote. As a member of the captive insurance entity, BRJ LLC was required to provide an equity contribution of $30,000 and dividend pool contributions of $295,000, which are included in other assets in the accompanying consolidated balance sheets as of December 31, 2023 and 2022.

In addition, as a member of the captive, we are entitled to dividends when we have favorable experience resulting in a positive dividend pool balance. The dividends became payable starting in 2020, subject to the approval of the captives' Board of Directors. We received a dividend payment of approximately $39,000 and $56,000 in 2023 and 2022, respectively. The amount of cumulative dividends earned each year will increase or decrease depending on claims experience.

At December 31, 2023 and 2022, the Company reduced the cumulative receivable by $27,000 and $130,000, respectively, due to unfavorable claims experience, which is included in other assets in the accompanying consolidated balance sheets. The change in the dividend receivable is recorded as a reduction or addition to insurance expense, which is part of general and administrative expenses in the consolidated statements of income.

NOTE 10. INCOME TAXES

Income tax expense (benefit) is summarized as follows:

	Year Ended December 31,	
	2023	**2022**
Current:		
Federal	$ 618,621	$ 142,020
State	185,291	47,221
Total current	803,912	189,241
Deferred		
Federal	57,683	146,913
State	19,095	48,634
Total deferred	76,778	195,547
Total income tax expense, net	$ 880,690	$ 384,788

NOTE 10. INCOME TAXES (CONTINUED)

The significant components of the deferred tax assets and liabilities are summarized below.

	Year Ended December 31,	
	2023	2022
Deferred tax assets (liabilities):		
Deferred tax assets:		
Stock compensation	$ 142,355	$ 118,406
Lease liability	301,844	382,786
Intangible assets and goodwill	836,754	1,041,474
Other	77,280	-
Total deferred tax assets	1,358,233	1,542,666
Deferred tax liabilities:		
State income taxes	(46,032)	(50,042)
Fixed assets	(40,113)	(63,475)
Right-of-use assets	(301,844)	(382,786)
Other	(88,892)	(88,233)
Total deferred tax liabilities	(476,881)	(584,536)
Net deferred income tax assets	$ 881,352	$ 958,130

The Company files income tax returns in the U.S. federal jurisdiction and in certain states. The tax years 2020-2022 generally remain open to examination by these taxing authorities.

A reconciliation of income tax expense using the U.S. federal statutory income tax rate of 21% compared with the actual income tax expense reported on the consolidated statements of income is summarized in the following table.

	Year Ended December 31,	
	2023	2022
Income tax expense at federal statutory rate	$ 774,619	$ 322,600
State income taxes, net of federal benefit	161,465	75,726)
Non-deductible expenses	2,100	2,100
Permanent differences and other adjustments	(57,494)	(15,638)
Income tax expense	$ 880,690	$ 384,788

NOTE 11. THE EMPLOYEE RETENTION CREDIT

We have elected an accounting policy to analogize International Accounting Standard 20, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20") and account for the Employee Retention Credit ("ERC") as government grants. Under IAS 20, a government grant is recognized in earnings when there is reasonable assurance that the Company has complied with the provisions of the grant.

The ERC, as originally enacted on March 27, 2020, by the CARES Act, is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. The Taxpayer Certainty and Disaster Tax Relief Act (the "Relief Act"), enacted on December 27, 2020, amended, and extended the ERC. On March 1, 2021, the IRS released Notice 2021-20 to provide guidance on the original ERC, as modified by the Relief Act. The Relief Act extended and enhanced the ERC for qualified wages paid after December 31, 2020, through June 30, 2021. Under the Relief Act, eligible employers may claim a refundable tax credit against certain employment taxes equal to 70% of the qualified wages an eligible employer pays to employees after December 31, 2020 through June 30, 2021. As of the March 11, 2021, passage of the American Rescue Plan Act, the ERC was available for all four quarters of 2021. However, the Infrastructure Investment and Jobs Act enacted on November 15, 2021, ended the ERC effective September 30, 2021.

During 2021 the Company filed Forms 941-X to claim credits on qualified wages paid in 2021. In 2022, we received payment of $745,813 related to the ERC amount plus interest. The additional amount received in excess of the $556,266 credit claimed was recorded as a credit to operating expenses in 2022.