

# Dan Clark Audio Inc



## ANNUAL REPORT

3366 Kurtz St, Suite 200

San Diego, CA 92110

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[danclarkaudio.com](http://danclarkaudio.com)

This Annual Report is dated April 26, 2022.

### BUSINESS

Dan Clark Audio is a USA-based manufacturer of high-end headphones for music, film and gaming enjoyment. Our products are loaded with proprietary patented technology and are widely recognized as leading the industry with a unique balance of sound quality, exceptional comfort, and durability.

Operating for 8 years, Dan Clark Audio pioneered the first commercial 3D printed headphone, and has since developed a full line of beautiful, award-winning headphones.

While the majority of headphones are built using off-the-shelf drivers and parts Dan Clark Audio designs all its headphones from the ground-up, using completely proprietary parts. We design our own drivers, magnets, headbands, baffles, ear pads, sometimes even our own screws and fasteners. This gives us not only total control over the sound and fit of our products, but the quality as well, while also minimizing the risk of counterfeit products entering the market.

All Dan Clark Audio headphones are designed, built and tested in San Diego, CA, using no off-the-shelf components.

Dan Clark Audio holds 8 patents and several more patents pending including our first patent for in-ear-monitor technology.

In addition to our classic headphone business, we now also manufacture drivers as an OEM to larger companies.

## **Previous Offerings**

In 2020 Dan Clark Audio Inc raised \$230,407 through Startengine's Reg CF equity crowdfunding program.

## **REGULATORY INFORMATION**

The company has not previously failed to comply with the requirements of Regulation Crowdfunding;

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

### **AND RESULTS OF OPERATION**

#### **Operating Results – 2021 Compared to 2020**

Year ended December 31, 2021 compared to year ended December 31, 2020

##### Revenue

2021 showed robust growth for the company, as income increased 77% from \$1.69M in 2020 to \$3.0M in 2021.

Revenue growth was fueled by sales of our Stealth headphone line, which was our most successful product launch to date. We continued our strategy of re-investing operating revenues to support organic company growth. Growth occurred across all markets, with the EU posting particular growth.

##### Cost of Goods Sold (COGS)

2021 COGS was \$1.45M versus COGS of \$0.74M in 2020. Labor costs did increase in 2021 relative to 2020 due to both increases in payroll cost as well as increased headcount to support higher production volumes.

##### Expenses

2021 expenses were \$1.35M or 45% of revenue compared to 2020 expenses of \$1.03M or 61% of revenue.

The largest driver of expense increases was payroll, which grew materially due to increases in compensation for all employees, as well as increases in headcount. It is worth noting the payroll expenses grew far less dramatically than revenue, and while rent, shipping, and material costs

increased somewhat, improvements in revenue generation and margin drove the major increase in Net Income.

## Gross Margins

Gross margins in 2021 increased 71% from \$907K in 2020 to \$1,548K due to improvements to our manufacturing processes and increased sales of higher-margin high-end headphones.

## Historical Results and Cash Flows

2021 saw improvements across all aspects of company performance. Revenue grew 77%, net income increased from -\$151K to \$448K, and corresponding cash reserves increased from \$74K in 2020 to \$538K at the close of 2021.

## Liquidity and Capital Resources

At December 31, 2021, the Company had cash of \$538,467.00. [*The Company intends to raise additional funds through an equity financing.*]

## Debt

Creditor: SBA

Amount Owed: \$195,000

Interest Rate: 3.75%

Maturity Date: 2050

## **DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES**

Our directors and executive officers as of the date hereof, are as follows:

Name: Daniel W Clark

Daniel W Clark's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

Position: Chairman and CEO

Dates of Service: March 28, 2012 - Present

Responsibilities: Set strategy for the company, oversee product roadmap, manage financials.

Name: Robert Jason Egger

Robert Jason Egger's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

Position: Chief Engineering Officer

Dates of Service: May 07, 2015 - Present

Responsibilities: Lead product development efforts.

Name: Andy Regan

Andy Regan's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

Position: President

Dates of Service: August 18, 2018 - Present

Responsibilities: Oversee operations, lead sales

Other business experience in the past three years:

Employer: HiFiMan

Title: CMO

Dates of Service: August 01, 2018 - November 01, 2019

Responsibilities: Worldwide marketing and sales.

Other business experience in the past three years:

Employer: Jerry Harvey Audio

Title: President

Dates of Service: January 01, 2013 - January 01, 2018

Responsibilities: All aspects of business operations in consumer and professional markets.

Name: Peter N. Townshend

Peter N. Townshend's current primary role is with Townshend Venture Advisors, LLP. Peter N. Townshend currently services 5 hours per week in their role with the Issuer.

Positions and offices currently held with the issuer:

Position: Secretary

Dates of Service: February 21, 2017 - Present

Responsibilities: Participate and document in board meetings.

Other business experience in the past three years:

Employer: Townshend Venture Advisors, LLP

Title: Managing Partner

Dates of Service: January 01, 2017 - Present

Responsibilities: Principal Manager, owner and operator

## **PRINCIPAL SECURITY HOLDERS**

Set forth below is information regarding the beneficial ownership of our Common Stock, our only outstanding class of capital stock, as of December 31, 2021, by (i) each person whom we know owned, beneficially, more than 10% of the outstanding shares of our Common Stock, and (ii) all



of the current officers and directors as a group. We believe that, except as noted below, each named beneficial owner has sole voting and investment power with respect to the shares listed. Unless otherwise indicated herein, beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to shares beneficially owned.

Title of class: Common Stock

Stockholder Name: Daniel W Clark

Amount and nature of Beneficial ownership: 900,000

Percent of class: 81.82

## **RELATED PARTY TRANSACTIONS**

Name of Entity: Robert Jason Egger

Relationship to Company: Officer

Nature / amount of interest in the transaction: The company has advanced a loan of \$49,950 to allow Robert Jason Egger to exercise his stock options. The funds are booked as paid-in capital.

Material Terms: This is a 5-year loan. 1.1 Principal and Interest. Shareholder hereby promises to pay to the order of the Company the principal amount of \$49,950.00 together with simple interest at the rate of 2.5%. The principal amount represents the Purchase Price less a \$50.00 cash payment by the Shareholder to the Company. The Shareholder has delivered a check for \$50.00 to the Company concurrently with his execution of this Agreement. 1.2 Payment Schedule. Principal and interest on the Loan shall be due and payable five years after the Effective Date, unless earlier prepaid pursuant to Section 1.3 or accelerated pursuant to Section 3. 1.3 Optional Prepayment. The Loan, or any portion thereof, may be prepaid, in whole or in part, at any time without penalty. 1.4 Full Recourse. The Loan is a full recourse obligation. That means that the Shareholder personally owes all principal and interest payable under this Loan. That is so even if the value of the Pledged Shares is less than the amount of such principal and interest. The Shareholder's obligation to pay principal and interest is absolute and unconditional and is not subject to offset by Shareholder. 1.5 Right of Repurchase. If the Company has a right to repurchase the Pledged Shares pursuant to the terms set forth in the Purchase Agreement or any other agreement, and the Company elects to exercise that right, the Company shall have the right (but not the obligation) to offset the repurchase price directly against accrued interest or principal of the Loan.

## **OUR SECURITIES**

The amount of security authorized is 10,000,000 with a total of 1,079,707 issued.

Voting Rights

One vote per share.

Material Rights

The total amount outstanding includes 50,000 shares reserved pursuant a stock option plan.

Voting Rights of Securities sold in this Offering

Voting Proxy. Each Subscriber shall appoint the Chief Executive Officer of the Company (the “CEO”), or his or her successor, as the Subscriber’s true and lawful proxy and attorney, with the power to act alone and with full power of substitution, to, consistent with this instrument and on behalf of the Subscriber, (i) vote all Securities, (ii) give and receive notices and communications, (iii) execute any instrument or document that the CEO determines is necessary or appropriate in the exercise of its authority under this instrument, and (iv) take all actions necessary or appropriate in the judgment of the CEO for the accomplishment of the foregoing. The proxy and power granted by the Subscriber pursuant to this Section are coupled with an interest. Such proxy and power will be irrevocable. The proxy and power, so long as the Subscriber is an individual, will survive the death, incompetency and disability of the Subscriber and, so long as the Subscriber is an entity, will survive the merger or reorganization of the Subscriber or any other entity holding the Securities. However, the Proxy will terminate upon the closing of a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933 covering the offer and sale of Common Stock or the effectiveness of a registration statement under the Securities Exchange Act of 1934 covering the Common Stock.

### **What it means to be a minority holder**

As a minority holder you will have limited ability, if at all, to influence our policies or any other corporate matter, including the election of directors, changes to our company’s governance documents, additional issuances of securities, company repurchases of securities, a sale of the company or of assets of the company or transactions with related parties.

### **Dilution**

Investors should understand the potential for dilution. The investor’s stake in a company could be diluted due to the company issuing additional shares. In other words, when the company issues more shares, the percentage of the company that you own will decrease, even though the value of the company may increase. You will own a smaller piece of a larger company. This increase in number of shares outstanding could result from a stock offering (such as an initial public offering, another crowdfunding round, a venture capital round or angel investment), employees exercising stock options, or by conversion of certain instruments (e.g. convertible notes, preferred shares or warrants) into stock.

If we decide to issue more shares, an investor could experience value dilution, with each share being worth less than before, and control dilution, with the total percentage an investor owns being less than before. There may also be earnings dilution, with a reduction in the amount earned per share (though this typically occurs only if we offer dividends, and most early stage companies are unlikely to offer dividends, preferring to invest any earnings into the company).

The type of dilution that hurts early-stage investors most occurs when the company sells more shares in a “down round,” meaning at a lower valuation than in earlier offerings.

If you are making an investment expecting to own a certain percentage of the company or expecting each share to hold a certain amount of value, it’s important to realize how the value of those shares can decrease by actions taken by the company. Dilution can make drastic changes to the value of each share, ownership percentage, voting control, and earnings per share.

## RISK FACTORS

### Uncertain Risk

An investment in the Company (also referred to as “we”, “us”, “our”, or “Company”) involves a high degree of risk and should only be considered by those who can afford the loss of their entire investment. Furthermore, the purchase of any of the Common Stock should only be undertaken by persons whose financial resources are sufficient to enable them to indefinitely retain an illiquid investment. Each investor in the Company should consider all of the information provided to such potential investor regarding the Company as well as the following risk factors, in addition to the other information listed in the Company’s Form C. The following risk factors are not intended, and shall not be deemed to be, a complete description of the commercial and other risks inherent in the investment in the Company.

### Our business projections are only projections

There can be no assurance that the Company will meet our projections. There can be no assurance that the Company will be able to find sufficient demand for our product, that people think it’s a better option than a competing product, or that we will be able to provide the service at a level that allows the Company to make a profit and still attract business.

### Any valuation at this stage is difficult to assess

The valuation for the offering was established by the Company. Unlike listed companies that are valued publicly through market-driven stock prices, the valuation of private companies, especially startups, is difficult to assess and you may risk overpaying for your investment.

### The transferability of the Securities you are buying is limited

Any Common Stock purchased through this crowdfunding campaign is subject to SEC limitations of transfer. This means that the stock/note that you purchase cannot be resold for a period of one year. The exception to this rule is if you are transferring the stock back to the Company, to an “accredited investor,” as part of an offering registered with the Commission, to a member of your family, trust created for the benefit of your family, or in connection with your death or divorce.

### Your investment could be illiquid for a long time

You should be prepared to hold this investment for several years or longer. For the 12 months following your investment there will be restrictions on how you can resell the securities you receive. More importantly, there is no established market for these securities and there may never be one. As a result, if you decide to sell these securities in the future, you may not be able to find a buyer. The Company may be acquired by an existing player in the consumer electronics industry. However, that may never happen or it may happen at a price that results in you losing money on this investment.

### We may not have enough capital as needed and may be required to raise more capital.

We anticipate the possibility of needing access to credit in order to support our working capital requirements as we grow. Although interest rates are low, it is still a difficult environment for obtaining credit on favorable terms. If we cannot obtain credit when we need it, we could be

forced to raise additional equity capital, modify our growth plans, or take some other action. Issuing more equity may require bringing on additional investors. Securing these additional investors could require pricing our equity below its current price. If so, your investment could lose value as a result of this additional dilution. In addition, even if the equity is not priced lower, your ownership percentage would be decreased with the addition of more investors. If we are unable to find additional investors willing to provide capital, then it is possible that we will choose to cease our sales activity. In that case, the only asset remaining to generate a return on your investment could be our intellectual property. Even if we are not forced to cease our sales activity, the unavailability of credit could result in the Company performing below expectations, which could adversely impact the value of your investment.

Terms of subsequent financings may adversely impact your investment

We will likely need to engage in common equity, debt, or preferred stock financings in the future, which may reduce the value of your investment in the Common Stock. Interest on debt securities could increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designation, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of Common Stock. In addition, if we need to raise more equity capital from the sale of Common Stock, institutional or other investors may negotiate terms that are likely to be more favorable than the terms of your investment, and possibly a lower purchase price per share.

Management Discretion as to Use of Proceeds

Our success will be substantially dependent upon the discretion and judgment of our management team with respect to the application and allocation of the proceeds of this Offering. The use of proceeds described below is an estimate based on our current business plan. We, however, may find it necessary or advisable to re-allocate portions of the net proceeds reserved for one category to another, and we will have broad discretion in doing so.

Projections: Forward Looking Information

Any projections or forward looking statements regarding our anticipated financial or operational performance are hypothetical and are based on management's best estimate of the probable results of our operations and will not have been reviewed by our independent accountants. These projections will be based on assumptions which management believes are reasonable. Some assumptions invariably will not materialize due to unanticipated events and circumstances beyond management's control. Therefore, actual results of operations will vary from such projections, and such variances may be material. Any projected results cannot be guaranteed.

We are reliant on one main type of service

All of our current services are variants on one type of service, selling personal audio products. Our revenues are therefore dependent upon the market for personal audio products.

Minority Holder; Securities with Voting Rights

The common stock that you are buying has voting rights attached to them. However, you are granting the right to vote, by proxy, to the CEO and his or her successor. You will be part of the minority shareholders of the Company and therefore will have a limited ability to influence

management's decisions on how to run the business. You are trusting in management discretion in making good business decisions that will grow your investments. Furthermore, in the event of a liquidation of our company, you will only be paid out if there is any cash remaining after all of the creditors of our company have been paid out.

You are trusting that management will make the best decision for the company

You are trusting in management discretion. You are buying securities as a minority holder, and therefore must trust the management of the Company to make good business decisions that grow your investment.

This offering involves "rolling closings," which may mean that earlier investors may not have the benefit of information that later investors have.

Once we meet our target amount for this offering, we may request that StartEngine instruct the escrow agent to disburse offering funds to us. At that point, investors whose subscription agreements have been accepted will become our investors. All early-stage companies are subject to a number of risks and uncertainties, and it is not uncommon for material changes to be made to the offering terms, or to companies' businesses, plans or prospects, sometimes on short notice. When such changes happen during the course of an offering, we must file an amended to our Form C with the SEC, and investors whose subscriptions have not yet been accepted will have the right to withdraw their subscriptions and get their money back. Investors whose subscriptions have already been accepted, however, will already be our investors and will have no such right.

Our new product could fail to achieve the sales projections we expected

Our growth projections are based on an assumption that with an increased advertising and marketing budget our products will be able to gain traction in the marketplace at a faster rate than our current products have. It is possible that our new products will fail to gain market acceptance for any number of reasons. If the new products fail to achieve significant sales and acceptance in the marketplace, this could materially and adversely impact the value of your investment.

We face significant market competition

We will compete with larger, established companies who currently have products on the market and/or various respective product development programs. They may have much better financial means and marketing/sales and human resources than us. They may succeed in developing and marketing competing equivalent products earlier than us, or superior products than those developed by us. There can be no assurance that competitors will render our technology or products obsolete or that the products developed by us will be preferred to any existing or newly developed technologies. It should further be assumed that competition will intensify.

We have existing patents that we might not be able to protect properly

One of the Company's most valuable assets is its intellectual property. The Company's owns 16 trademarks, patents, copyrights, Internet domain names, and trade secrets. We believe one of the most valuable components of the Company is our intellectual property portfolio. Due to the value, competitors may misappropriate or violate the rights owned by the Company. The Company intends to continue to protect its intellectual property portfolio from such violations. It is

important to note that unforeseeable costs associated with such practices may invade the capital of the Company.

We have pending patent approval's that might be vulnerable

One of the Company's most valuable assets is its intellectual property. The Company's intellectual property such as patents, trademarks, copyrights, Internet domain names, and trade secrets may not be registered with the proper authorities. We believe one of the most valuable components of the Company is our intellectual property portfolio. Due to the value, competitors may misappropriate or violate the rights owned by the Company. The Company intends to continue to protect its intellectual property portfolio from such violations. It is important to note that unforeseeable costs associated with such practices may invade the capital of the Company due to its unregistered intellectual property.

Our trademarks, copyrights and other intellectual property could be unenforceable or ineffective

Intellectual property is a complex field of law in which few things are certain. It is possible that competitors will be able to design around our intellectual property, find prior art to invalidate it, or render the patents unenforceable through some other mechanism. If competitors are able to bypass our trademark and copyright protection without obtaining a sublicense, it is likely that the Company's value will be materially and adversely impacted. This could also impair the Company's ability to compete in the marketplace. Moreover, if our trademarks and copyrights are deemed unenforceable, the Company will almost certainly lose any potential revenue it might be able to raise by entering into sublicenses. This would cut off a significant potential revenue stream for the Company.

The cost of enforcing our trademarks and copyrights could prevent us from enforcing them

Trademark and copyright litigation has become extremely expensive. Even if we believe that a competitor is infringing on one or more of our trademarks or copyrights, we might choose not to file suit because we lack the cash to successfully prosecute a multi-year litigation with an uncertain outcome; or because we believe that the cost of enforcing our trademark(s) or copyright(s) outweighs the value of winning the suit in light of the risks and consequences of losing it; or for some other reason. Choosing not to enforce our trademark(s) or copyright(s) could have adverse consequences for the Company, including undermining the credibility of our intellectual property, reducing our ability to enter into sublicenses, and weakening our attempts to prevent competitors from entering the market. As a result, if we are unable to enforce our trademark(s) or copyright(s) because of the cost of enforcement, your investment in the Company could be significantly and adversely affected.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business

To be successful, the Company requires capable people to run its day to day operations. As the Company grows, it will need to attract and hire additional employees in sales, marketing, design, development, operations, finance, legal, human resources and other areas. Depending on the economic environment and the Company's performance, we may not be able to locate or attract qualified individuals for such positions when we need them. We may also make hiring mistakes, which can be costly in terms of resources spent in recruiting, hiring and investing in the incorrect individual and in the time delay in locating the right employee fit. If we are unable to attract, hire

and retain the right talent or make too many hiring mistakes, it is likely our business will suffer from not having the right employees in the right positions at the right time. This would likely adversely impact the value of your investment.

We rely on third parties to provide services essential to the success of our business

We rely on third parties to provide a variety of essential business functions for us, including manufacturing, legal work, public relations, advertising, retailing, and distribution. It is possible that some of these third parties will fail to perform their services or will perform them in an unacceptable manner. It is possible that we will experience delays, defects, errors, or other problems with their work that will materially impact our operations and we may have little or no recourse to recover damages for these losses. A disruption in these key or other suppliers' operations could materially and adversely affect our business. As a result, your investment could be adversely impacted by our reliance on third parties and their performance.

The Company is vulnerable to hackers and cyber-attacks

As an internet-based business, we may be vulnerable to hackers who may access the data of our investors and the issuer companies that utilize our platform. Further, any significant disruption in service on Dan Clark Audio or in its computer systems could reduce the attractiveness of the platform and result in a loss of investors and companies interested in using our platform. Further, we rely on a third-party technology provider to provide some of our back-up technology. Any disruptions of services or cyber-attacks either on our technology provider or on Dan Clark Audio could harm our reputation and materially negatively impact our financial condition and business.

**Additional Risk Factors Related to Trade Wars**

Trade wars are still impacting the US economy and adversely impacting manufacturers such as us who import components from offshore vendors. While we have made all reasonable efforts to reduce the impact of tariffs, including raising prices, current economic conditions could increase tariffs and/or force reduction in prices which could affect margins.

**Uncertainties Related to the Covid-19 Virus**

As with all companies in the United States, we are impacted by the Covid virus. As of this writing, demand for headphones remains strong for us as many users are moving to telecommuting, as well as increased audio, video and game time at home. However, the extent of the regulatory and financial impact of the virus is uncertain, as is the potential impact on operating income, demand, and other unknown risk factors.

## **RESTRICTIONS ON TRANSFER**

The common stock sold in the Regulation CF offering, may not be transferred by any purchaser, for a period of one-year beginning when the securities were issued, unless such securities are transferred:

- (1) to the Company;
- (2) to an accredited investor;

(3) as part of an offering registered with the SEC; or

(4) to a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

## **SIGNATURES**

Pursuant to the requirements of Sections 4(a)(6) and 4A of the Securities Act of 1933 and Regulation Crowdfunding (§ 227.100-503), the issuer certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form C and has duly caused this Form to be signed on its behalf by the duly authorized undersigned, on April 26, 2022.

### **Dan Clark Audio Inc**

By */s/ Dan Clark*

Name: Dan Clark Audio Inc

Title: CEO

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Exhibit A

## **FINANCIAL STATEMENTS**

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I, Daniel Clark, the CEO of Dan Clark Audio, Inc, hereby certify that the financial statements of Dan Clark Audio Inc and notes thereto for the periods ending 12/31/2020 (first Fiscal Year End of Review) and 12/31/2021 (second Fiscal Year End of Review) included in this Form C offering statement are true and complete in all material respects and that the information below reflects accurately the information reported on our federal income tax returns.

For the year 2021 the amounts reported on our tax returns were total income of \$1,655,464; taxable income of \$34,249 and total tax of -\$53,200.

IN WITNESS THEREOF, this Principal Executive Officer's Financial Statement Certification has been executed as of the 04/22.2022 (Date of Execution).



(Signature)

Chief Executive Officer (Title)

04/22/2022 (Date)

# Dan Clark Audio, Inc.

## Profit and Loss

January - December 2021

|                                    | TOTAL                 |                       |                       |                 |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------|
|                                    | JAN - DEC 2021        | JAN - DEC 2020 (PY)   | CHANGE                | % CHANGE        |
| <b>Income</b>                      |                       |                       |                       |                 |
| Collection on Accounts             | -14,531.19            | -81,069.81            | 66,538.62             | 82.08 %         |
| Returns                            | -172,235.44           | -110,534.98           | -61,700.46            | -55.82 %        |
| Sales                              | 0.00                  |                       | 0.00                  |                 |
| Amazon                             | 0.00                  | 6,745.89              | -6,745.89             | -100.00 %       |
| Channel Sales - Domestic           | 814,714.55            |                       | 814,714.55            |                 |
| Channel Sales - International      | 862,415.77            | 314,612.81            | 547,802.96            | 174.12 %        |
| Direct Sales                       | 1,504,954.04          | 419,645.49            | 1,085,308.55          | 258.63 %        |
| OEM Sales                          | 0.00                  | 261,625.00            | -261,625.00           | -100.00 %       |
| Other                              |                       |                       |                       |                 |
| Other - Sales Tax Offset           | 1,885.00              | -9,904.00             | 11,789.00             | 119.03 %        |
| Other Income                       | 2,500.00              |                       | 2,500.00              |                 |
| Shipping Income                    |                       | 659.70                | -659.70               | -100.00 %       |
| <b>Total Other</b>                 | <b>4,385.00</b>       | <b>-9,244.30</b>      | <b>13,629.30</b>      | <b>147.43 %</b> |
| Paypal Sales                       | 0.00                  | 886,103.27            | -886,103.27           | -100.00 %       |
| Sales of Product Income            | 0.00                  | 0.00                  | 0.00                  |                 |
| Stripe Sales                       | 0.00                  |                       | 0.00                  |                 |
| <b>Total Sales</b>                 | <b>3,186,469.36</b>   | <b>1,879,488.16</b>   | <b>1,306,981.20</b>   | <b>69.54 %</b>  |
| <b>Total Income</b>                | <b>\$2,999,702.73</b> | <b>\$1,687,883.37</b> | <b>\$1,311,819.36</b> | <b>77.72 %</b>  |
| <b>Cost of Goods Sold</b>          |                       |                       |                       |                 |
| Cost of Goods Sold                 | 1,147,075.28          | 633,063.40            | 514,011.88            | 81.19 %         |
| Freight-out                        | 206,482.40            | 91,428.95             | 115,053.45            | 125.84 %        |
| Import Duties                      | 7,124.90              | 9,633.75              | -2,508.85             | -26.04 %        |
| Other Costs - COGS                 | 148.50                |                       | 148.50                |                 |
| Outside Services - COGS            | 19,695.40             | 5,257.55              | 14,437.85             | 274.61 %        |
| Research & Development             | 23,693.99             | 1,725.02              | 21,968.97             | 1,273.55 %      |
| Tooling & Setup Charges            | 1,454.50              |                       | 1,454.50              |                 |
| Tools & Supplies                   | 1,703.78              | 532.65                | 1,171.13              | 219.87 %        |
| <b>Total Cost of Goods Sold</b>    | <b>1,407,378.75</b>   | <b>741,641.32</b>     | <b>665,737.43</b>     | <b>89.77 %</b>  |
| Inventory Shrinkage                |                       | 0.00                  | 0.00                  |                 |
| Merchant Service Fees              |                       |                       |                       |                 |
| Paypal Fees                        | 25,516.40             | 39,233.55             | -13,717.15            | -34.96 %        |
| Stripe Fees                        | 18,034.24             |                       | 18,034.24             |                 |
| <b>Total Merchant Service Fees</b> | <b>43,550.64</b>      | <b>39,233.55</b>      | <b>4,317.09</b>       | <b>11.00 %</b>  |
| <b>Total Cost of Goods Sold</b>    | <b>\$1,450,929.39</b> | <b>\$780,874.87</b>   | <b>\$670,054.52</b>   | <b>85.81 %</b>  |
| <b>GROSS PROFIT</b>                | <b>\$1,548,773.34</b> | <b>\$907,008.50</b>   | <b>\$641,764.84</b>   | <b>70.76 %</b>  |
| <b>Expenses</b>                    |                       |                       |                       |                 |
| General & Admin Expenses           |                       |                       |                       |                 |
| Auto Expenses                      | 100.99                | 250.08                | -149.09               | -59.62 %        |
| Bank Charges                       | 4,708.33              | 4,168.20              | 540.13                | 12.96 %         |

|   | TOTAL                 |                       |                     |                   |
|---|-----------------------|-----------------------|---------------------|-------------------|
|   | JAN - DEC 2021        | JAN - DEC 2020 (PY)   | CHANGE              | % CHANGE          |
| Computer Supplies                             | 155.00                | 369.00                | -214.00             | -57.99 %          |
| Dues & Memberships                            | 59.67                 | 491.89                | -432.22             | -87.87 %          |
| Equipment Repair & Maintenance                | 885.51                |                       | 885.51              |                   |
| Insurance                                     | 8,168.09              | 6,505.00              | 1,663.09            | 25.57 %           |
| Licenses & Permits                            | 214.30                | -196.99               | 411.29              | 208.79 %          |
| Office Equipment Rental                       |                       | 854.23                | -854.23             | -100.00 %         |
| Office Expenses                               | 32,223.73             | 22,314.86             | 9,908.87            | 44.40 %           |
| Office Repairs & Maintenance                  | 3,378.96              | 2,351.01              | 1,027.95            | 43.72 %           |
| Office Supplies                               | 6,380.91              | 3,871.25              | 2,509.66            | 64.83 %           |
| Other Costs - G&A                             |                       | 0.00                  | 0.00                |                   |
| PEO Payroll Processing                        | 1,056,007.56          | 747,180.61            | 308,826.95          | 41.33 %           |
| Professional Development                      |                       | 0.00                  | 0.00                |                   |
| Professional Fees                             |                       |                       |                     |                   |
| Accounting Fees                               | 9,112.50              | 15,182.50             | -6,070.00           | -39.98 %          |
| Legal Fees                                    | 28,730.00             | 14,405.00             | 14,325.00           | 99.44 %           |
| <b>Total Professional Fees</b>                | <b>37,842.50</b>      | <b>29,587.50</b>      | <b>8,255.00</b>     | <b>27.90 %</b>    |
| Publications & Subscriptions                  | 224.48                |                       | 224.48              |                   |
| Rent  | 101,600.00            | 105,680.00            | -4,080.00           | -3.86 %           |
| Software - Online and Eng                     | 5,055.61              |                       | 5,055.61            |                   |
| Telecommunications                            | 6,173.91              | 6,312.96              | -139.05             | -2.20 %           |
| Travel - G&A                                  | 1,415.34              | 643.08                | 772.26              | 120.09 %          |
| Utilities                                     | 15,530.16             | 11,184.44             | 4,345.72            | 38.86 %           |
| <b>Total General &amp; Admin Expenses</b>     | <b>1,280,125.05</b>   | <b>941,567.12</b>     | <b>338,557.93</b>   | <b>35.96 %</b>    |
| Marketing & Selling Expenses                  |                       |                       |                     |                   |
| Advertising & Promotion                       | 34,468.11             | 40,004.59             | -5,536.48           | -13.84 %          |
| Meals M&S                                     | 7,402.49              | 4,130.09              | 3,272.40            | 79.23 %           |
| Outside Services - M&S                        |                       | 539.62                | -539.62             | -100.00 %         |
| Postage & Deliveries                          | 13,464.40             | 9,045.92              | 4,418.48            | 48.85 %           |
| Printing                                      | 3,321.45              | 2,794.81              | 526.64              | 18.84 %           |
| Sales Commissions                             | 5,169.21              | 24,798.50             | -19,629.29          | -79.16 %          |
| Supplies - M&S                                | 78.63                 |                       | 78.63               |                   |
| Travel - M&S                                  | 3,805.60              | 6,639.55              | -2,833.95           | -42.68 %          |
| <b>Total Marketing &amp; Selling Expenses</b> | <b>67,709.89</b>      | <b>87,953.08</b>      | <b>-20,243.19</b>   | <b>-23.02 %</b>   |
| QuickBooks Payments Fees                      |                       | 0.00                  | 0.00                |                   |
| Uncategorized Expense                         | 0.00                  |                       | 0.00                |                   |
| Uncategorized Expenses                        | 0.00                  |                       | 0.00                |                   |
| <b>Total Expenses</b>                         | <b>\$1,347,834.94</b> | <b>\$1,029,520.20</b> | <b>\$318,314.74</b> | <b>30.92 %</b>    |
| <b>NET OPERATING INCOME</b>                   | <b>\$200,938.40</b>   | <b>\$ -122,511.70</b> | <b>\$323,450.10</b> | <b>264.02 %</b>   |
| Other Income                                  |                       |                       |                     |                   |
| Forgiveness of Debt Income                    | 278,180.00            |                       | 278,180.00          |                   |
| Grant revenue                                 | 35,000.00             | 10,500.00             | 24,500.00           | 233.33 %          |
| Interest Income                               | 1,287.67              | 1,332.29              | -44.62              | -3.35 %           |
| <b>Total Other Income</b>                     | <b>\$314,467.67</b>   | <b>\$11,832.29</b>    | <b>\$302,635.38</b> | <b>2,557.71 %</b> |
| Other Expenses                                |                       |                       |                     |                   |
| Depreciation Expense                          | 33,085.00             | 9,650.00              | 23,435.00           | 242.85 %          |
| Interest & Finance Charges                    | 5,972.38              | 26,516.00             | -20,543.62          | -77.48 %          |

|                                | TOTAL              |                     |                    |                 |
|--------------------------------|--------------------|---------------------|--------------------|-----------------|
|                                | JAN - DEC 2021     | JAN - DEC 2020 (PY) | CHANGE             | % CHANGE        |
| Taxes                          |                    |                     |                    |                 |
| Federal Taxes - Estimates Paid |                    | 0.00                | 0.00               |                 |
| Property                       | -2,455.11          | 0.00                | -2,455.11          |                 |
| Sales Tax Expense              | 7,121.00           |                     | 7,121.00           |                 |
| State & Local                  | 23,277.53          | 3,899.39            | 19,378.14          | 496.95 %        |
| <b>Total Taxes</b>             | <b>27,943.42</b>   | <b>3,899.39</b>     | <b>24,044.03</b>   | <b>616.61 %</b> |
| <b>Total Other Expenses</b>    | <b>\$67,000.80</b> | <b>\$40,065.39</b>  | <b>\$26,935.41</b> | <b>67.23 %</b>  |
| NET OTHER INCOME               | \$247,466.87       | \$ -28,233.10       | \$275,699.97       | 976.51 %        |
| NET INCOME                     | \$448,405.27       | \$ -150,744.80      | \$599,150.07       | 397.46 %        |

# Dan Clark Audio, Inc.

## Balance Sheet

As of December 31, 2021

|                                  | TOTAL               |                         |                      |                  |
|----------------------------------|---------------------|-------------------------|----------------------|------------------|
|                                  | AS OF DEC 31, 2021  | AS OF DEC 31, 2020 (PY) | CHANGE               | % CHANGE         |
| <b>ASSETS</b>                    |                     |                         |                      |                  |
| Current Assets                   |                     |                         |                      |                  |
| Bank Accounts                    |                     |                         |                      |                  |
| MrSpeakers Checking 5363         | 129,776.71          | 23,984.66               | 105,792.05           | 441.08 %         |
| Paypal                           | 2,175.46            | 12,306.84               | -10,131.38           | -82.32 %         |
| Petty Cash                       | 180.00              | 0.00                    | 180.00               |                  |
| Stripe                           | 11,078.60           |                         | 11,078.60            |                  |
| WF Checking x 9295               | 395,256.47          | 37,555.03               | 357,701.44           | 952.47 %         |
| WF Savings                       | 0.00                |                         | 0.00                 |                  |
| <b>Total Bank Accounts</b>       | <b>\$538,467.24</b> | <b>\$73,846.53</b>      | <b>\$464,620.71</b>  | <b>629.17 %</b>  |
| Accounts Receivable              |                     |                         |                      |                  |
| A/R - Drop                       | 0.00                | 0.00                    | 0.00                 |                  |
| AR Magento                       | 0.00                | 14,531.19               | -14,531.19           | -100.00 %        |
| <b>Total Accounts Receivable</b> | <b>\$0.00</b>       | <b>\$14,531.19</b>      | <b>\$ -14,531.19</b> | <b>-100.00 %</b> |

|                                   | TOTAL               |                         |                     |                 |
|-----------------------------------|---------------------|-------------------------|---------------------|-----------------|
|                                   | AS OF DEC 31, 2021  | AS OF DEC 31, 2020 (PY) | CHANGE              | % CHANGE        |
| Other Current Assets              |                     |                         |                     |                 |
| ADP Payroll Clearing              | 0.00                | 0.00                    | 0.00                |                 |
| Due From Andy                     | 0.00                | 0.00                    | 0.00                |                 |
| Due From Shareholder              | 13,469.56           | 2,861.76                | 10,607.80           | 370.67 %        |
| Employee Advances                 | 0.00                | 0.00                    | 0.00                |                 |
| Income Tax Refund Receivable      | 0.00                | 0.00                    | 0.00                |                 |
| Interest Receivable - Jason Egger | 2,874.10            | 1,592.47                | 1,281.63            | 80.48 %         |
| Inventory                         |                     |                         |                     |                 |
| Inventory Asset - Raw Materials   | 189,106.36          | 181,373.66              | 7,732.70            | 4.26 %          |
| Inventory Asset - Finished Goods  | 16,450.00           | 12,730.00               | 3,720.00            | 29.22 %         |
| <b>Total Inventory</b>            | <b>205,556.36</b>   | <b>194,103.66</b>       | <b>11,452.70</b>    | <b>5.90 %</b>   |
| Inventory Asset                   | 0.00                | 0.00                    | 0.00                |                 |
| Loans to Shareholder              | 0.00                | 0.00                    | 0.00                |                 |
| Prepaid Taxes                     |                     |                         |                     |                 |
| Federal                           | 53,200.00           | 8,200.00                | 45,000.00           | 548.78 %        |
| State                             | 0.00                | 4,700.00                | -4,700.00           | -100.00 %       |
| <b>Total Prepaid Taxes</b>        | <b>53,200.00</b>    | <b>12,900.00</b>        | <b>40,300.00</b>    | <b>312.40 %</b> |
| State Tax Refund Receivable       | 0.00                | 0.00                    | 0.00                |                 |
| Uncategorized Asset               | 0.00                |                         | 0.00                |                 |
| Undeposited Funds                 | 0.00                | 0.00                    | 0.00                |                 |
| <b>Total Other Current Assets</b> | <b>\$275,100.02</b> | <b>\$211,457.89</b>     | <b>\$63,642.13</b>  | <b>30.10 %</b>  |
| <b>Total Current Assets</b>       | <b>\$813,567.26</b> | <b>\$299,835.61</b>     | <b>\$513,731.65</b> | <b>171.34 %</b> |
| Fixed Assets                      |                     |                         |                     |                 |
| Accumulated Depreciation          | -104,025.46         | -70,940.46              | -33,085.00          | -46.64 %        |
| Computer Equipment                | 17,299.12           | 2,317.05                | 14,982.07           | 646.60 %        |
| Equipment                         | 84,787.53           | 72,843.08               | 11,944.45           | 16.40 %         |
| Furniture                         | 3,548.12            | 2,446.00                | 1,102.12            | 45.06 %         |
| Leasehold Improvements            | 2,295.00            | 2,295.00                | 0.00                | 0.00 %          |
| Manufacturing Equipment           | 4,000.00            | 4,000.00                | 0.00                | 0.00 %          |
| Vehicles                          | 0.00                | 0.00                    | 0.00                |                 |
| <b>Total Fixed Assets</b>         | <b>\$7,904.31</b>   | <b>\$12,960.67</b>      | <b>\$ -5,056.36</b> | <b>-39.01 %</b> |
| Other Assets                      |                     |                         |                     |                 |
| Note Receivable - Andy Regan      | 0.00                |                         | 0.00                |                 |
| Note Receivable - Jason Egger     | 50,000.00           | 50,000.00               | 0.00                | 0.00 %          |
| <b>Total Other Assets</b>         | <b>\$50,000.00</b>  | <b>\$50,000.00</b>      | <b>\$0.00</b>       | <b>0.00 %</b>   |
| <b>TOTAL ASSETS</b>               | <b>\$871,471.57</b> | <b>\$362,796.28</b>     | <b>\$508,675.29</b> | <b>140.21 %</b> |

|  | TOTAL               |                         |                      |                 |
|--|---------------------|-------------------------|----------------------|-----------------|
|  | AS OF DEC 31, 2021  | AS OF DEC 31, 2020 (PY) | CHANGE               | % CHANGE        |
| <b>LIABILITIES AND EQUITY</b>          |                     |                         |                      |                 |
| Liabilities                            |                     |                         |                      |                 |
| Current Liabilities                    |                     |                         |                      |                 |
| Accounts Payable                       |                     |                         |                      |                 |
| Accounts Payable                       | 10,432.00           | 0.00                    | 10,432.00            |                 |
| <b>Total Accounts Payable</b>          | <b>\$10,432.00</b>  | <b>\$0.00</b>           | <b>\$10,432.00</b>   | <b>0.00%</b>    |
| Credit Cards                           |                     |                         |                      |                 |
| Chase x5703                            | 0.00                | 0.00                    | 0.00                 |                 |
| Dan's Card 5516                        | 53,412.17           | 18,667.44               | 34,744.73            | 186.12 %        |
| Expensify                              | 0.00                | 0.00                    | 0.00                 |                 |
| Group Company Card 5703                | 5,084.48            | 9,386.22                | -4,301.74            | -45.83 %        |
| Wells Fargo Business VISA x 2413       | 0.00                |                         | 0.00                 |                 |
| x4892 Chase Credit Card                | 0.00                | 0.00                    | 0.00                 |                 |
| x8282 IHG                              | 0.00                | 0.00                    | 0.00                 |                 |
| <b>Total Credit Cards</b>              | <b>\$58,496.65</b>  | <b>\$28,053.66</b>      | <b>\$30,442.99</b>   | <b>108.52 %</b> |
| Other Current Liabilities              |                     |                         |                      |                 |
| Accrued Expense                        | 8,429.20            | 57,887.22               | -49,458.02           | -85.44 %        |
| Accrued Interest Payable               | 6,170.55            |                         | 6,170.55             |                 |
| Accrued Payroll                        | 0.00                | 0.00                    | 0.00                 |                 |
| Due to Drop                            | 0.00                | 0.00                    | 0.00                 |                 |
| Due to Shareholder - Dan Clark         | 0.00                | 0.00                    | 0.00                 |                 |
| Line of Credit x9942                   | 0.00                | 0.00                    | 0.00                 |                 |
| Loan from Laurie Itkin                 | 0.00                | 0.00                    | 0.00                 |                 |
| Medical Insurance Payable              | 0.00                | 0.00                    | 0.00                 |                 |
| Paypal Loan                            | 0.00                | 0.00                    | 0.00                 |                 |
| Paypal Loan #2                         | 0.00                | 36,091.09               | -36,091.09           | -100.00 %       |
| Payroll Tax Liabilities                | 0.00                | 0.00                    | 0.00                 |                 |
| Pension Liability                      | 0.00                | 0.00                    | 0.00                 |                 |
| Sales Tax Payable                      | 0.00                | 1,885.00                | -1,885.00            | -100.00 %       |
| Taxes Payable                          | 0.00                | 0.00                    | 0.00                 |                 |
| Unearned Revenue                       | 74,975.51           | 93,402.05               | -18,426.54           | -19.73 %        |
| <b>Total Other Current Liabilities</b> | <b>\$89,575.26</b>  | <b>\$189,265.36</b>     | <b>\$ -99,690.10</b> | <b>-52.67 %</b> |
| <b>Total Current Liabilities</b>       | <b>\$158,503.91</b> | <b>\$217,319.02</b>     | <b>\$ -58,815.11</b> | <b>-27.06 %</b> |
| Long-Term Liabilities                  |                     |                         |                      |                 |
| Loan from Shareholder                  | 0.00                | 0.00                    | 0.00                 |                 |
| Notes Payable - SBA                    | 195,000.00          |                         | 195,000.00           |                 |
| PPP Loan                               | 0.00                | 124,900.00              | -124,900.00          | -100.00 %       |
| PPP-2 Loan                             | 0.00                |                         | 0.00                 |                 |
| Univest Capital Loan                   | 0.00                | 4,839.24                | -4,839.24            | -100.00 %       |
| <b>Total Long-Term Liabilities</b>     | <b>\$195,000.00</b> | <b>\$129,739.24</b>     | <b>\$65,260.76</b>   | <b>50.30 %</b>  |
| <b>Total Liabilities</b>               | <b>\$353,503.91</b> | <b>\$347,058.26</b>     | <b>\$6,445.65</b>    | <b>1.86 %</b>   |
| Equity                                 |                     |                         |                      |                 |
| Common Stock                           | 50,000.00           | 50,000.00               | 0.00                 | 0.00 %          |
| Opening Balance Equity                 | 0.00                | 0.00                    | 0.00                 |                 |
| Paid in Captial                        | 203,687.94          | 149,863.57              | 53,824.37            | 35.92 %         |
| Retained Earnings                      | -184,125.55         | -33,380.75              | -150,744.80          | -451.59 %       |

|  | TOTAL               |                         |                     |                   |
|--|---------------------|-------------------------|---------------------|-------------------|
|  | AS OF DEC 31, 2021  | AS OF DEC 31, 2020 (PY) | CHANGE              | % CHANGE          |
| Shareholder Distributions              | 0.00                | 0.00                    | 0.00                |                   |
| Federal Taxes                          | 0.00                | 0.00                    | 0.00                |                   |
| State Taxes                            | 0.00                | 0.00                    | 0.00                |                   |
| <b>Total Shareholder Distributions</b> | <b>0.00</b>         | <b>0.00</b>             | <b>0.00</b>         |                   |
| Net Income                             | 448,405.27          | -150,744.80             | 599,150.07          | 397.46 %          |
| <b>Total Equity</b>                    | <b>\$517,967.66</b> | <b>\$15,738.02</b>      | <b>\$502,229.64</b> | <b>3,191.19 %</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>    | <b>\$871,471.57</b> | <b>\$362,796.28</b>     | <b>\$508,675.29</b> | <b>140.21 %</b>   |



## CERTIFICATION

I, Dan Clark, Principal Executive Officer of Dan Clark Audio Inc, hereby certify that the financial statements of Dan Clark Audio Inc included in this Report are true and complete in all material respects.

*Dan Clark*

CEO