

**HGS COLIBRIUM, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

# HGS COLIBRIUM, INC.

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*March 31, 2018*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
HGS Colibrium, Inc.  
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of HGS Colibrium, Inc. (a C-Corporation), which comprise the consolidated balance sheet as of March 31, 2018, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Qualified Opinion***

As discussed in Note 6, the Company has included certain intangible assets related to Colibrium Direct, Inc. in the accompanying consolidated financial statements although the operations of Colibrium Direct, Inc. have been transferred to a related party. In our opinion, the value of such intangible assets should have been reduced to properly reflect impairment of these assets to conform with accounting principles generally accepted in the United States of America. If the consolidated financial statements were corrected for that departure from accounting principles generally accepted in the United States of America, intangible assets would decrease by \$2,472,523, deferred tax assets would increase by \$667,581, operating expenses would have increased by \$2,472,523, deferred income tax expense would have decreased by \$667,581, and net income would have decreased by \$1,804,942.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HGS Colibrium, Inc. as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information as noted above, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

May 18, 2018

*Frazier : Dexter, L.L.C.*

# HGS COLIBRIUM, INC.

## *Consolidated Balance Sheet*

*March 31, 2018*

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### Assets

#### Current Assets:

Cash	\$	289,415
Accounts receivable		712,662
Accounts receivable - related party		348,581
Unbilled receivables		410,056
Note receivable from related party - current portion		48,408
Prepaid expenses and other current assets		<u>73,095</u>

Total current assets 1,882,217

Property and equipment, net 777,259

#### Other assets:

Due from related parties		11,718
Note receivable from related party, net of current portion		45,462
Goodwill		8,073,341
Other intangible assets, net - Colibrium Partners, Inc.		8,021,749
Other intangible assets, net - Colibrium Direct, Inc.		2,472,523
Deferred tax asset		3,174
Deposits		<u>100,300</u>

Total other assets 18,728,267

Total Assets \$ 21,387,743

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See notes to consolidated financial statements.

# HGS COLIBRIUM, INC.

## *Consolidated Balance Sheet - Continued*

*March 31, 2018*

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### **Liabilities and Stockholders' Deficit**

Current Liabilities:

Notes payable to related party	\$ 16,430,000
Capital lease obligations	49,305
Accounts payable	363,207
Due to related parties	7,580,286
Accrued salaries and benefits	332,891
Accrued liabilities	20,217
Deferred revenue	<u>458,351</u>

Total current liabilities 25,234,257

Commitments

Stockholders' Deficit:

Preferred stock, \$.001 par value, 3,150,014 shares authorized, issued, and outstanding	3,150
Common stock, \$.001 par value, 3,300,514 shares authorized, issued, and outstanding	3,300
Additional paid-in capital	4,772,913
Accumulated deficit	<u>(8,625,877)</u>

Total stockholders' deficit (3,846,514)

Total Liabilities and Stockholders' Deficit \$ 21,387,743

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See notes to consolidated financial statements.

# HGS COLIBRIUM, INC.

## *Consolidated Statement of Operations*

*For the Year Ended March 31, 2018*

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Revenue	\$ 4,928,992
Cost of revenues	3,602,782
Operating expenses	<u>7,794,296</u>
Operating loss	<u>(6,468,086)</u>
Other (income) expense:	
Other income - related party	(200,870)
Interest expense	4,324
Other income	<u>6,150</u>
Total other (income) expense	<u>(190,396)</u>
Loss before benefit for income taxes	(6,277,690)
Benefit for federal and state income taxes:	
Deferred	<u>(2,322,381)</u>
Net loss	<u><u>\$ (3,955,309)</u></u>

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See notes to consolidated financial statements.

## HGS COLIBRIUM, INC.

### *Consolidated Statement of Stockholders' Deficit*

*For the Year Ended March 31, 2018*

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	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	<u>Stock</u>	<u>Stockholders'</u>
					<u>Capital</u>			<u>Equity</u>
								<u>(Deficit)</u>
Balance, March 31, 2017	3,157,014	\$ 3,157	3,493,014	\$ 3,493	\$ 4,772,913	\$ (4,205,434)	\$ (465,334)	\$ 108,795
Retirement of Treasury Stock	(7,000)	(7)	(192,500)	(193)	-	(465,134)	465,334	-
Net loss	-	-	-	-	-	(3,955,309)	-	(3,955,309)
Balance, March 31, 2018	<u>3,150,014</u>	<u>\$ 3,150</u>	<u>3,300,514</u>	<u>\$ 3,300</u>	<u>\$ 4,772,913</u>	<u>\$ (8,625,877)</u>	<u>\$ -</u>	<u>\$ (3,846,514)</u>

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See notes to consolidated financial statements.

# HGS COLIBRIUM, INC.

## Consolidated Statement of Cash Flows

For the Year Ended March 31, 2018

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### Increase (Decrease) in Cash

#### Cash flows from operating activities:

Net loss	\$ (3,955,309)
<b>Adjustments to reconcile net loss to net cash operating activities:</b>	
Depreciation	427,034
Amortization	2,607,092
Deferred tax benefit	(2,322,381)
<b>Changes in assets and liabilities:</b>	
Accounts receivable	1,276,048
Unbilled receivables	672,880
Prepaid expenses and other current assets	170,417
Due from related parties	348,581
Deposits	5,203
Accounts payable	66,514
Due to related parties	(235,506)
Accrued salaries and benefits	200,255
Accrued liabilities	(3,500)
Deferred revenue	(965,811)
	<hr/>
Net cash used in operating activities	(1,708,483)

#### Cash flows from investing activities:

Expenditures for internally developed software	(545,139)
Capital expenditures	(7,894)
Collections on note receivable - from related party	23,288
	<hr/>
Net cash used in investing activities	(529,745)

#### Cash flows from financing activities:

Payments on capital leases	(79,072)
Proceeds from long-term debt	1,230,000
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Net cash provided by financing activities	1,150,928

Net decrease in cash (1,087,300)

Cash, beginning of year 

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1,376,715

Cash, end of year 

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\$ 289,415

#### **Supplemental Disclosure of Cash Flow Information:**

Cash paid for interest	<hr/> <hr/> \$ 4,324
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See notes to consolidated financial statements.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements*

***March 31, 2018***

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Note 1 - Description of business and summary of significant accounting policies:

HGS Colibrum, Inc.; Colibrum Partners, Inc.; and Colibrum Direct, Inc. (collectively, the Company), is a premier provider of innovative software products as well as telesale and business process outsourcing for the health insurance industry. The Company's roots are in consulting for the health insurance industry, initially providing clients with strategic consulting services, custom software development, and CRM (Customer Relationship Management) implementation services. The Company has developed the Tuo (Latin derivative for "YOUR") product suite, which is designed to provide health plans with both turn-key and modular solutions. Tuo brings market segmentation and comprehensive functionality across the entire health insurance enterprise. The Company also provides a pre-configured version of Microsoft® Dynamics CRM specially designed with functionality for the health insurance industry.

Colibrum Partners, Inc. and Colibrum Direct, Inc. were founded in January 2005. These entities were converted from a partnership (Colibrum Partners, LLC and Colibrum Direct, LLC) to a C-Corporation in February 2015. HGS Colibrum, Inc. was founded in March 2015. On March 27, 2015, the members of Colibrum Partners, Inc. and Colibrum Direct, Inc. sold 89.98% of their membership interest to HGS Colibrum, Inc, USA (a 100%-owned subsidiary of Hinduja Global Solutions Limited). On March 31, 2015, HGS Colibrum, Inc.; Colibrum Partners, Inc.; and Colibrum Direct, Inc. merged into one Company. During August 2017, the operations of the former Colibrum Direct, Inc. were substantially taken over by another subsidiary of Hinduja Global Solutions Limited, HGS (USA), LLC.

The following is a summary of the more important accounting principles and policies followed by the Company:

Basis of presentation

The Company has adopted the Financial Accounting Standards Board (FASB) Codification (Codification). The Codification is the single official source of authoritative accounting principles generally accepted in the United States of America (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities, and all of the Codification's content carries the same level of authority.

Basis of consolidation

The consolidated financial statements include the accounts of HGS Colibrum, Inc.; Colibrum Partners, Inc.; and Colibrum Direct, Inc. All material intercompany transactions have been eliminated.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

**March 31, 2018**

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### Note 1 - Description of business and summary of significant accounting policies - continued:

#### Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Receivables and credit policies

The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis.

A valuation allowance is provided for known and anticipated credit losses, as determined by management in the course of regularly evaluating individual customer receivables. This evaluation takes into consideration a customer's financial condition and credit history as well as current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. No interest is charged on customer accounts. Management has determined that an allowance for doubtful accounts was not required at March 31, 2018.

#### Note receivable from related party

Note receivable from related party consists of amounts due from a minority owner. Note receivable from related party is accrued at the original amount including accrued interest less an estimate made for doubtful accounts. A valuation allowance is provided for known and anticipated credit losses, as determined by management, in the course of evaluating the note receivable from related party. This evaluation takes into consideration the note holder's financial condition and credit history, as well as current economic conditions. The note receivable from related party is written off when it is deemed uncollectible. Recoveries are recorded when received. As of March 31, 2018, the Company did not record an allowance for doubtful accounts.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

*March 31, 2018*

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### Note 1 - Description of business and summary of significant accounting policies - continued:

#### Revenue recognition

The Company has a variety of revenue recognition policies based on the type of services performed for its customers. Hosting and consulting services revenue primarily result from contracts and agreements executed with each customer within a short time frame, with each service essential to the functionality of the other. As such, the contracts and agreements are treated as single arrangements with each customer.

Consulting services revenue, which primarily relates to implementation, enhancement, training and support services associated with the Company's products, is derived under both time-and-material and fixed-fee agreements. Revenue from time-and-material agreements is recognized as labor hours are delivered and direct expenses are incurred. Revenue related to fixed-fee agreements is recognized on a percentage-of-completion basis over the term of the agreement, which in most instances is one year or less.

Services that relate to business process outsourcing of the Company's products on behalf of its customers and data center hosting are provided as a fixed-price per measure of output contract and as a fixed-price contract, respectively, with contract terms ranging from less than one year to up to two years. Revenue from business process outsourcing is recognized in the period the services are provided using an objective measure of output over the term of the contract; the amount of revenue recognized is based on the services delivered in the period. Revenue from the data center hosting contracts is recognized monthly as service is provided over the term of the contract.

The Company invoices customers in advance for certain contracts and services agreements. In addition, certain customers are billed in advance for these services to be provided in the subsequent year. Unbilled receivables in the accompanying consolidated balance sheet represent contracts and agreements that have been signed but not yet billed as well as services performed but not yet billed.

#### Deferred revenue

Deferred revenue represents billings rendered to, cash payments received from, or non-cancelable contracts with customers for services for which revenue has not been earned.

#### Property and equipment

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

***March 31, 2018***

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### Note 1 - Description of business and summary of significant accounting policies - continued:

#### Property and equipment - continued

Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost of properties sold or otherwise disposed of, and the accumulated depreciation thereon, is eliminated from the property and reserve accounts, and gains and losses are reflected in the statement of operations.

#### Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The Company tests goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable rather than amortize the balance. Management has determined that no impairment exists as of March 31, 2018.

#### Intangible assets

Intangible assets are comprised of customer relationships, developed technology, trade name, non-compete agreements, and favorable/unfavorable leases; which were recorded as a result of HGS Colibrium, Inc.'s acquisition of its equity interest in Colibrium Partners, Inc. and Colibrium Direct, Inc. The Company amortizes intangible assets by using the straight-line method.

#### Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date. Income tax benefit is the change during the year in deferred tax assets and liabilities.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. As of March 31, 2018, there are no known items which would result in a material accrual related to where the Company has federal or state attributable tax positions.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

*March 31, 2018*

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### Note 1 - Description of business and summary of significant accounting policies - continued:

#### Income taxes - continued

The Tax Cuts and Jobs Act (the Tax Act) was signed into law on December 22, 2017. The Tax Act changed many aspects of U.S. corporate income taxation and included reduction of the corporate income tax rate from 35% to 21%. Upon completion of our 2017 U.S. income tax return in 2018 we may identify remeasurement adjustments to our deferred tax assets. We will continue to assess our provision for income taxes as future guidance is issued but do not currently anticipate significant revisions will be necessary. Any such revisions will be treated in accordance with the measurement period guidance outlined in Staff Accounting Bulletin No. 18.

#### Impairment of long-lived assets and long-lived assets to be disposed of

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value. There was no impairment charge recognized during the year ended March 31, 2018.

#### Research and development and software development costs

In accordance with U.S. GAAP, capitalization of software development costs begins upon the establishment of technological feasibility of the product. Establishing technological feasibility, and the ongoing assessment of the recoverability of these costs, requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life, and changes in software and hardware technology. The Company capitalized \$545,139 during the year ended March 31, 2018 for developing software. Of the capitalized additions, \$407,102 was placed into service and is being amortized on the straight-line basis over the estimated life of the related software, not to exceed seven years. The remaining \$138,307 has not yet been placed in service; therefore none of these costs have been amortized at March 31, 2018.

During the year ended March 31, 2018, the Company placed \$1,509,399 of internally-developed software into service. The capitalized cost of software internally-developed is being amortized on the straight-line basis over the estimated life of the related software, not to exceed seven years. Amortization expense recorded for internally-developed software for the year ended March 31, 2018 was \$420,280.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

**March 31, 2018**

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Note 1 - Description of business and summary of significant accounting policies - continued:

Subsequent events

The Company has evaluated subsequent events through May 18, 2018, which is the date these financial statements were available to be issued. All subsequent events, if any, requiring recognition as of March 31, 2018, have been incorporated into these financial statements.

Note 2 - Note receivable from related party:

On April 18, 2016, the Company issued a note receivable for \$150,000 to a minority owner. The note bears interest at 3% per annum and will be paid through biweekly payroll deductions in the amount of \$2,017 through May 2019. As of March 31, 2018, \$93,870 was outstanding.

Note 3 - Due to/from related parties:

The Company paid transaction fees of \$11,718 on behalf of the founders of the Company. These amounts are recorded in due from related parties on the consolidated balance sheet and are not expected to be repaid until the founders sell their stock in the Company.

HGS (USA), LLC paid operating expenses of \$1,577,030 on behalf of the Company for the year ended March 31, 2018. The Company has a due to related party of \$7,580,286 at March 31, 2018.

The Company subleases some capital leased equipment to HGS (USA), LLC. The Company recorded \$79,073 of sublease income from HGS (USA), LLC during the year ended March 31, 2018. The Company paid operating expenses of \$155,402 on behalf of HGS (USA), LLC during the year ended March 31, 2018. The Company had accounts receivable outstanding from HGS (USA), LLC of \$348,581 at March 31, 2018.

# HGS COLIBRIUM, INC.

## Notes to Consolidated Financial Statements - Continued

March 31, 2018

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Note 4 - Property and equipment:

Property and equipment consisted of the following at March 31, 2018:

Leasehold improvements	\$ 669,735
Computer equipment	1,392,750
Computer equipment and software	560,545
Office furniture and equipment	<u>1,495,587</u>
	4,118,617
Less: Accumulated depreciation	<u>(3,341,358)</u>
Property and equipment, net	<u>\$ 777,259</u>

Depreciation expense was \$427,034 for the year ended March 31, 2018.

Note 5 - Other intangible assets - Colibrium Partners, Inc.:

Other intangible assets consist of the following as of March 31, 2018:

	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>	<u>Weighted-</u> <u>Average</u> <u>Remaining</u> <u>Amortization</u> <u>Period</u>
Internally-developed software placed into service	\$ 4,199,793	\$ 708,536	\$ 3,491,257	84 months
Internally-developed software	138,037	-	138,037	84 months
Developed technology	5,532,000	2,381,683	3,150,317	72 months
Trade name	1,605,000	690,999	914,001	72 months
Customer relationships	826,000	497,863	328,137	48 months
Non-compete	<u>29,000</u>	<u>29,000</u>	<u>-</u>	24 months
	<u>\$ 12,329,830</u>	<u>\$ 4,308,081</u>	<u>\$ 8,021,749</u>	

# HGS COLIBRIUM, INC.

## Notes to Consolidated Financial Statements - Continued

March 31, 2018

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Note 5 - Other intangible assets - continued:

Amortization of other intangible assets included in the consolidated statement of operations during the year ended March 31, 2018 was \$2,607,092, of which \$1,614,285 related to Colibrium Partners, Inc. intangible asset amortization. The following is a schedule by year of future amortization of other intangible assets related to Colibrium Partners, Inc.:

<u>For the Year Ended March 31,</u>	
2019	\$ 1,784,742
2020	1,782,479
2021	1,619,542
2022	1,605,575
2023	599,970
Thereafter	<u>629,441</u>
	<u>\$ 8,021,749</u>

Note 6 - Other intangible assets - Colibrium Direct, Inc.:

These assets consist of trade name, customer relationships, and non-compete agreements related to Colibrium Direct, Inc. and are being amortized between periods ranging from 24 to 72 months through 2022. At March 31, 2018, the assets had a gross carrying amount of \$5,464,000 and accumulated amortization of \$2,991,477 resulting in a net book value of \$2,472,523. In August 2017, the operations of Colibrium Direct, Inc. were substantially taken over by HGS USA, thus impacting the value of these assets. In our opinion, the value of such intangible assets should have been reduced to properly reflect impairment of these assets to conform with accounting principles generally accepted in the United States of America.

Note 7 - Notes payable to related party:

Notes payable to related party consists of the following at March 31, 2018:

Note payable to owner, interest-free, callable on demand.	16,430,000
Less: current portion	<u>(16,430,000)</u>
Long-term portion	<u>\$ -</u>

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

**March 31, 2018**

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### Note 8 - Lease obligations:

#### Capital lease obligations

The Company has entered into various capital leases that require monthly payments ranging from \$271 to \$2,318. The leases have implied interest ranging from 0% to 4.5%. The leases expire at various times from July 2016 through November 2018. Capital leases outstanding at March 31, 2018 total \$49,305, which are expected to be paid in full as of November 30, 2018.

Amortization of capitalized lease assets is included in operating expenses in the consolidated statement of operations. At March 31, 2018, there was \$374,796 and \$79,073 of cost and accumulated amortization, respectively, included in property and equipment related to capital leases.

#### Operating leases

The Company leases office facilities and equipment under various lease commitments through December 2019. Total rent and lease expense amounted to \$647,897 for the year ended March 31, 2018.

The future minimum lease payments under non-cancelable operating lease agreements at March 31, 2018 are as follows:

<u>Year Ending March 31,</u>	
2019	\$ 370,261
2020	<u>285,079</u>
	<u>\$ 655,340</u>

### Note 9 - Income taxes:

The Company did not record any income tax expense and have recorded a deferred tax benefit for the year ended March 31, 2018. The Company has reported operating tax losses from inception through the year ended March 31, 2018.

# HGS COLIBRIUM, INC.

## Notes to Consolidated Financial Statements - Continued

March 31, 2018

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### Note 9 - Income taxes - continued:

A reconciliation of the expected income tax expense (based on the federal statutory rate of 34%) to the actual income tax expense (benefit) for the year ended March 31, 2018 is as follows:

Computed "expected" income tax (benefit) expense	\$ (2,076,771)
State income tax (benefit) expense, net of federal effect	(240,609)
Other, net	(11,457)
Permanent difference	<u>6,456</u>
	<u>\$ (2,322,381)</u>

The income tax effect of temporary differences that give rise to significant portions of the Company's deferred income tax assets and liabilities at March 31, 2018 is presented below:

Deferred income tax assets:	
Net operating loss and credit carryforward	\$ 2,604,608
Deferred rent	14,900
Accrued vacation	10,597
Charitable contributions	<u>78</u>
Total gross deferred income tax assets	<u>2,630,183</u>
Deferred tax asset (liabilities):	
Depreciation	(25,915)
Gain/(loss) on sale of assets	(1,874)
Amortization	(1,482,663)
Internally developed software	<u>(1,116,557)</u>
Total gross deferred tax asset (liabilities)	<u>(2,627,009)</u>
Net deferred tax asset (liabilities)	<u>\$ 3,174</u>

The Company has net operating loss carryforwards for federal and state income tax purposes of \$10,194,945 at March 31, 2018, which are available to offset future taxable income and begin expiring in the year 2035 through 2038. There was no valuation allowance deemed necessary on the deferred tax assets.

# HGS COLIBRIUM, INC.

## *Notes to Consolidated Financial Statements - Continued*

***March 31, 2018***

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Note 9 - Income taxes - continued:

The Company's ability to benefit from certain net operating loss carryforwards could be limited under Section 382 of the Internal Revenue Code if the Company is deemed to have had an ownership change of greater than 50%. Accordingly, certain U.S. federal net operating losses may not be realizable in future years should this limitation apply.

Note 10 - Concentration of credit risk:

The Company maintains its cash in bank deposits, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

At March 31, 2018, the Company had three major customers that accounted for 67% of total accounts receivable. During the year ended March 31, 2018, the Company generated revenues from five major customers that accounted for 76% of revenues.

Note 11 - Employee benefit plan:

The Company has a 401(k) plan (the Plan) which covers all employees. The Plan requires the employer to make matching contributions to the plan. For the year ended March 31, 2018, the Company's matching contributions totaled \$101,302.

## SUPPLEMENTAL INFORMATION

# HGS COLIBRIUM, INC.

## *Consolidated Schedule of Operating Expenses*

*For the Year Ended March 31, 2018*

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Amortization	\$ 2,607,092
Bank fees	20,550
Benefits	337,587
Building services	27,460
Business licenses	34,226
Contract services	28,366
Depreciation	427,034
Insurance	11,605
Marketing	236,111
Payroll taxes	237,511
Professional fees	721,028
Recruitment and retention	146,025
Rent	647,897
Repairs and maintenance	1,685
Salaries and contract labor	1,498,007
Supplies	31,485
Technology services	406,372
Postage	4,275
Travel and entertainment	323,816
Voice and data services	<u>46,164</u>
	<u>\$ 7,794,296</u>

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See independent auditors' report on supplemental information.