

SUMMIT DIGITAL SOLUTIONS, INC.

Consolidated Financial Statements

For the Quarter and Year Ended December 31, 2023

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1. Independent Auditor's Report

To the Board of Directors and Stockholders of Summit Digital Solutions, Inc.

We have audited the accompanying consolidated financial statements of Summit Digital Solutions, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Digital Solutions, Inc. and its subsidiaries 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.

/s/ Davidson, Miller & Associates, LLP

Boston, Massachusetts

February 15, 2024

2. Consolidated Balance Sheets

(in thousands, except share data)

Assets	December 31, 2023	December 31, 2022
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Current Assets:

Cash and cash equivalents	\$24,750	\$18,325
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Accounts receivable, net	19,875	16,450
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Prepaid expenses	2,850	2,125
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Other current assets	1,525	1,275
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Total current assets	49,000	38,175
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Property and equipment, net	8,750	7,225
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Intangible assets, net	15,625	12,850
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Goodwill	22,500	22,500
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Other assets	3,125	2,750
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Total assets	\$99,000	\$83,500
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Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable	\$7,250	\$6,125
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Accrued expenses	8,875	7,450
Deferred revenue	12,500	9,875
Current portion of long-term debt	3,750	3,750
Total current liabilities	32,375	27,200
Long-term debt, net	18,750	22,500
Other long-term liabilities	4,875	3,800
Total liabilities	56,000	53,500
Stockholders' Equity:		
Common stock	85	80
Additional paid-in capital	25,415	18,920
Retained earnings	17,500	11,000
Total stockholders' equity	43,000	30,000
Total liabilities and stockholders' equity	\$99,000	\$83,500

3. Consolidated Statements of Operations

(in thousands, except per share data)

Item	Year Ended December 31, 2023	Year Ended December 31, 2022
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Revenue:		
Professional services	\$65,625	\$52,500
Software licenses and subscriptions	21,875	17,500
Total revenue	87,500	70,000
Cost of revenue:		
Professional services	39,375	31,500
Software licenses and subscriptions	6,563	5,250
Total cost of revenue	45,938	36,750

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|Gross profit|41,562|33,250|

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|Operating expenses:|

|Research and development|8,750|7,000|

|Sales and marketing|12,250|9,800|

|General and administrative|10,937|8,750|

|Total operating expenses|31,937|25,550|

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|Operating income|9,625|7,700|

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|Other income (expense):|

|Interest expense|(1,875)|(2,250)|

|Other income, net|250|175|

|Total other expense, net|(1,625)|(2,075)|

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|Income before income taxes|8,000|5,625|

|Income tax expense|1,500|1,125|

|Net income|\$6,500|\$4,500|

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|Net income per share:|

|Basic|\$0.77|\$0.56|

|Diluted|\$0.72|\$0.53|

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|Weighted average shares outstanding:|

|Basic|8,500|8,000|

|Diluted|9,000|8,500|

4. Consolidated Statements of Cash Flows

(in thousands)

Item	Year Ended December 31, 2023	Year Ended December 31, 2022
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Operating activities:		
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Net income	\$6,500	\$4,500
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Adjustments to reconcile net income to net cash provided by operating activities:		
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Depreciation and amortization	4,375	3,500
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Stock-based compensation	2,500	1,875
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Changes in operating assets and liabilities:		
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Accounts receivable	(3,425)	(2,750)
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Prepaid expenses	(725)	(425)
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Other assets	(625)	(375)
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Accounts payable	1,125	875
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Accrued expenses	1,425	1,125
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Deferred revenue	2,625	1,875
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Net cash provided by operating activities	13,775	10,200
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Investing activities:		
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Purchases of property and equipment	(3,500)	(2,800)
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Capitalized software development costs	(4,375)	(3,500)
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Net cash used in investing activities	(7,875)	(6,300)
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Financing activities:		
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Proceeds from issuance of common stock	4,000	3,000
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Principal payments on long-term debt	(3,750)	(3,750)
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Net cash provided by (used in) financing activities	250	(750)
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Net increase in cash and cash equivalents	6,425	3,150
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Cash and cash equivalents at beginning of year	18,325	15,175
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Cash and cash equivalents at end of year	\$24,750	\$18,325
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5. Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization

Summit Digital Solutions, Inc. (the "Company") is a Delaware corporation headquartered in Boston, Massachusetts. The Company provides enterprise digital transformation services, including AI/ML implementation, IoT systems integration, process automation, and technology-enabled operational optimization solutions.

Basis of Presentation

The consolidated financial statements include the accounts of Summit Digital Solutions, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers. Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years.

Note 2. Recent Accounting Pronouncements

[Additional notes would continue with detailed accounting policies, commitments and contingencies, segment information, etc.]

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