



Mersive  
Technologies Inc.  
Results of the  
Audit



**Deloitte & Touche LLP**

1601 Wewatta St.  
Suite 400  
Denver, CO 80202  
USA

Tel: 303.292.5400  
Fax: 303.312.4000  
[www.deloitte.com](http://www.deloitte.com)

July 24, 2020

Shawn Haghighi  
General Counsel & Chief Compliance Officer  
OpenGate Capital Management, LLC  
10250 Constellation Blvd,  
Los Angeles, CA 90067

Dear Mr. Haghighi:

We have performed an audit of the consolidated financial statements of Mersive Technologies, Inc. (the "Company") as of and for the year ended December 31, 2019 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated July 24, 2020.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

This report is intended solely for the information and use of the Board of Directors of Mersive Technologies, Inc., management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

cc: The Management of Mersive Technologies, Inc.

## **Our Responsibility under Generally Accepted Auditing Standards**

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated April 24, 2020. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **Significant Accounting Policies**

The Company's significant accounting policies are set forth in Note 1 to the Company's 2019 financial statements.

We have evaluated the significant qualitative aspects of the Company's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Our assessment of the significant qualitative aspects of the Company's particularly sensitive accounting estimates has been attached to this report as Appendix A.

## **Uncorrected Misstatements**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix B, a summary of uncorrected misstatements that we presented to management during the current audit engagement that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **Material Corrected Misstatements**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The following material misstatement was brought to the attention of management as a result of our audit procedures and was corrected by management during the current period:

- An adjustment of \$111K to increase long-term deferred revenue and decrease current deferred revenue to reflect the proper classification of deferred revenue.

## **Disagreements with Management**

We have not had any disagreements with management related to matters that are material to the Company's 2019 financial statements.

## **Our Views about Significant Matters That Were the Subject of Consultation with Other Accountants**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2019.

## **Significant Findings or Issues Discussed, or Subject of Correspondence, with Management Prior to Our Initial Engagement or Retention**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## **Other Significant Findings or Issues Arising From the Audit Discussed, or Subject of Correspondence, with Management**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to Board of Directors.

## **Significant Difficulties Encountered in Performing the Audit**

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

## **Management's Representations**

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. In addition, we will have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix B, a copy of the representation letter we obtained from management.

## **Related Parties**

We have evaluated the Company's identification of, accounting for, and disclosure of its relationships and transactions with related parties. Based on our evaluation, we believe the Company has properly identified, accounted for, and disclosed its relationships and transactions with related parties in the financial statements.

## APPENDIX A

### Accounting Estimates

Overview	Qualitative Assessment
<b>Goodwill— Accounting Estimate</b>	
<p>As a private company, the Company has elected to amortize its goodwill over 10 years, and to apply a simplified impairment model to goodwill. Additionally, Mersive made the private company election provided under ASC 805-20 allowing goodwill and customer relationships to be combined as one asset.</p>	<p>Given the significance of the Company's goodwill and level of judgment involved, it is considered a significant accounting estimate and policy. We did not propose any significant modifications to the Company's disclosure related to goodwill in the notes to the financial statements.</p> <p>We evaluated the Company's goodwill valuation in the current year which included recalculating amortization expense and confirming there were no changes to the gross goodwill balance in the current year. Based on the procedures performed, we concluded that goodwill is reasonably stated as of year-end.</p>
<b>Sales Commission Asset Percentage — Accounting Estimate</b>	
<p>In accordance with ASC 606 and 340-40, the Company records the incremental costs directly associated with customer sales, which consist of sales commissions paid to the Company's sales force, as an asset to be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The Company performed an analysis over historical invoiced sales and commissions paid and concluded that the asset to be recorded as of year-end is equal to five percent of the deferred revenue balance.</p>	<p>Given the significance of revenue recognition and the application of ASC 606, D&amp;T considered this to be a significant accounting policy.</p> <p>We evaluated the Company's sales commission asset percentage using historical invoiced sales and commission data from FY 2017 – FY 2019. Based on the procedures performed, the Company's estimate is reasonable as of year-end.</p>

Overview	Qualitative Assessment
Income Taxes — Accounting Estimate	
<p>In accordance with ASC 740, the Company applies the asset and liability method to account for income taxes under which the Company recognizes a deferred tax liability or asset for the estimated future tax effects attributable to temporary differences and carryforwards.</p> <p>The Company has elected to account for a valuation allowance when it is more likely than not that some portion of a deferred tax asset will not be realized. The determination of a valuation allowance involves significant judgement and estimates by management.</p> <p>As of year-end, the Company has determined that there is no need for a valuation allowance.</p>	<p>Given the significance of the Company's income taxes and level of judgment involved in determining the need for a valuation allowance, it is considered a significant accounting estimate and policy. We did not propose any significant modifications to the Company's disclosure related to income taxes in the notes to the financial statements.</p> <p>We evaluated the Company's income taxes, including but not limited to, the components of the current year expense, tax planning strategies, and methodologies used in the valuation allowance determination. Based on the procedures performed, we concluded that the income tax expense and related deferred tax assets and liabilities are reasonably stated as of year-end.</p>

## **APPENDIX B**

### **Representations from Management**

Management's representations, dated July 24, 2020, related to the audit of the financial statements for the period ended December 31, 2019, are attached as Appendix B.



July 24, 2020

Deloitte & Touche LLP  
Suite 400  
1601 Wewatta Street  
Denver, CO 80202  
USA

We are providing this letter in connection with your audits of the consolidated financial statements of Mersive Technologies, Inc. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of operations, stockholder's equity, and cash flows, and the related notes to the consolidated financial statements (the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of financial position, results of operations, and cash flows in accordance with GAAP.
- b. 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.
  - To prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in accordance with GAAP.
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
  - a. All financial records and related data
  - b. All minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial,

both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

6. Management has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
  - a. Management
  - b. Employees who have significant roles in the Company's internal control.
  - c. Others, where the fraud could have a material effect on the financial statements.
8. We have complied with all applicable provisions of the Foreign Corrupt Practices Act.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, regulators, or others.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. The Company elected to adopt the accounting alternative under Accounting Standards Update (ASU) 2014-02, *Intangibles — Goodwill and Other (Topic 350): Accounting for Goodwill — a consensus of the Private Company Council*, in the year ended December 31, 2013. Effective January 1, 2014, the Company amortizes goodwill on a straight-line basis over a useful life of 10 years and made an accounting policy election to test goodwill for impairment at the entity level.
12. The Company has assessed goodwill for impairment during the year and determined that there have been no events or changes in circumstances that indicate that the fair value of the Company may be below its carrying amount (a triggering event).
13. The Company has not completed the process of evaluating the impact that will result from adopting FASB ASC 842, Leases, as discussed in Note 1. The Company is therefore unable to disclose the impact that adopting FASB ASC 842 will have on its financial position, results of operations, and cash flows when such statement is adopted.
14. The Company has not completed the process of evaluating the impact that will result from adopting FASB ASC 326, Financial Instruments-Credit Losses in Note 1. The Company is therefore unable to disclose the impact that adopting FASB ASC 326 will have on its financial position, results of operations, and cash flows when such statement is adopted.
15. The Company has not completed the process of evaluating the impact that will result from adopting FASB ASC 842, Leases or ASU 2019-04 Codification Improvements to Topic 326, Financial Instruments-Credit Losses. The Company is therefore unable to disclose the impact that adopting FASB ASC 815 will have on its financial position, results of operations, and cash flows when such statements are adopted.

Except where otherwise stated below, immaterial matters less than \$140,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

16. Except as listed in Appendix A, there are no transactions that have not been properly recorded and reflected in the financial statements.

17. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
18. Regarding related parties:
  - a. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
19. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
20. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
21. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral except as disclosed in Note 4.
22. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
23. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as:
  - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP.
  - b. The completeness and adequacy of the disclosures related to fair values are in accordance with GAAP.
  - c. No events have occurred after December 31, 2019, but before July 24, 2020, the date the financial statements were issued that require adjustment to the fair value measurements and disclosures included in the financial statements.

24. The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets for impairment in accordance with FASB ASC 360, *Property, Plant, and Equipment*, and goodwill and certain intangible assets in accordance with FASB ASC 350, *Intangibles — Goodwill and Other*. The financial statements referred to above reflect all adjustments required by FASB ASC 360 and 350 as of December 31, 2019.
25. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
26. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
27. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
28. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Company and do not include any items consigned to it or any items billed to customers.
29. We believe that all expenditures that have been deferred to future periods are recoverable.
30. The Company recognizes revenue in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, and FASB ASC 340-40, *Other Assets and Deferred Costs — Contracts with Customers*. We confirm the following representations made to you as part of your audit procedures on the adoption of FASB ASC 606 and FASB ASC 340-40:
  - a. We have appropriately identified and disclosed to you all of the relevant contracts with customers within the scope of FASB ASC 606 and FASB ASC 340-40.
  - b. We have considered all implicit and explicit promised goods and services in the contract in identifying whether a separate performance obligation exists in accordance with FASB ASC 606.
  - c. For certain arrangements, the Company provides customers with options to acquire additional goods or services. We have assessed whether such options represent a material right and accounted for them appropriately in accordance with FASB ASC 606.
  - d. We have considered and fully disclosed to you all sales terms, including all fixed consideration, variable consideration, significant financing components, noncash consideration, and consideration payable to customers, in determining the transaction price in accordance with FASB ASC 606. We have properly included variable consideration in the transaction price only to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty related to the variable consideration is resolved. We have properly updated and accounted for our estimates of variable consideration. We have properly identified, disclosed to you, and accounted for any anticipated concessions.
  - e. We have allocated the transaction price to each performance obligation on a relative stand-alone selling price based on observable stand-alone prices unless an allocation exception has been met. When the stand-alone selling price is not directly observable, we have used an approach that maximizes the use of observable inputs, including historical actual prices charged to customers.

- f. We have appropriately accounted for consideration received under a valid contract with the customer as a contract liability when we have not yet transferred control of the related goods or services to the customer. We have appropriately accounted for our right to consideration for revenue recognized when customer payment is contingent on something other than only the passage of time as a contract asset. Consideration received that does not relate to a valid contract with a customer or is refundable is recorded as customer deposit.
  - g. We have appropriately capitalized costs incremental to obtaining a contract with a customer and have determined an appropriate amortization period for such costs in accordance with FASB ASC 340-40. We have appropriately applied the guidance in FASB ASC 340-40 for determining whether to capitalize costs to fulfill a contract.
  - h. We confirm the completeness and accuracy of the disclosures required by FASB ASC 606 and FASB ASC 340-40.
31. We have identified all uncertain tax positions, and the recognition and measurement of our uncertain tax positions is in accordance with FASB ASC 740, *Income Taxes*, and is based upon the facts, circumstances, and information available as of the reporting date. The disclosures related to the accounting for unrecognized tax benefits are complete and in accordance with FASB ASC 740.
32. We have disclosed to you all communications with tax authorities.
33. A valuation allowance against deferred tax assets at the balance-sheet date is not considered necessary, because it is more likely than not that the deferred tax asset will be fully realized.
34. We have fully disclosed to you all sales terms, including all rights of return or price adjustments and all warranty provisions.
35. All documentation related to sales transactions is contained in customer files. We also confirm that:
- a. We are not aware of any "side agreements" with any companies that are inconsistent with the applicable sales agreement, the customer's purchase order, sales invoice, or any other documentation contained in the customer's file. For the purposes of this letter, a "side agreement" is any agreement, understanding, promise, or commitment, whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral, by or on behalf of the Company (or any subsidiary, director, employee, or agent of the Company) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of the Company delivered to or generated by the Company's Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of the Company that relates to return rights, acceptance rights, future pricing, payment terms, free consulting, free maintenance, or exchange rights would be a side agreement.
  - b. We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the customer's file.
36. Other than those described in the Notes to the financial statements, no events have occurred after December 31, 2019, but before the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.

rob balgley

---

Robert Balgey, CEO

*Dan Hudspeth*

---

Dan Hudspeth, CFO

cc: The Board of Directors of Mersive Technologies, Inc.

**APPENDIX A**
**Mersive Technologies, Inc.**
**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**
**TWELVE MONTHS ENDED DECEMBER 31, 2018**

	Type	Assets debit (credit)	Liabilities debit (credit)	Stockholder's Equity debit (credit)	Net Loss debit (credit)
<b>12/31/2018 Financial Statements, As Reported</b>					
		\$ 49,904,121	\$ (12,981,897)	\$ (36,922,224)	\$ (2,896,515)
<b>Current Year Adjustments <u>Uncorrected</u> in the Current Year:</b>					
<b>1. Understatement of Revenue</b>					
Dr. Deferred Revenue	Factual		34,538		
Cr. Revenue	Factual			(34,538)	(34,538)
<b>2. Understatement of Deferred Revenue Haircut</b>					
Dr. Revenue	Factual			96,711	96,711
Cr. Deferred revenue	Factual		(96,711)		
Tax impact of unrecorded misstatements above <sup>(a)</sup>					
			(25,180)	25,180	25,180
<b>Total Uncorrected Adjustments</b>		-	(87,353)	87,353	87,353
<b>12/31/2018 Financial Statements, With Adjustments<sup>(b)</sup></b>		<b>\$ 49,904,121</b>	<b>\$ (13,069,250)</b>	<b>\$ (36,834,871)</b>	<b>\$ (2,809,162)</b>

(a) - Tax impact utilized the effective tax rate of (40.5%).

(b) - None of the above adjustments have an impact on the cash flow categories of operating, investing, or financing.

**Mersive Technologies, Inc.**
**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**
**TWELVE MONTHS ENDED DECEMBER 31, 2019**

	Type	Assets debit (credit)	Liabilities debit (credit)	Stockholder's Equity debit (credit)	Net Loss debit (credit)
<b>12/31/2019 Financial Statements, As Reported</b>					
		\$ 53,469,071	\$ (24,662,202)	\$ (28,806,869)	\$ (8,115,355)
<b>Current Year Adjustments <u>Uncorrected</u> in the Current Year:</b>					
<b>1. Understatement of Revenue</b>					
Dr. Deferred Revenue	Factual		36,214		
Cr. Revenue	Factual			(36,214)	(36,214)
<b>2. Understatement of Deferred Revenue Haircut</b>					
Dr. Revenue	Factual			74,803	74,803
Cr. Deferred revenue	Factual		(74,803)		
Tax impact of unrecorded misstatements above <sup>(a)</sup>					
			(29,104)	29,104	29,104
<b>Total Uncorrected Adjustments</b>		-	(67,693)	67,693	67,693
<b>12/31/2019 Financial Statements, With Adjustments<sup>(b)</sup></b>		<b>\$ 53,469,071</b>	<b>\$ (24,729,895)</b>	<b>\$ (28,739,176)</b>	<b>\$ (8,047,662)</b>

(a) - Tax impact utilized the effective tax rate of (76.11%).

(b) - None of the above adjustments have an impact on the cash flow categories of operating, investing, or financing.

**Signature:** Rob Balgley  
Rob Balgley (Jul 24, 2020 11:11 MDT)

**Email:** [rbalgley@mersive.com](mailto:rbalgley@mersive.com)








# Mersive 2019 Management Rep Letter

Final Audit Report

2020-07-24

Created:	2020-07-24
By:	Dan Hudspeth (dhudspeth@mersive.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAAqqOPRd3IExyQHgDw1JNVwtJdJcLAOr1M

## "Mersive 2019 Management Rep Letter" History

-  Document created by Dan Hudspeth (dhudspeth@mersive.com)  
2020-07-24 - 4:49:21 PM GMT- IP address: 72.168.176.65
-  Document emailed to Rob Balgley (rbalgley@mersive.com) for signature  
2020-07-24 - 4:50:24 PM GMT
-  Email viewed by Rob Balgley (rbalgley@mersive.com)  
2020-07-24 - 5:10:10 PM GMT- IP address: 198.45.208.241
-  Document e-signed by Rob Balgley (rbalgley@mersive.com)  
Signature Date: 2020-07-24 - 5:11:42 PM GMT - Time Source: server- IP address: 198.45.208.241
-  Signed document emailed to Rob Balgley (rbalgley@mersive.com) and Dan Hudspeth (dhudspeth@mersive.com)  
2020-07-24 - 5:11:42 PM GMT



Adobe Sign