



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 979 962 231  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: HUDHELSE AS  
Forretningsadresse: Løkkeåsveien 3  
1337 SANDVIKA

### Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

### Konsern

Mørselskap i konsern: Ja  
Konsernregnskap lagt ved: Ja

### Regnskapsregler

Regler for små foretak benyttet: Nei  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler  
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Hilde Mønsdal  
Dato for fastsettelse av årsregnskapet: 28.06.2022

### Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert  
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 14.07.2023



## Resultatregnskap

Beløp i: NOK	Note	2021	2020
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Salgsinntekt	2,13	98 929 427	79 405 641
Annen driftsinntekt	2	634 728	445 735
<b>Sum inntekter</b>		<b>99 564 155</b>	<b>79 851 376</b>
<b>Kostnader</b>			
Varekostnad	13	61 176 551	50 970 927
Lønnskostnad	3	11 536 074	11 484 189
Avskrivning på varige driftsmidler og immaterielle eiendeler	4	318 437	207 232
Nedskrivning av varige driftsmidler og immaterielle eiendeler	4	281 702	
Annen driftskostnad	3	8 194 804	8 468 418
<b>Sum kostnader</b>		<b>81 507 568</b>	<b>71 130 765</b>
<b>Driftsresultat</b>		<b>18 056 587</b>	<b>8 720 611</b>
<b>Finansinntekter og finanskostnader</b>			
Renteinntekt fra foretak i samme konsern			108 580
Annen renteinntekt		129	2 744
Annen finansinntekt	5	3 862 180	1 327 104
<b>Sum finansinntekter</b>		<b>3 862 310</b>	<b>1 438 427</b>
Annen rentekostnad			45 439
Annen finanskostnad	5	1 944 266	887 338
<b>Sum finanskostnader</b>		<b>1 944 266</b>	<b>932 777</b>
<b>Netto finans</b>		<b>1 918 044</b>	<b>505 650</b>
<b>Ordinært resultat før skattekostnad</b>		<b>19 974 630</b>	<b>9 226 261</b>
Skattekostnad på ordinært resultat	6	3 580 747	2 124 893
<b>Ordinært resultat etter skattekostnad</b>		<b>16 393 883</b>	<b>7 101 368</b>
<b>Årsresultat</b>		<b>16 393 883</b>	<b>7 101 368</b>
<b>Totalresultat</b>		<b>16 393 883</b>	<b>7 101 368</b>



## Resultatregnskap

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Overføringer og disponeringer</b>			
Overføringer til/fra annen egenkapital		16 393 883	7 101 368
<b>Sum overføringer og disponeringer</b>		<b>16 393 883</b>	<b>7 101 368</b>



## Balanse

Beløp i: NOK	Note	2021	2020
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Konsesjoner, patenter, lisenser, varemerker og lignende rettigheter			63 100
Utsatt skattefordel	6	87 347	7 485
<b>Sum immaterielle eiendeler</b>		<b>87 347</b>	<b>70 585</b>
<b>Varige driftsmidler</b>			
Tomter, bygninger og annen fast eiendom	4	59 040	68 880
Maskiner og anlegg	4		359 825
Driftsløsøre, inventar, verktøy, kontormaskiner og lignende	4	262 647	262 938
<b>Sum varige driftsmidler</b>		<b>321 687</b>	<b>691 643</b>
<b>Finansielle anleggsmidler</b>			
Investering i datterselskap	7	729 192	4 502 612
Lån til foretak i samme konsern			145 515
Andre fordringer		41 190	34 949
<b>Sum finansielle anleggsmidler</b>		<b>770 383</b>	<b>4 683 077</b>
<b>Sum anleggsmidler</b>		<b>1 179 416</b>	<b>5 445 304</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
Varer	9	7 284 556	9 506 876
<b>Sum varer</b>		<b>0</b>	<b>0</b>
<b>Fordringer</b>			
Kundefordringer	8,13	4 998 839	4 834 872
Andre fordringer	8	451 474	575 152
Konsernfordringer	8	246 743	4 405 491
<b>Sum fordringer</b>		<b>5 697 056</b>	<b>9 815 515</b>
<b>Investeringer</b>			
<b>Sum investeringer</b>		<b>0</b>	<b>0</b>



## Balanse

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Bankinnskudd, kontanter og lignende	10	92 470 880	17 499 162
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>92 470 880</b>	<b>17 499 162</b>
<b>Sum omløpsmidler</b>		<b>105 452 493</b>	<b>36 821 554</b>
<b>SUM EIENDELER</b>		<b>106 631 910</b>	<b>42 266 858</b>
 <b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	11,12	500 000	500 000
Annen innskutt egenkapital		0	0
<b>Sum innskutt egenkapital</b>		<b>500 000</b>	<b>500 000</b>
<b>Opptjent egenkapital</b>			
Annen egenkapital	12	28 943 801	16 262 681
<b>Sum opptjent egenkapital</b>		<b>28 943 801</b>	<b>16 262 681</b>
<b>Sum egenkapital</b>		<b>29 443 801</b>	<b>16 762 681</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Sum avsetninger for forpliktelser		0	0
Annen langsiktig gjeld			
<b>Sum annen langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Kortsiktig gjeld</b>			
Leverandørgjeld	8,13	63 927 320	12 277 098
Betalbar skatt	6	3 660 609	2 139 613
Skyldige offentlige avgifter		4 095 058	3 060 522
Utbytte			3 773 420
Kortsiktig konserngjeld	7	6 060	
Annen kortsiktig gjeld	8	5 499 061	4 253 524



## Balanse

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2021</b>	<b>2020</b>
Sum kortsiktig gjeld		77 188 109	25 504 177
Sum gjeld		77 188 109	25 504 177
<b>SUM EGENKAPITAL OG GJELD</b>		<b>106 631 910</b>	<b>42 266 858</b>



**ÅRSREGNSKAP**  
**ÅRSBERETNING**  
**2021**  
**for**  
**Hudhelse AS**

Org. nr. 979 962 231



## Årsberetning 2021 - Hudhelse AS

### Virksomhetens art og tilholdssted

HudhelseAS selger hudpleieprodukter under merkenavnene ZO, Endymed og ColorScience.

Hudhelse AS har følgende datterselskap:

Hudhelse ApS, Danmark

Hudhelse AB, Sverige

Hudhelse AB, Finland

Selskapets virksomhet foregår i Sandvika i Norge, med salg til datterselskapene i Danmark, Sverige og Finland. Hovedkontoret ligger i Sandvika.

I løpet av året har totalmarkedet for hudpleieprodukter i Norge blitt redusert med ca. 2 % sammenlignet med fjoråret. I Sverige har konsernet opprettholdt sin markedsandel i et stagnerende totalmarked.

I Norge er Hudhelse AS blant de ledende forhandlerne, mens man i Danmark, Sverige og Finland befinner seg i etableringsfasen.

### Redegjørelse for årsregnskapet

Omsetningen økte fra NOK 79 851 376 i fjor til NOK 99 564 155 i 2021. Årsresultatet ble i 2021 NOK 16 652 559 mot fjoråret NOK 7 101 368. Effektivisering av driften og kostnadsreduserende tiltak har gjort at 2021 var et økonomisk tilfredsstillende år.

Samlet kontantstrøm fra driften var på NOK 12 087 451, mens driftsresultatet utgjorde NOK 18 056 587.

Selskapets likviditetsbeholdning var NOK 92 470 881 per 31.12.2021. Selskapets evne til egenfinansiering av investeringer er god.

Selskapets kortsiktige gjeld utgjorde pr. 31.12.2021 100 % av samlet gjeld i selskapet, likt med fjoråret. Selskapets finansielle stilling er god, og pr. 31.12.2021 kan selskapet nedbetale kortsiktig gjeld ved hjelp av de mest likvide midlene.

Totalkapitalen var ved utgangen av året NOK 106 631 910, sammenlignet med NOK 42 266 858 året før. Egenkapitalandelen pr. 31.12.2021 var 27,85 %, sammenlignet med 39,66 % pr. 31.12.2020.

### Fremtidig utvikling

Markedsutviklingen de neste årene er usikker. Økningen i etterspørselen etter selskapets produkter har fortsatt. Selskapets virksomhet preges også i stadig høyere grad av økt konkurranse. Internasjonale aktører har inntatt markedet. Det utvikles stadig nye allianser og partnerskap i bransjen som er med på å forsterke konkurransen. Svekkelsen av den norske kronen medfører økte priser fra våre leverandører utenfor Norge. Våre prognoser for fremtidige resultater vil kunne preges av den usikkerheten som normalt preger vurderinger av fremtidige forhold. På kort sikt vil selskapet fokusere på å opprettholde lønnsomheten neste år. Selskapet vil satse bevisst på eksportmarkedsføring med henblikk på å øke andelen av selskapets salg utenfor Norge.



## Finansiell risiko

### Overordnet om målsetting og strategi

Hudhelse AS er eksponert for finansiell risiko på ulike områder, spesielt valutarisiko. Målsettingen er å avdempe den finansielle risikoen i størst mulig grad.

### Markedsrisiko

Hudhelse AS er eksponert for endringer i valutakurser, spesielt amerikanske dollar. Endringer i USD utgjør også en risiko, siden ca. 99 % av selskapets kjøp kommer fra leverandører som fakturerer i USD. Selskapet har ikke inngått terminkontrakter eller andre avtaler for å redusere selskapets valutarisiko og derigjennom den driftstilknyttede markedsrisikoen. Videre kan endringer i rentenivået påvirke investeringsmulighetene i fremtidige perioder.

### Kreditrisiko

Risikoen for tap på fordringer er vurdert som lav, men en økning kan ventes på grunn av endring i markedsforholdene. Selskapet har hittil ikke hatt vesentlige tap på fordringer.

### Likviditetsrisiko

Selskapet vurderer likviditeten i selskapet som god, men vi har økende fokus på forfalte fordringer.

### Fortsatt drift

I samsvar med regnskapsloven § 3-3a bekreftes det at forutsetningene om fortsatt drift er til stede. Til grunn for antagelsen ligger resultatprognoser for 2022 og selskapets langsiktige strategiske prognoser for årene fremover. Selskapet er i en sunn økonomisk og finansiell stilling.

### Resultatdisponering

Styret foreslår følgende disponering av årsresultatet i Hudhelse AS:

Annen egenkapital    NOK 16 393 883

**Totalt disponert**    NOK 16 393 883

Forslaget er begrunnet i eiernes ønske om å styrke kapitalstrukturen i selskapet.

### Arbeidsmiljø

Sykefraværet i selskapet var på totalt 1 076,50 timer i 2021 (4 % av totale arbeidstimer i selskapet), sammenlignet med 988,50 timer i 2020 (4 %).

Det har i løpet av året ikke forekommet eller blitt rapportert alvorlige arbeidsuhell eller ulykker, som har resultert i store materielle skader eller personskader.

### Ytre miljø.

Selskapet har ingen produksjon som forurensar det ytre miljøet. Selskapet bruker Sjøpeltaxi som rydder og kjører bort all emballasje fra vareleveringer.



**Styreforsikring**

Det er ikke tegnet forsikring for styrets medlemmer og daglig leder.

Sandvika, 28. juni 2022

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Therese Victoria Mofjell Bunæs  
Daglig leder

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Mark Alan Williams  
Styreleder

**Resultatregnskap**

	<b>Hudhelse AS</b>		
	Note	2021	2020
<b>Salgsinntekter</b>	2,13	98 929 427	79 405 641
<b>Andre driftsinntekter</b>	2	634 728	445 735
<b>Sum driftsinntekter</b>		<b>99 564 155</b>	<b>79 851 376</b>
<b>Varekostnad</b>	13	<b>61 176 551</b>	<b>50 970 927</b>
<b>Lønnskostnad</b>	3	11 536 074	11 484 189
<b>Avskrivning varige driftsmidler</b>	4	318 437	207 232
<b>Nedskrivning av varige driftsmidler</b>	4	281 702	0
<b>Annen driftskostnad</b>	3	8 194 804	8 468 418
<b>Sum driftskostnad</b>		<b>81 507 568</b>	<b>71 130 765</b>
<b>Driftsresultat</b>		<b>18 056 587</b>	<b>8 720 611</b>
<b>Renteinntekt fra foretak i samme konsern</b>		0	108 580
<b>Annen renteinntekt</b>		129	2 744
<b>Annen finansinntekt</b>	5	3 862 180	1 327 104
<b>Sum finansinntekter</b>		<b>3 862 310</b>	<b>1 438 427</b>
<b>Annen rentekostnad</b>		0	45 439
<b>Annen finanskostnad</b>	8	1 944 266	887 338
<b>Sum finanskostnader</b>		<b>1 944 266</b>	<b>932 777</b>
<b>Sum netto finansposter</b>		<b>1 918 044</b>	<b>505 650</b>
<b>Ordinært resultat før skattekostnad</b>		<b>19 974 630</b>	<b>9 226 261</b>
<b>Skattekostnad på ordinært resultat</b>	6	3 580 747	2 124 893
<b>Ordinært resultat</b>		<b>16 393 883</b>	<b>7 101 368</b>
<b>Årsresultat</b>		<b>16 393 883</b>	<b>7 101 368</b>
<b>Overført annen egenkapital</b>		16 393 883	7 101 368
<b>Sum disponert</b>		<b>16 393 883</b>	<b>7 101 368</b>

Hudhelse AS Org.nr. 979962231



## Balanse

### Hudhelse AS

Note

2021

2020

#### Eiendeler

##### Anleggsmidler

##### Immaterielle eiendeler

Konsepsjoner, patenter, lisenser o.l.

0

63 100

Utsatt skattefordel

6

87 347

7 488

**Sum immaterielle eiendeler**

**87 347**

**70 588**

##### Varige driftsmidler

Tomter, bygninger og annen fast eiendom

4

59 040

68 880

Maskiner og anlegg

4

0

389 825

Driftsløsøre, inventar, verktøy o.l.

4

262 647

282 938

**Sum varige driftsmidler**

**321 687**

**691 643**

##### Finansielle anleggsmidler

Investeringer i datterselskap

7

729 192

4 502 612

Lån til foretak i samme konsern

0

148 518

Andre fordringer

41 190

34 949

**Sum finansielle anleggsmidler**

**770 383**

**4 683 077**

**Sum anleggsmidler**

**1 179 416**

**5 445 304**

##### Omløpsmidler

Varelager

9

7 284 556

9 506 876

##### Fordringer

Kundefordringer

8,13

4 998 839

4 834 872

Kortsiktige konsernfordringer

8

246 743

4 405 491

Andre fordringer

8

451 474

875 152

**Sum fordringer**

**5 697 056**

**9 815 515**

##### Investeringer

Bankinnskudd, kontanter o.l.

10

92 470 881

17 499 162

**Sum omløpsmidler**

**105 452 493**

**36 821 554**

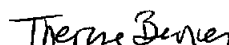
**Sum eiendeler**

**106 631 910**

**42 266 858**

**Balanse**

<b>Hudhelse AS</b>			
	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Egenkapital og gjeld</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	11,12	500 000	500 000
<b>Sum innskutt egenkapital</b>		<b>500 000</b>	<b>500 000</b>
<b>Opptjent egenkapital</b>			
Annen egenkapital	12	28 943 801	16 262 681
<b>Sum opptjent egenkapital</b>		<b>28 943 801</b>	<b>16 262 681</b>
<b>Sum egenkapital</b>		<b>29 443 801</b>	<b>16 762 681</b>
<b>Gjeld</b>			
<b>Avsetning for forpliktelser</b>			
<b>Annen langsiktig gjeld</b>			
<b>Kortsiktig gjeld</b>			
Leverandørgjeld	8,13	63 927 320	12 277 098
Betalbar skatt	6	3 680 609	2 139 613
Skyldige offentlige avgifter		4 095 088	3 060 822
Utbytte		0	3 773 420
Kortsiktig konserngjeld	7	6 060	0
Annen kortsiktig gjeld	8	5 498 061	4 253 524
<b>Sum kortsiktig gjeld</b>		<b>77 188 109</b>	<b>25 504 177</b>
<b>Sum gjeld</b>		<b>77 188 109</b>	<b>25 504 177</b>
<b>Sum egenkapital og gjeld</b>		<b>106 631 910</b>	<b>42 266 858</b>

Oslo, 31.12.2021 / 28.06.2022  
Styret for Hudhelse AS  
Mark Williams  
Styreleder  
Therese Mofjell Bunsnes  
Styremedlem, daglig leder



## Noter til regnskapet for 2021 Hudhelse AS

### Note 2 Salgsinntekter

	2021	2020
<b>Virksomhetsområde</b>		
Salg av hudpleieprodukter	98 929 427	79 405 641
Andre driftsinntekter	634 728	445 735
<b>Sum</b>	<b>99 564 155</b>	<b>79 851 376</b>

### Geografisk fordeling

Norge	78 805 902	65 119 793
Sverige	12 625 278	9 244 226
Danmark	6 693 266	4 368 048
Finland	1 439 709	1 119 309
<b>Sum</b>	<b>99 564 155</b>	<b>79 851 376</b>

### Note 3 Lønnskostnader, antall ansatte, godtgjørelser, lån til ansatte og godtgjørelse til revisor

Lønnskostnader	2021	2020
Lønninger	8 949 063	9 535 343
Arbeidsgiveravgift	1 543 779	1 152 044
Pensjonskostnader	588 276	498 014
Andre ytelser	454 956	298 788
<b>Sum</b>	<b>11 536 074</b>	<b>11 484 189</b>

Gjennomsnittlig antall årsverk	14,1	11,5
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### Ytelser til ledende personer mv.

	2021			
	Lønn	Bonus	Annen godtgjørelse	Sum
Daglig leder	2 082 725	993 181	122 975	3 198 881
	2020			
	Lønn	Bonus	Annen godtgjørelse	Sum
Daglig leder	1 257 309	150 000	62 742	1 470 051

Daglig leder har avtale om lønn i et år etter fratreden fra sin stilling. Daglig leder har bonusavtale på opptil 42,5% av årlig lønn

### Bonus og akajebasert avlønning

Ledende ansatte har ikke avtale om bonus.

### Tjenestepensjon

Selskapet er pliktig til å ha tjenestepensjonsordning etter lov om obligatorisk tjenestepensjon. Selskapets pensjonsordninger tilfredsstiller kravene i denne lov.

### Revisor

Godtgjørelse til revisor er fordelt på følgende:

Revisjonshonorær	2021	2020
Lovpålagt revisjon	62 100	60 250
Andre attestasjonstjenester	2 468	2 571
Andre tjenester utenfor revisionen	70 103	35 660
<b>Sum</b>	<b>134 671</b>	<b>98 481</b>

**Noter til regnskapet for 2021**  
**Hudhelse AS****Note 4 Varige driftsmidler**

<b>Varige driftsmidler</b>	<b>Innredning leide lokaler</b>	<b>Maskiner og inventar</b>	<b>Sum varige driftsmidler</b>
Anskaffelseskost pr 01.01.	212 553	1 273 322	1 485 875
Tilgang kjøpte driftsmidler	-	230 183	230 183
Avgang solgte driftsmidler	-	63 100	63 100
Anskaffelseskost 31.12.	212 553	1 440 405	1 652 958
Akkumulerte avskrivninger 31.12.	-153 513	-896 056	-1 049 569
Akkumulerte nedskrivninger 31.12.	-	-281 702	-281 702
Balanseført verdi pr. 31.12.	59 040	262 647	321 687
Årets avskrivninger	9 840	308 597	318 437
Årets nedskrivninger	-	281 702	281 702
Økonomisk levetid	10 år	3-5 år	
Avskrivningsplan	Lineær	Lineær	

**Note 5 Finansposter**

<b>Finansinntekter</b>	<b>2021</b>	<b>2020</b>
Gevinst ved salg av aksjer i datterselskap	3 712 763	-
Valutagevinst	149 417	1 327 104
Sum finansinntekter	3 862 180	1 327 104

<b>Finanskostnader</b>	<b>2021</b>	<b>2020</b>
Annen rentekostnad	-	45 439
Valutatap	1 944 266	887 338
Sum finanskostnader	1 944 266	932 777

**Note 6 Skatt**

<b>Årets skattekostnad fordeler seg på:</b>	<b>2021</b>	<b>2020</b>
Betalbar skatt	3 660 609	2 139 613
Endring i utsatt skatt	-79 862	-14 720
Sum skattekostnad	3 580 747	2 124 893

<b>Beregning av årets skattegrunnlag:</b>		
Resultat før skattekostnad	19 974 630	9 226 261
Permanente forskjeller *)	-3 698 509	432 342
Endring i midlertidige forskjeller	363 013	66 911
Årets skattegrunnlag	16 639 134	9 725 514

<b>Oversikt over midlertidige forskjeller:</b>		
Fordringer	-8 933	-8 215
Anleggsmidler	-388 103	-25 808
Sum	-397 036	-34 023
Utsatt skatt / skattefordel (-)	-87 348	-7 485

**Noter til regnskapet for 2021****Hudhelse AS****Note 7 Datterselskap, tilknyttet selskap m v**

Selskapets navn	Ervervet	Kontor	Eierandel	St.andel	Resultat	Egenkapital
Hudhelse Stockholm AB	2014	Sverige	100 %	100 %	2 513 641	4 366 910
Hudhelse Finland AB	2019	Finland	100 %	100 %	171 929	195 330
Hudhelse ApS	2018	Danmark	100 %	100 %	1 711 598	2 504 764

Investeringsene i datterselskapene vurderes etter kostmetoden i selskapsregnskapet. Selskapets eneaksjonær er ZO Skin Health Inc, 9685 Research Drive, CA 92618, USA. Konsernregnskap kan fås ved henvendelse til denne adressen.

**Note 8 Mellomværende med selskap i samme konsern**

Fordringer	Hudhelse Stockholm AB		Hudhelse ApS, Danmark	
	2021	2020	2021	2020
Kundefordringer	1 247 698	968 328	678 695	552 764
Andre fordringer	141 583	143 452	786	72 906
Sum	1 389 281	1 111 780	679 481	625 670

Fordringer	Hudhelse Finland AB		Løkkeåsvelen 3A&B AS	
	2021	2020	2021	2020
Kundefordringer	701 009	979 517	-	-
Andre fordringer	98 314	274 534	-	3 914 608
Sum	799 323	1 254 051	-	3 914 608

Gjeld	Hudhelse Finland AB		ZO Skin Health Inc	
	2021	2020	2021	2020
Leverandørgjeld	-	606 718	62 662 406	-
Annen kortsiktig gjeld	448 137	530 740	-	-
Sum	448 137	1 137 458	62 662 406	-

Det eksisterer ingen pantstillelse, garantier eller annen sikkerhetsstillelse til fordel for foretak i samme konsern.

**Note 9 Varer**

	2021	2020
Lager av andre handelsvarer	7 284 556	9 506 876
Sum	7 284 556	9 506 876

Av samlet varelagerverdi for Hudhelse AS pr 31.12.2021 er kr. 7.284.556 vurdert til anskaffelseskost.

**Note 10 Bankinnskudd**

	2021	2020
Bundne skattetrekksmidler	589 307	348 397

**Note 11 Aksjekapital og aksjonærinformasjon**

Aksjekapitalen består av:	Antall	Pålydende	Balansført
A-aksjer	500	1 000	500 000
Sum	500		500 000

Selskapets eneaksjonær er ZO Skin Health Inc, 9685 Research Drive, CA 92618, USA.



## Noter til regnskapet for 2021 Hudhelse AS

### Note 12 Egenkapital

	Aksjekapital	Annen EK	Sum
Egenkapital pr 31.12.2020	500 000	16 262 681	16 762 681
Årets resultat	-	16 393 883	16 393 883
Utbytte, tilleggsutbytte vedtatt 08.01.21	-	-3 712 763	-3 712 763
Egenkapital pr 31.12 2021	500 000	28 943 801	29 443 801

### Note 13 Transaksjoner med nærstående parter

#### Oversikt nærstående parter og tilknytninger

Nærstående part	Tilknytning	Eierandel
Hudhelse AB	Datterselskap	100 %
Hudhelse Finland AB	Datterselskap	100 %
Hudhelse ApS, Danmark	Datterselskap	100 %
ZO Skin Health Inc	Morselskap fra januar 2021	

#### Transaksjoner med nærstående parter

Gruppen har foretatt flere forskjellige transaksjoner med nærstående parter. Alle transaksjoner er foretatt som del av den ordinære virksomheten og til armlengdes priser. De vesentligste transaksjonene som er foretatt er som følger:

Salg av varer og tjenester til datterselskapene for henholdsvis MNOK 21,4 og MNOK 15,6 i 2021 og 2020.

Kjøp av varer fra morselskapet for MNOK 51,8 i 2021.

Balansen inkluderer følgende beløp som følge av transaksjoner med tilknyttede selskaper:

	2021	2020
Kundefordringer	2 627 996	2 500 609
Leverandørgjeld	62 662 405	606 718



## Kontantstrømoppstilling for 2021

### Hudhelse AS

	2021	2020
<b>Kontantstrømmer fra operasjonelle aktiviteter</b>		
Resultat før skatt	19 974 630	9 226 260
Betalbar skatt	-2 139 613	-2 312 599
Ordinære avskrivninger	318 437	207 232
Nedskrivninger	281 702	-
Endring i varer, kundefordringer og leverandørgjeld	-8 953 831	4 152 245
Endring i andre tidsavgrensningsposter	2 606 126	9 447 721
<b>Netto kontantstrøm fra operasjonelle aktiviteter</b>	<b>12 087 451</b>	<b>20 720 859</b>
<b>Kontantstrømmer fra investeringsaktiviteter</b>		
Investeringer i varige driftsmidler	-230 183	-419 795
Endring i andre investeringer	3 773 420	-
<b>Netto kontantstrøm fra investeringsaktiviteter</b>	<b>3 543 237</b>	<b>-419 795</b>
<b>Kontantstrømmer fra finansieringsaktiviteter</b>		
Opptak av ny gjeld (kortsiktig og langsiktig)	66 827 214	441 886
Nedbetaling av gammel gjeld	-	-5 735 625
Utbytte	-7 486 183	-5 000 000
<b>Netto kontantstrøm fra finansieringsaktiviteter</b>	<b>59 341 031</b>	<b>-10 293 739</b>
Netto endring i likvider i året	74 971 719	10 007 325
Kontanter og bankinnskudd per 01.01	17 499 162	7 491 837
<b>Kontanter og bankinnskudd per 31.12</b>	<b>92 470 881</b>	<b>17 499 162</b>



Til generalforsamlingen  
i Hudhelse AS



BHL DA  
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Medlemmer av  
Den norske Revisorforening

Ansvarlig revisor:  
Trond Dalvik

## UAVHENGIG REVISORS BERETNING

### Konklusjon

Vi har revidert Hudhelse AS' årsregnskap som viser et overskudd på kr.16.393.883. Årsregnskapet består av balanse per 31. desember 2021, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening

- oppfyller årsregnskapet gjeldende lovkrav, og
- gir årsregnskapet et rettviseende bilde av selskapets finansielle stilling per 31. desember 2021 og av dets resultat og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

### Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med de internasjonale revisjonsstandardene, International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet nedenfor under Revisors oppgaver og plikter ved revisjonen av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov, forskrift og International Code of Ethics for Professional Accountants (inkludert internasjonale uavhengighetsstandarder) utstedt av the International Ethics Standards Board for Accountants (IESBA-reglene), og vi har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Innhentet revisjonsbevis er etter vår vurdering tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

### Øvrig informasjon

Styret og daglig leder (ledelsen) er ansvarlige for informasjonen i årsberetningen. Vår konklusjon om årsregnskapet ovenfor dekker ikke informasjonen i årsberetningen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese årsberetningen. Formålet er å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom årsberetningen og årsregnskapet og den kunnskap vi har opparbeidet oss under revisjonen av årsregnskapet, eller hvorvidt informasjon i årsberetningen ellers fremstår som vesentlig feil. Vi har plikt til å rapportere dersom årsberetningen fremstår som vesentlig feil. Vi har ingenting å rapportere i så henseende.

Basert på kunnskapen vi har opparbeidet oss i revisjonen, mener vi at årsberetningen



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- er konsistent med årsregnskapet og
- inneholder de opplysninger som skal gis i henhold til gjeldende lovkrav.

#### **Ledelsens ansvar for årsregnskapet**

Ledelsen er ansvarlig for å utarbeide årsregnskapet og for at det gir et rettviseende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik intern kontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avvirket.

#### **Revisors oppgaver og plikter ved revisjonen av årsregnskapet**

Vårt mål er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

For videre beskrivelse av revisors oppgaver og plikter vises det til <https://www.revisorforeningen.no/revisjonsberetninger>

Sandvika, 28.06.2022

**BHL DA**

Trond Dolvik  
Statsautorisert revisor



**ZO SH HOLDINGS, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 and 2020**  
(With Independent Auditors' Reports Thereon)



**ZO SH HOLDINGS, INC.**  
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**December 31, 2021 and 2020**

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# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders of ZO SH Holdings, Inc.

### Opinion

We have audited the consolidated financial statements of ZO SH Holdings, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations and comprehensive operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Predecessor Auditor's Opinion on 2020 Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 were audited by other auditors whose report, dated June 29, 2022, expressed an unmodified opinion on those statements.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report



that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents pages 44-46 is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplementary information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, based on our audits and (as to the amounts included for ZO SH Holdings, Inc.) the report of the other auditors, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Costa Mesa, California  
June 29, 2022



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
ZO SH Holdings, Inc.  
Irvine, California

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ZO SH Holdings, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of operations and comprehensive operations, stockholders' equity and cash flows for the period from October 2, 2020 (inception) through December 31, 2020 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 auditor's 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.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ZO SH Holdings, Inc. and subsidiaries as of December 31, 2020 and the results of their operations and their cash flows for the period from October 2, 2020 (inception) through December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.



## Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the supplementary schedules on pages 38 – 43 representing the consolidated statements of operations and comprehensive operations for the period from January 1, 2020 through October 1, 2020 (Predecessor) and the period from October 2, 2020 (inception) through December 21, 2020 (Successor), the consolidated statements of stockholders' equity for the period from January 1, 2020 through October 1, 2020 (Predecessor) and the period from October 2, 2020 (inception) through December 31, 2020 (Successor), the consolidated statements of cash flows from the period from January 1, 2020 through October 1, 2020 (Predecessor) and the period from October 2, 2020 (inception) through December 31, 2020 (Successor), the reconciliation of the balance sheets of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc. as of December 31, 2020, and the reconciliation of the consolidated statements of operations and comprehensive operations of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc. for the period from October 2, 2020 (inception) through December 31, 2020, are 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, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ramirez Jimenez International CPAs*

Irvine, California  
June 29, 2022



**ZO SH HOLDINGS, INC.**

**Consolidated Balance Sheets**

**December 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 53,421,199	\$ 28,233,229
Accounts receivable, net of allowance for doubtful accounts of \$13,969 and \$58,998, respectively	14,585,015	13,388,369
Accounts receivable - related parties	29,018	77,206
Inventory	40,033,885	25,467,820
Prepaid expenses	4,329,306	3,760,342
Prepaid income taxes	772,097	2,848,857
Other current assets	148,796	-
Total current assets	<u>113,319,316</u>	<u>73,775,823</u>
<b>Property and equipment</b>		
Machinery and equipment	1,723,517	1,233,115
Furniture and fixtures	985,929	907,179
Leasehold improvements	1,038,919	955,528
Construction in progress	720,731	-
	<u>4,469,096</u>	<u>3,095,822</u>
Less accumulated depreciation	(1,197,969)	(178,386)
Property and equipment, net	<u>3,271,127</u>	<u>2,917,436</u>
<b>Intangibles and Other assets</b>		
Deposits	686,831	664,752
Investment	5,275,057	5,275,057
Intangible assets, net	255,813,165	259,398,750
Goodwill, net	120,377,419	103,325,515
Total other assets	<u>382,152,472</u>	<u>368,664,074</u>
<b>Total assets</b>	<u><b>\$ 498,742,915</b></u>	<u><b>\$ 445,357,333</b></u>

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



**ZO SH HOLDINGS, INC.**

**Consolidated Balance Sheets**

**December 31, 2021 and 2020**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>2021</b>	<b>2020</b>
<b>Current liabilities</b>		
Accounts payable	\$ 10,321,714	\$ 13,939,428
Accounts payable - related parties	106,921	22,889
Accrued expenses	21,447,885	19,158,122
Sales return liability	522,314	812,830
Current portion of deferred rent	42,929	29,535
Current portion of capital lease obligations	167,815	152,691
Current portion of deferred revenue	189,160	177,749
Current portion of note payable	6,000,000	6,000,000
Total current liabilities	<u>38,798,738</u>	<u>40,293,244</u>
<b>Noncurrent liabilities</b>		
Note payable, net of current portion and discount of \$2,324,138 and \$2,929,210, respectively	105,675,862	111,070,790
Deferred revenue	-	5,000,000
Deferred rent, net of current portion	480,927	447,976
Capital lease obligations, net of current portion	208,574	376,389
Other long - term liabilities	658,011	421,383
Deferred tax liabilities	54,062,507	61,343,918
Contingent consideration payable	54,265,543	-
Total long-term liabilities	<u>215,351,424</u>	<u>178,660,456</u>
Total liabilities	<u>254,150,162</u>	<u>218,953,700</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 25,167,997 shares issued and outstanding	251,680	251,680
Common stock, \$0.01 par value, 50,000,000 shares authorized, 18,718,716 shares issued and outstanding in 2021 and 2020, respectively	187,187	187,187
Additional paid-in-capital	239,840,659	237,519,490
Retained Earnings/Accumulated deficit	1,220,013	(11,460,478)
Accumulated other comprehensive loss	(672,786)	(66,887)
Total Stockholders' equity attributable to ZO SH Holdings, Inc.	<u>240,826,753</u>	<u>226,430,992</u>
Noncontrolling interest	3,766,000	(27,359)
Total stockholders' equity	<u>244,592,753</u>	<u>226,403,633</u>
<b>Total liabilities and stockholders' equity</b>	<u><b>\$ 498,742,915</b></u>	<u><b>\$ 445,357,333</b></u>

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



**ZO SH HOLDINGS, INC.**

**Consolidated Statements of Operations and Comprehensive Operations**

For the year ended December 31, 2021 and for the period from October 2, 2020 (inception) through December 31, 2020

	For the year ended December 31, 2021	% of Net Sales	For the period from October 2, 2020 (inception) through	% of Net Sales
Net sales	\$ 258,691,669	100.0%	\$ 52,801,383	100.0%
Cost of goods sold	65,497,086	25.3%	16,978,197	32.2%
Gross profit	193,194,583	74.7%	35,823,186	67.8%
Selling, general and administrative expenses	134,414,906	52.0%	40,985,007	77.6%
Depreciation and amortization	42,802,995	16.5%	9,580,529	18.1%
Total operating expenses	177,217,901	68.5%	50,565,536	95.7%
Income (loss) from operations	15,976,682	6.2%	(14,742,350)	-27.9%
Interest expense	4,513,645	1.7%	9,538	0.0%
Income (loss) before benefit from income taxes	11,463,037	4.5%	(14,751,888)	-27.9%
Benefit from income taxes	(1,057,652)	-0.4%	(3,264,051)	-6.2%
Net income (loss)	<u>\$ 12,520,689</u>	<u>4.9%</u>	<u>\$ (11,487,837)</u>	<u>-21.7%</u>
Less: Net loss attributable to non-controlling interests	(159,802)	-0.1%	(27,359)	-0.1%
Net income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 12,680,491</u>	<u>4.8%</u>	<u>\$ (11,460,478)</u>	<u>-21.8%</u>
Net income (loss)	<u>\$ 12,520,689</u>	<u>4.9%</u>	<u>\$ (11,487,837)</u>	<u>-21.7%</u>
Other comprehensive loss:				
Foreign currency translation loss	(605,899)	-0.2%	(66,887)	-0.1%
Net Comprehensive income (loss)	11,914,790	4.7%	(11,554,724)	-21.8%
Comprehensive loss attributable to noncontrolling interest	(159,802)	-0.1%	(27,359)	-0.1%
Net comprehensive income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 12,074,592</u>	<u>4.6%</u>	<u>\$ (11,527,365)</u>	<u>-21.9%</u>

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



**ZO SH HOLDINGS, INC.**  
**Consolidated Statements of Stockholders' Equity**  
**For the year ended December 31, 2021 and for the period from October 2, 2020 (inception) through December 31, 2020**

	Preferred Stock		Common Stock		Additional Paid-in-Capital	Retained Earnings/ Accumulated Deficit	Noncontrolling Interest in Consolidated Affiliate	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
<b>Balance - October 2, 2020</b>									
Capitalization of the Company	25,167,997	\$ 251,680	18,738,716	\$ 187,387	399,882,046	-	-	-	\$ 340,390,913
Share-based stock compensation	-	-	-	-	34,719,275	-	-	-	14,719,275
Return of capital	-	-	-	-	(117,091,831)	-	-	-	(117,091,831)
Net loss	-	-	-	-	-	(11,460,478)	(27,399)	-	(11,487,837)
Other comprehensive loss	-	-	-	-	-	-	-	(66,887)	(66,887)
<b>Balance - December 31, 2020</b>	<b>25,167,997</b>	<b>\$ 251,680</b>	<b>18,738,716</b>	<b>\$ 187,387</b>	<b>\$ 297,519,490</b>	<b>\$ (11,460,478)</b>	<b>\$ (27,399)</b>	<b>\$ (66,887)</b>	<b>\$ 226,403,613</b>
Share-based stock compensation	-	-	-	-	3,008,330	-	-	-	3,008,330
Exchangeable shares in a consolidated affiliate issued in connection with acquisition	-	-	-	-	(87,161)	-	3,765,000	-	3,765,000
Acquisitions of noncontrolling interest in ZO Skin Health France SAS	-	-	-	-	-	-	187,161	-	(900,000)
Net income	-	-	-	-	-	12,680,491	(159,802)	-	12,520,689
Other comprehensive loss	-	-	-	-	-	-	-	(605,899)	(605,899)
<b>Balance - December 31, 2021</b>	<b>25,167,997</b>	<b>\$ 251,680</b>	<b>18,738,716</b>	<b>\$ 187,387</b>	<b>\$ 299,840,659</b>	<b>\$ 1,220,013</b>	<b>\$ 3,765,000</b>	<b>\$ (672,798)</b>	<b>\$ 244,992,715</b>

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



## ZO SH HOLDINGS, INC.

### Consolidated Statements of Cash Flows

For the year ended December 31, 2021 and for the period from October 2, 2020 (inception) through December 31, 2020

	For the year ended December 31, 2021	For the period from October 2, 2020 (inception) through December 31, 2020
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 12,520,689	\$ (11,487,837)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Allowance for doubtful accounts	46,342	58,998
Amortization of inventory purchase accounting adjustment	473,000	3,013,346
Change in fair value of contingent consideration earnouts	26,099,792	-
Depreciation	912,467	175,125
Amortization of intangible assets	28,642,323	6,651,250
Amortization of goodwill	13,109,433	2,754,155
Amortization of debt issuance costs	605,072	3,315
Share-based stock compensation	3,008,330	14,719,275
Deferred income taxes	(12,004,154)	(6,035,827)
Change in assets and liabilities:		
Accounts receivable	(3,449,093)	(3,986,378)
Accounts receivable - related parties	48,188	19,643
Inventory	(11,855,212)	(9,461,792)
Prepaid expenses	(40,150)	421,181
Prepaid taxes	2,076,510	3,034,358
Other current assets	(150,030)	-
Deposits	(22,966)	(105,525)
Accounts payable	(4,070,622)	6,051,191
Accounts payable - related parties	84,031	(6,923)
Accrued expenses	1,031,213	8,308,948
Income taxes payable	(334,572)	-
Sales returns	(290,516)	37,034
Deferred revenue	(4,988,459)	9,933
Deferred rent	46,346	18,810
Other liabilities	(324,148)	230,816
Net cash flow provided by operating activities	<u>51,173,814</u>	<u>14,423,096</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,128,711)	(171,689)
Acquisition of ZO Skin Health, Inc., net of cash acquired	-	(237,562,054)
Acquisition of Hudlease AS, net of cash acquired	(4,683,000)	-
Acquisition of Mirza Alladina Medical Ltd, net of cash acquired	(2,694,000)	-
Acquisition of ZO Skin Health Limited, net of cash acquired	(12,000,000)	-
Acquisition of ZO Skin Health France SAS, net of cash acquired	(500,000)	-
Net cash flow used in investing activities	<u>(21,005,711)</u>	<u>(237,733,743)</u>

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



## ZO SH HOLDINGS, INC.

### Notes to the Consolidated Financial Statements December 31, 2021 and 2020

	<u>For the year ended December 31, 2021</u>	<u>For the period from October 2, 2020 (inception) through December 31, 2020</u>
<b>Cash flows from financing activities</b>		
Capitalization of the Company	\$ -	\$ 251,604,199
Debt issuance costs	-	(2,932,525)
Principal payments on capital leases	(152,691)	(35,967)
Proceeds from note payable	-	120,000,000
Principal payments on note payable	(6,000,000)	-
Return of capital	-	(117,091,831)
Net cash flow provided by (used in) financing activities	<u>(6,152,691)</u>	<u>251,543,876</u>
Effect of foreign exchange difference	1,172,558	-
<b>Net change in cash</b>	25,187,970	28,233,229
<b>Cash, beginning of period</b>	28,233,229	-
<b>Cash, end of period</b>	<u>\$ 53,421,199</u>	<u>\$ 28,233,229</u>
<b>Supplemental disclosure for cash flow information</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 4,513,645	\$ 9,538
Income taxes	<u>\$ 4,806,829</u>	<u>\$ 2,820,510</u>
<b>Supplemental disclosure for non-cash investing and financing activities</b>		
Earnouts issued in Hudhelse AS acquisition	<u>\$ 12,940,000</u>	<u>\$ -</u>
Earnouts issued in Mirza Alladina acquisition	<u>\$ 11,560,000</u>	<u>\$ -</u>
Earnouts issued in ZO Skin Health Limited acquisition	<u>\$ 3,888,000</u>	<u>\$ -</u>
Exchangeable Shares issued in Mirza Alladina acquisition	<u>\$ 3,766,000</u>	<u>\$ -</u>
Rollover equity consideration for ZO SH Health, Inc.	<u>-</u>	<u>\$ 88,726,714</u>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 1 - BUSINESS ACTIVITY**

ZO SH HOLDINGS, Inc. (the "Company" or "Successor") is a Delaware corporation formed on October 2, 2020. On the same date, the Company formed a wholly owned subsidiary, ZO SH Intermediate, Inc., which acquired ZO Skin Health, Inc. (the "Predecessor"). The acquisition of the Predecessor was accounted for under the acquisition method of accounting pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 805, *Business Combinations*. This included the initial recognition of most of the Company's assets and liabilities at fair value as of the acquisition date, and the recognition of intangible assets and goodwill calculated based on the terms of the transaction. These consolidated financial statements include information as of and for the year ended December 31, 2021, and as of December 31, 2020 and for the period from October 2, 2020 (inception) through December 31, 2020 (the "Successor").

The Company through its wholly and majority owned subsidiaries and clinics, develops and delivers innovative skincare solutions that optimize skin health around the globe. Utilizing cutting-edge science and Dr. Zein Obagi's extensive clinical experience creating treatments and regimens for healthy skin, the Company provides comprehensive skincare programs for physicians and their patients. Committed to advancing effective treatments for healthy skin, the Company supports physicians' practices through skin health seminars and clinical training, and patients through a variety of educational programs.

Principles of Consolidation

The accompanying consolidated financial statements include ZO SH Holdings, Inc. and its wholly and majority owned subsidiaries: ZO SH Intermediate, Inc., ZO Skin Health, Inc., OSHI Beverly Hills, Inc., OSHI Laguna, Inc., ZO Skin Centre Newport Beach, LLC, ZO Skin Centre Newport Beach, Inc., ZO Skin Centre Pasadena, Inc., ZO Skin Health Ireland, Ltd., ZO UK Services, Ltd., ZO Skin Health Ltd. (formerly known as Wigmore Aesthetics, Ltd.), ZO Skin Health France SAS, Hudhelse AS, Hudhelse Finland Ab, Hudhelse AS, Hudhelse Stockholm AB, and Mirza Alladina Medical Ltd. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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 revenue and expenses during the reporting periods. Areas which include significant estimates made by management include, but are not limited to, the collectability of accounts receivable, the realizable value of inventory, sales return liability, goodwill, intangible assets, allocation of purchase price in a business combination, deferred tax assets, share-based stock compensation, and the useful lives of property and equipment and intangible assets. Actual results could differ from those estimates.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Revenue Recognition

To determine the proper revenue recognition, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the performance obligation is satisfied. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

The vast majority of the Company's revenues are from product sales to customers, pursuant to purchase orders with short lead times. Revenues from product sales are recognized, net of estimated discounts and return allowances, when the customer obtains control of the product, which generally occurs at a point in time. The Company does not have significant obligations to the customer for future performance at the time of sale.

The Company uses a number of wholesale distributors around the world and recognizes revenue when the distributor obtains control of the product, which occurs at a point in time, typically upon shipment. Sales taxes, value added taxes and other taxes that are collected in connection with revenue transactions are withheld and remitted to the respective taxing authorities. As such, these taxes are excluded from net sales.

Shipping and handling fees that are billed to customers are recognized in net sales and the associated shipping and handling costs are recognized in cost of goods sold as soon as control of the goods transfers to the customer. The Company recognizes revenue at the point of sale on transactions with consumers at its clinic locations.

The Company entered into a joint development agreement with a third-party partner that utilizes the Company's products in a revenue sharing arrangement. Other revenues recorded representing the Company's share of the third-party partner's sales for the year ended December 31, 2021 and the period from October 2, 2021 through December 31, 2020, were \$507,434 and \$110,025, respectively, and are included in net sales.

The Company's domestic wholesale distributors are granted a right of return. The Company exited the domestic wholesale business in 2021, however returns continue to be processed. The amount of future returns can be reasonably estimated based upon the Company's historical experience for returns. As of December 31, 2021 and 2020, the Company had an estimated sales return liability in the amount of \$522,314 and \$812,830, respectively.

Revenues from gift cards are deferred and recognized when the cards are redeemed for product purchases. The Company's gift cards have no expiration date. The Company recognizes revenue from unredeemed gift cards, otherwise known as breakage, when the likelihood of redemption becomes remote and under circumstances that comply with any applicable state escheatment laws. To determine when redemption is remote, the Company analyzes an aging of unredeemed cards (based on the date the card was last used or the activation date if the card has never been used) and compares that information with historical redemption trends.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition (continued)

The Company uses this historical redemption rate to recognize breakage on unredeemed gift cards over the redemption period. Total breakage income recorded for the year ended December 31, 2021 and the period ended from October 2, 2020 to December 31, 2020 was \$7,576 and \$696, respectively. The current portion of deferred revenues related primarily to gift cards was \$189,160 and \$177,749 as of December 31, 2021 and 2020, respectively.

Accounts Receivable

The Company extends credit to certain customers. Collateral is not required. Credit losses are provided for in the consolidated financial statements based on management's evaluation of historical and current industry trends. Although the Company expects to fully collect amounts due, actual collections may differ from estimated amounts. As of December 31, 2021 and 2020, accounts receivable was recorded net of allowance for doubtful accounts of \$13,969 and \$58,998, respectively.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. Cost includes materials, fill and process fees. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The Company writes down its inventory, including estimated excess and obsolete inventory, to the estimated net realizable value based upon assumptions about future demand and market conditions.

As part of the Company's accounting for business combinations, the Company is required to value inventory acquired in the business combination at its net realizable value. The inventory adjustment is typically expensed within the first four months after completion of an acquisition. This step-up in basis and related expense has a negative effect on profitability. For the years ended December 31, 2021 and the period from October 2, 2020 through December 31, 2020, the impact on cost of goods sold of the acquired step-up in inventory basis was \$473,000 and \$3,013,346, respectively.

Investment

Investment consists of an option to receive a 25% ownership in UAE Skin Centres located in the United Arab Emirates in exchange for no consideration. This option is considered to be an investment. The Company determines the appropriate classification of its investments at the time of acquisition and reevaluates such classification at each balance sheet date. Investments that do not have readily determinable fair values are stated at cost, and are evaluated for changes in fair value if there is an observable price change in an orderly transaction for an identical or similar investment in accordance with ASU 2016-01 (Subtopic 825-10) "Recognition and Measurement of Financial Assets and Financial Liabilities." The Company monitors investments for impairment whenever events or changes in circumstances indicate that the investment's carrying value may not be recoverable. An impairment charge would be recognized when the carrying amount exceeds its fair value.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Non-controlling Interests

Prior to July 1, 2021, the Company had a 70% ownership interest in ZO Skin Health France SAS. On July 1, 2021, the Company acquired the remaining shares comprising the remaining 30% ownership for \$500,000. During the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2021, the Company recorded a net loss attributable to the non-controlling interest of \$159,802 and \$27,359, respectively.

On January 1, 2021, the Company acquired Mirza Alladina Medical Ltd and issued of 200,000 shares of an intermediary subsidiary of the Company ("Exchangeable Shares") that are exchangeable into shares of the Company's common stock a one for one basis (Note 3). The Exchangeable Shares are presented as noncontrolling interest in the accompanying balance sheets.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the following estimated useful lives of the various classes of property:

Machinery and equipment	3 to 5 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	Lesser of economic life or remaining term of lease
Capital leases	Lesser of economic life or remaining term of lease

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets in question may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset. The Company determined that no impairment existed as of December 31, 2021 and 2020.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Intangible assets include the following intangibles and the Company provides for amortization using the straight-line method over the following estimated useful lives of the various classes of intangibles:

Customer relationships	10 years
Patents	10 years
Trademarks	10 years

For the year ended December 31, 2021 and for the period ended December 31, 2020, amortization expense amounted to \$28,642,323 and \$6,651,250, respectively.

Goodwill

In accordance with FASB ASC Topic No. 350, "*Intangible-Goodwill and Other*," as modified by Accounting Standards Update ("ASU") No. 2014-02, goodwill is being amortized using the straight-line method over 10 years. For year ended December 31, 2021 and for the period ended December 31, 2020, amortization expense related to goodwill totaled \$13,109,433 and \$2,754,155, respectively.

Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. As no triggering event occurred during the year ended December 31, 2021 and 2020, management has determined that no impairment existed as of December 31, 2021.

Business Combinations

The Company accounts for acquisitions under the acquisition method of accounting in accordance with FASB ASC Topic 805, "*Business Combinations*". The Company includes the results of operations of the businesses that it acquires from the acquisition date forward. The Company allocates the purchase price of the acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The allocation of the purchase price is based on management's estimate of the fair values of the acquired assets and assumed liabilities using valuation techniques including income, cost and market approaches, which are level 3 measurements. These valuation techniques incorporate the use of expected future revenues, cash flows and growth rates as well as estimated discount rates commensurate with the risk involved. Trademarks are valued using the relief from royalty method. Customer relationships are valued using the excess earnings method. The goodwill arising from acquisitions consists largely of the synergies expected from combining the operations of the Company and the acquired entity. The excess of the purchase price over the fair values of identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination, and are expensed as incurred.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Foreign Currency Translation

Assets and liabilities of the Company's wholly owned and majority owned foreign subsidiaries are maintained in foreign currencies are translated into U.S. Dollars at the rate of exchange in effect at the close of the year. Income and expenses are translated at an average rate of exchange for the year. The aggregate effect of translating the consolidated financial statements is included in other comprehensive loss and for the year ended December 31, 2021 and the period ended December 31, 2020.

Transactions denominated in foreign currencies are recorded based on exchange rates at month end. Subsequent changes in exchange rates result in foreign currency transaction gains and losses. Realized gains or losses are recognized upon the settlement of the transactions and are reflected in selling, general, and administrative expenses as recognized foreign currency gains or losses.

Accumulated Other Comprehensive Loss

As of December 31, 2021 and 2020, accumulated other comprehensive loss consists of foreign currency translation losses of \$672,786 and \$66,887, respectively.

Deferred Rent

The Company recognized escalating rent provisions on a straight-line basis over the term of the leases resulting in deferred rent in the amount of \$523,856 and \$477,511 as of December 31, 2021 and 2020, respectively.

Fair Value of Financial Instruments

The estimated fair values of the Company's short-term financial instruments, including cash, accounts receivable, inventory, investments, accounts payable, accrued expenses, and note payable approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization, or are based on interest rates available to the Company that are comparable to the current market rates. It is not practical to estimate the fair value of accounts receivable-related parties and accounts payable-related parties due to their related party nature.

ASC Topic 820, Fair Value Measurements and Disclosures, applies to all financial assets and financial liabilities that are measured and reported on a fair value basis and requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 establishes a valuation hierarchy for disclosures of the inputs to valuations used to measure fair value.

This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates and yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 – Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

Research and Development

Research and development expenses are charged to expense as incurred. For the year ended December 31, 2021 and the period ended December 31, 2020, research and development expense was \$1,347,215 and \$423,753, respectively. This balance is included within selling, general, and administrative expenses of the statements of operations and comprehensive operations.

Costs of goods sold

Costs of goods sold consists of cost of product and related freight charges. Costs of goods sold excludes depreciation and amortization.

Advertising

Advertising expenses are charged to expense as incurred and is included within selling, general, and administrative expenses of the statements of operations and comprehensive operations. For the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020, advertising expense was approximately \$2,486,170 and \$459,181, respectively.

Income Taxes

Deferred taxes are provided using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some of the portion of the deferred tax assets will not be realized. No valuation allowance was deemed necessary as of December 31, 2021 and 2020. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes any uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2021 and 2020, there were no uncertain tax positions and for the years then ended, the Company did not incur any interest and penalties related to taxes.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company's tax years are subject to examination for 2021 and 2020 for U.S. federal and state tax purposes.

Share-based Stock Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of FASB ASC Topic No. 718, "Stock Compensation" ("ASC 718"). Share-based stock compensation costs is measured at the grant date, using the Black Scholes option pricing model, and is recognized over the requisite vesting period. Forfeitures are recognized as they occur.

Recently Announced Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use ("ROU") asset for substantially all leases. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The standard, as amended, is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. This ASU should be applied through a modified, retrospective transition approach for leases existing at-or entered into after-evaluation, at the beginning of the earliest comparative period presented in the consolidated financial statements. The Company's is currently evaluating the impact of the new standard and management expects the new guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326)." The standard introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses and will apply to trade receivables. The new guidance will be effective for the Company's annual and interim periods beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this update remove exceptions to the general principles in Topic 740 for intraperiod tax allocation, changes in tax law, step-up tax basis of goodwill, accounting basis differences stemming from an ownership change in foreign investments, separate entity financial statements and franchise taxes that are partially based on income. The Company will adopt this guidance on January 1, 2022 as it is a private company and it is not expected to have an impact on the Company's consolidated financial statements.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In March 2020, the FASB issued ASU No. 2020-04 *Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, that provides optional relief to applying reference rate reform to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR), which will be discontinued by the end of 2021. Also, in January 2021, the FASB issued ASU No. 2021-01 *Reference Rate Reform (Topic 848)—Scope*, to clarify that cash flow hedges are eligible for certain optional expedients and exceptions for the application of subsequent assessment methods to assume perfect effectiveness as previously presented in ASU 2020-04. The amendments in this update are effective for the Company immediately and may be applied through December 31, 2022. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Other accounting standards updates not effective until after December 31, 2021 are not expected to have a material effect on the Company's consolidated financial position or results of operations.

**NOTE 3 – BUSINESS COMBINATION**

Hudhelse AS

On January 1, 2021, the Company purchased a 100% interest in Hudhelse AS ("Hudhelse"), a distributor, for \$7,697,000 and a 3 year earn-out with a payout of 450,000 to 800,000 shares of common stock, pending on achievement of performance conditions and compliance with post-closing covenants. In the event a change of control occurs prior the end of the 3 year period, the earnout will be paid at the date of a change of control with a payout based on performance targets defined in the agreement. Earnouts were measured using a Monte Carlo option pricing model, which is a level 3 measurement. The acquisition of the interests in Hudhelse AS is intended to allow the Company to grow and expand its product offerings to customers internationally.

Total consideration paid included the following:

Cash	\$ 7,697,000
Earnout	12,940,000
Total Consideration	<u>20,637,000</u>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 3 – BUSINESS COMBINATION (continued)**

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, which are level 3 measurements:

<b>Assets acquired</b>	
Cash	\$ 3,014,000
Accounts receivable	307,174
Inventory	1,230,016
Other current assets	537,885
Fixed assets	131,743
Customer relationships	8,110,000
Goodwill	11,775,686
Total assets acquired	<u>25,106,504</u>
<b>Liabilities assumed</b>	
Accounts payable	164,035
Accrued liabilities	1,156,767
Deferred tax liabilities	1,670,660
Other liabilities	1,144,817
Income tax payable	333,225
<b>Net assets acquired</b>	<u>20,637,000</u>

Mirza Alladina Medical Ltd

On January 1, 2021, the Company purchased a 100% interest in Mirza Alladina Medical Ltd. ("Alladina") for \$3,000,000 and the issuance of 200,000 shares of an intermediary subsidiary of the Company ("Exchangeable Shares") that are exchangeable into shares of the Company's common stock and a 3 year earn-out with a payout of 400,000 to 800,000 additional Exchangeable Shares. Issuance of the Exchangeable Shares subject to the earnout is dependent on achievement of performance conditions and compliance with post-closing covenants. The Exchangeable Shares are exchangeable into shares of the Company's common stock on a one for one basis upon the occurrence of certain conditions, including the occurrence of a change of control. The 200,000 Exchangeable Shares were measured at the fair value of the Company's shares on the date of issuance and are presented as noncontrolling interest in the accompanying balance sheets. Earnouts were measured using a Monte Carlo option pricing model, which is a level 3 measurement. The acquisition of the interests in Mirza Alladina Medical Ltd. will allow the Company to grow and expand its product offerings to customers internationally.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 3 – BUSINESS COMBINATION (continued)**

Total consideration paid included the following:

Cash	\$ 3,000,000
Exchangable shares in consolidated entity	3,766,000
Earnout	11,560,000
Total consideration	<u>18,326,000</u>

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, which are level 3 measurements:

<b>Assets acquired</b>	
Cash	\$ 306,000
Accounts receivable	1,988,440
Inventory	1,987,227
Fixed assets	7,844
Customer relationships	7,320,000
Goodwill	10,432,343
Total assets acquired	<u>22,041,854</u>
<b>Liabilities assumed</b>	
Accounts payable	315,229
Accrued liabilities	163,721
Deferred tax liabilities	1,106,368
Other liabilities	2,130,536
<b>Net assets acquired</b>	<u>18,326,000</u>

ZO Skin Health Limited

On July 1, 2021, the Company purchased a 100% interest in ZO Skin Health Limited ("ZO Skin Health Limited") (formerly known as Wigmore Aesthetics, Ltd), a distributor, for \$12,000,000, in cash, and a 3 year earn-out with a payout of 141,509.43 to 339,622.64 shares of common stock, depending on achievement of performance conditions and compliance with post-closing covenants. In the event a change of control occurs prior the end of the 3 year period, the earnout will be paid at change of control with a payout depending on the achievement of performance conditions defined in the agreement.

Earnouts were measured using a Monte Carlo option pricing model, which is a level 3 measurement. The acquisition of the interests in ZO Skin Health Limited is intended to allow the Company to grow and expand its product offerings to customers internationally.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 3 – BUSINESS COMBINATION (continued)**

Total consideration paid included the following:

Cash	\$ 12,000,000
Earnout	3,888,000
Total consideration	<u>15,888,000</u>

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, which are level 3 measurements:

<b>Assets acquired</b>	
Customer relationships	\$ 9,722,000
Goodwill	8,078,066
Total assets acquired	<u>17,800,066</u>
<b>Liabilities assumed</b>	
Deferred tax liabilities	<u>1,912,066</u>
<b>Net assets acquired</b>	<u>15,888,000</u>

ZO Skin Health, Inc.

On October 2, 2020, an outside investor paid \$251,604,199 cash to acquire preferred shares in the Company, which represents a 56% interest in the ZO SH Holdings, Inc. Contemporaneously, the Company rolled over the equity of ZO Skin Health, Inc. for the remaining 44% of the stock in ZO SH Holdings, Inc.

The following total consideration paid included cash and roll over equity for ZO Skin Health, Inc.:

Cash	\$ 251,604,199
Rollover equity	88,726,714
Unpaid working capital adjustments	4,321,000
Total consideration	<u>344,651,913</u>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 3 – BUSINESS COMBINATION (continued)**

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, which are level 3 measurements:

<b>Assets acquired</b>	
Cash	\$ 14,042,145
Accounts receivable	9,557,838
Inventory	19,019,374
Other current assets	10,064,738
Fixed assets	2,920,872
Investment	5,275,057
Other long term assets	559,227
Tradename	75,050,000
Existing patented technology	4,600,000
Customer relationships	186,400,000
Goodwill	106,079,670
Total assets acquired	<u>433,568,921</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued expenses	15,613,833
Deferred tax liabilities	67,379,743
Deferred revenue	5,167,816
Other long term liabilities	755,616
<b>Net assets acquired</b>	<u>344,651,913</u>

The fair value of the trade name and patents was determined using the relief-from-royalty method, which is based on an income approach and considered to be Level 3 inputs in the fair value hierarchy. The fair value of the customer relationships was determined using the multi-period excess earnings method, which is based on an income approach and considered to be Level 3 inputs in the fair value hierarchy. Significant assumptions used in the valuation include the projected revenue over the period of the expected cash flows, royalty rate based on market participant royalty rates, and discount rates based on an assessment of the relative risk of the cash flows and the Company's overall cost of capital. The fair value of all other assets and liabilities assumed were determined to approximate their carrying value as of the closing. The goodwill balance is primarily attributed to the anticipated synergies from the acquisition and expanded market opportunities in the skincare space. The goodwill is not deductible for tax purposes.

During the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020, the Company incurred transaction costs of \$839,288 and \$4,300,000, respectively, in connection with the change in ownership and acquisition related costs, which were expensed as incurred and included in general and administrative expenses.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 4 - CONCENTRATIONS OF RISK**

Cash

The Company maintains its cash balances in financial institutions which, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation up to \$250,000 for non-interest and interest-bearing accounts. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. As of December 31, 2021, the Company maintained deposits totaling approximately \$53,169,199 in excess of federally insured amounts.

Customers

As of December 31, 2021 and 2020, one and two customers accounted for approximately 20% and 30% of accounts receivable, respectively.

For the year ended December 31, 2021 and the period ended December 31, 2020, approximately 43% and 42% of net sales and approximately 85% and 87% of accounts receivable respectively were related to customers outside the United States.

Suppliers

For the year ended December 31, 2021 and the period ended December 31, 2020, two suppliers represented approximately 20% and 29% of purchases, respectively. As of December 31, 2021 and 2020, two and three suppliers represented approximately 32% and 55% of accounts payable, respectively.

**NOTE 5 - INVENTORY**

Inventory consisted of the following as of December 31:

	2021		2020
Finished goods	\$ 30,818,698	\$	13,210,479
Raw materials	9,215,187		12,257,341
<b>Total</b>	<b>\$ 40,033,885</b>	<b>\$</b>	<b>25,467,820</b>

**NOTE 6 – GOODWILL AND INTANGIBLE ASSETS**

During the year ended December 31, 2021 and the period ended December 31, 2020, goodwill increased \$30,286,095 and \$106,079,670, respectively, in connection with business combinations. This increase in goodwill was also impacted by changes in foreign currency rates period over period resulting in a \$3,101 increase in goodwill.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 6 – GOODWILL AND INTANGIBLE ASSETS (continued)**

Goodwill and intangible assets consisted of the following as of December 31:

<b>2021</b>	Gross Carrying Amount	Accumulated Amortization	Net Balance
Goodwill and intangible assets subject to amortization:			
Goodwill	\$ 136,368,866	\$(15,991,447)	\$ 120,377,419
Customer relationships	\$ 211,446,004	\$ (25,326,589)	\$ 186,119,415
Patents	4,600,000	(575,000)	4,025,000
Trademarks	75,050,000	(9,381,250)	65,668,750
<b>Total</b>	<b>\$ 291,096,004</b>	<b>\$ (35,282,839)</b>	<b>\$ 255,813,165</b>

<b>2020</b>	Gross Carrying Amount	Accumulated Amortization	Net Balance
Goodwill and intangible assets subject to amortization:			
Goodwill	\$ 106,079,670	\$ (2,754,155)	\$ 103,325,515
Customer relationships	\$ 186,400,000	\$ (4,660,000)	\$ 181,740,000
Patents	4,600,000	(115,000)	4,485,000
Trademarks	75,050,000	(1,876,250)	73,173,750
<b>Total</b>	<b>\$ 266,050,000</b>	<b>\$ (6,651,250)</b>	<b>\$ 259,398,750</b>

As of December 31, 2021, future amortization of the \$120,377,419 in goodwill and \$255,813,165 in intangible assets are as follows:

Year Ending December 31:	Goodwill	Intangibles
2022	\$ 13,636,887	\$ 29,109,600
2023	13,636,887	29,109,600
2024	13,636,887	29,109,600
2025	13,636,887	29,109,600
2026	13,636,887	29,109,600
Thereafter	52,192,986	110,265,165
<b>Total</b>	<b>\$ 120,377,419</b>	<b>\$ 255,813,165</b>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 7 - ACCRUED EXPENSES**

As of December 31, 2021 and 2020, accrued expenses consisted of the following:

	2021	2020
Payroll and related benefits	\$ 5,347,232	\$ 6,492,743
Inventory received but not paid for	1,020,823	3,372,357
Other expenses	8,820,785	7,321,344
Accrued royalties	1,435,738	1,037,403
Affiliate commissions	416,805	869,763
Taxes payable	4,293,807	-
Customer deposits	112,695	64,512
<b>Total</b>	<b>\$ 21,447,885</b>	<b>\$ 19,158,122</b>

**NOTE 8 - DEFERRED REVENUE**

Distribution Agreement

The Predecessor entered into a distribution agreement with an entity incorporated in Hong Kong whereby this entity is to become the exclusive distributor of the Company's skin care products for the People's Republic of China for a period of five years. The Predecessor received a non-refundable deposit payment for goods to be shipped in the future in the amount of \$5,000,000, in connection with a memorandum of understanding executed prior to the execution of the distribution agreement. Accordingly, the amount received was recorded as deferred revenue. As of December 31, 2020, the Company recorded deferred revenue of \$5,000,000 in noncurrent liabilities in the accompanying consolidated balance sheet. For the year ended December 31, 2021, the Company recognized the \$5,000,000 as revenue as the agreement was terminated.

**NOTE 9 - LINE OF CREDIT**

On December 29, 2020, the Company entered a line of credit agreement with a bank that allows the Company to borrow a maximum of \$30,000,000. In connection with the line of credit, the Company may have letters of credit, a maximum up to \$1 million, issued at terms and conditions acceptable to the lender and issuer. The line is secured by all of the Company's assets. Advances bear interest at a variable rate and is also subject to commitment fees, as defined by the agreement. As of December 31, 2021, the base rate was 4.75%, with 1 month rate at 2.6045%, 3 month rate at 2.7238%, and 6 month rate at 2.8544%. As of December 31, 2021 and 2020, the Company did not have a balance outstanding on the line of credit. The line matures November 2, 2025. The line of credit agreement contains certain financial and nonfinancial covenants. As of December 31, 2021, the Company was in compliance with the financial and nonfinancial covenants.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 10 – NOTE PAYABLE**

On December 29, 2020, the Company entered into a note payable with a bank in the amount of \$120,000,000. The note payable is secured by all of the Company's assets. The note payable has a variable interest rate as defined by the agreement. As of December 31, 2021, the variable interest rate was 3.0%. The Company must make quarterly principal payments of \$1,500,000, plus outstanding interest through December 2023, and then quarterly principal payments of \$2,250,000, plus outstanding interest through September 2025. On November 2, 2025, the note payable matures and all remaining outstanding principal and interest is due at that time. As of December 31, 2021, the Company was in compliance with the financial and nonfinancial covenants, or had obtained a waiver for non-compliance.

The Company paid \$2,932,525 during the period from October 2, 2020 to December 31, 2020 for debt issuance costs, which are reflected as a discount on the Company's Note Payable. Debt issuance cost amortization amounted to approximately \$605,072 and \$3,315 for the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020, respectively. As of December 31, 2021 and 2020, notes payable consisted of the following:

	<b>2021</b>	<b>2020</b>
Note Payable	\$ 114,000,000	\$ 120,000,000
Less: Debt issuance costs	(2,324,138)	(2,929,210)
Total outstanding	<u>111,675,862</u>	<u>117,070,790</u>
Less: current portion	(6,000,000)	(6,000,000)
Long-term portion, net of debt issuance costs	<b><u>\$ 105,675,862</u></b>	<b><u>\$ 111,070,790</u></b>

Future debt payments are as follows:

Year Ending December 31,	
2022	\$ 6,000,000
2023	6,000,000
2024	9,000,000
2025	93,000,000
<b>Total</b>	<b><u>\$ 114,000,000</u></b>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 11 - RELATED PARTY TRANSACTIONS**

License Agreement

The Predecessor entered into a license agreement with a related party as of January 1, 2012 that provides for a royalty of 5.00% on net sales of trademarked products. On January 1, 2016, the license agreement was amended to reduce the royalty rate to 1% effective January 1, 2016, increasing to the 2% effective January 1, 2017 until the sum of the 2% royalty equals \$6,036,540, at which time the royalty rate shall be reduced to 1% of net sales of the trademarked products.

On November 16, 2018, the license agreement was amended to waive the royalty rate from May 1, 2017 through March 31, 2019 and thereafter being discounted to 2% of net sales until the sum of the 2% royalty equals \$12,249,625, at which time the royalty rate shall be reduced to 1% of net sales of the trademarked products.

On September 30, 2020, all trademark rights under the license agreement were contributed to the Predecessor in exchange for the contribution royalty obligation period. All trademark rights are fully owned by the Predecessor. As of December 31, 2021 and 2020, \$4,662,942 and \$2,638,197 has been paid out under the contribution agreement respectively, and the Company had accrued royalties outstanding of \$1,435,738 and \$1,037,403 which is included in accrued expenses as of December 31, 2021 and 2020, respectively. Royalty expense for the year ended December 31, 2021 and the period ended December 31, 2020 was approximately \$5,061,276 and \$1,037,403, respectively.

General Related Party Activity

As of December 31, 2021, the Company held \$0 and \$793 in employee receivables and other related party receivables, respectively. As of December 31, 2020, the Company held \$2,429 and \$35,817 in employee receivables and other related party receivables, respectively. These amounts are included in accounts receivable – related parties on the accompanying consolidated balance sheets.

As of December 31, 2021, the Company owed \$4,378 and \$102,543 to shareholders of the Company and other related parties, respectively. As of December 31, 2020, the Company owed \$4,378 and \$18,511 to shareholders of the Company and other related parties, respectively. These amounts are included in accounts payable - related parties on the accompanying consolidated balance sheets.

During the year ended December 31, 2021, the Company incurred approximately \$1,847,000 and \$120,000 of related party expenses related to rent and consulting, respectively. During the period ended December 31, 2020, the Company incurred approximately \$470,000 and \$40,000 of related party expenses related to rent and consulting, respectively.

During the year ended December 31, 2021 and the period ended December 31, 2020, the Company earned approximately \$259,000 and \$42,000 in revenue from related parties, respectively.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 12 - EQUITY**

Preferred Stock

The Company is authorized to issue 50,000,000 shares of preferred stock with a par value of \$0.01 per share. As of December 31, 2021 and 2020, 25,167,997 shares of preferred stock were issued and outstanding. The preferred shares have an annual return of 8% which is accumulated in arrears. If the fair value of the equity exceeds the liquidation preference of 8%, then preferred stockholders and common stockholders will share in the fair value on a pro-rata basis without regard to the 8% preference.

Common Stock

The Company is authorized to issue 50,000,000 shares of common stock with a par value of \$0.01 per share. As of December 31, 2021 and 2020, 18,718,716 shares of common stock were issued and outstanding, respectively. The common stock carries voting privileges. In addition, as of December 31, 2021, the Company was authorized to issue 200,000 exchangeable shares and up to 1,939,623 earn-out shares.

Share-Based Stock Compensation

On December 28, 2020, the Company adopted the ZO Skin Health, Inc. 2020 Omnibus Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for incentive and non-qualified stock options for employee directors, nonemployee directors and consultants, and the Company's subsidiaries and affiliates, based on a proprietary interest on the long-term success of the Company or compensation based on fulfilling certain performance goals.

The Board of Directors reserved a total of 4,448,246 shares of Common Stock to be available for grant under the Incentive Plan. As of December 31, 2021, the Company issued an aggregate of 4,071,711 options. Options may be granted under the Incentive Plan for terms of up to 10 years, except for incentive stock options granted to 10% Stockholders, which are limited to five-year terms, from the date of grant, as determined by the Board of Directors.

The Company issues both Time Based Options and Exit Based Options. Time Based Options vest in five equal annual tranches, subject to an employee's continued service through each vesting date, and expense is recorded straight line over the vesting period. All unvested Time-Based Options will vest on a change in control. Exit-Based Options vest upon a change of control of the Company or an IPO where a multiple of invested capital ("MOIC") is realized. Fifty percent of the Exit-Based Options will vest upon realizing an MOIC of 1.5x and 50% of the Exit-Based Options will vest on the basis of linear interpolation if the MOIC is between 1.5 to 2.5x. Exit-Based Options are subject to the employees' continued service on the relevant transaction date. There was no expense recorded for the year ended December 31, 2021 or the period from October 2, 2020 to December 31, 2020 related to the Exit-Based Options as vesting was not considered to be probable.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
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**NOTE 12 – EQUITY (continued)**

The Company recognizes forfeitures as they occur. The fair values of options were estimated using the Black-Scholes option-pricing model at their respective grant date using the following assumptions:

	<u>2021</u>	<u>2020</u>
Risk-free interest rate	0.22%	0.48%
Expected term (in years)	2.85	3.01
Expected volatility	55.0%	55.0%
Expected dividend yield	0.00%	0.00%
Weighted-average grant date fair value per share	\$ 17.21	\$ 11.89

To estimate the value of the Company's shares at the date of the grants, the Company uses both an income approach and a market approach. The total fair value of Time-Based Options granted during the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020 was \$1,756,322 and \$19,621,642, respectively. The total fair value of Exit Based Options granted during the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020 was \$2,342,154 and \$25,210,800, respectively.

Stock option activity during the periods indicated is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercised Price</u>
Outstanding at October 2, 2020	-	\$ -
Granted	3,771,711	11.89
Vested	(1,131,747)	13.01
Cancelled	-	-
Outstanding at December 31, 2020	<u>2,639,964</u>	\$ 11.41
Granted	300,000	17.21
Vested	(228,701)	13.15
Cancelled	-	-
Outstanding at December 31, 2021	<u>2,711,263</u>	\$ 11.51

Total compensation expense recognized was \$3,008,330 and \$14,719,275 for the year ended December 31, 2021 and the period from October 2, 2020 to December 31, 2020, respectively. At December 31, 2021, the Company had \$3,650,360 of total unamortized compensation expense related to non-vested Time Based Options which is expected to be recognized over a weighted-average period of 3.55 years. At December 31, 2021, the Company had \$27,552,954 of total unamortized compensation expense related to non-vested Exit Based Options which will be recognized when vesting becomes probable.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
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**NOTE 12 – EQUITY (continued)**

Change in Control

As part of the acquisition of the Predecessor, the Company entered into an employment agreement with three executive officers that provides for compensation, incentives, benefits, stock options, purchase on intellectual property and business expense reimbursements. The agreement shall continue without interruption for a period of time, unless terminated earlier in accordance with the employment agreement. In the event of termination of the employment agreement with the executive officer due to death, disability or without cause as defined in the agreement, the executive officer is entitled to receive a base salary and bonus incentive compensation through the date of termination, payable within the 30 days following such termination date, as defined in the agreement.

Pursuant to the terms of these employment agreements, these executive officers are eligible to receive a payment equal to the fair market value of 1,090,000 shares of the Company's common stock (the "CIC Bonus"), payable on the effective date of the first Change of Control, as defined in the employment agreements, and subject to employees' employment with the Company on such date. There was no expense recorded for the year ended December 31, 2021 or the period from October 2, 2020 to December 31, 2020 related to the CIC Bonus as vesting was not considered to be probable.

As part of the acquisition of ZO Skin Health Limited, the Company created an incentive plan for employees that are instrumental to the success of an ongoing strategic project to grow the Company's European EBITDA. The plan pays out to participants on the earlier of (i) a change of control in the Company; or (ii) December 31, 2023. The payout is contingent on the employee participant being employed at the time of payout. The payout is calculated as the amount of the Company's EBITDA in certain European markets during the 4 calendar quarters preceding the change of control event less the amount of the Company's EBITDA in those markets during the period of July 1, 2020 to June 30, 2021. Four employees have been awarded a share of the payout and 10% of the payout remains unallocated. As of December 31, 2021 and 2020, the accrual for the incentive plan was \$658,011 and \$0 and included in Other Long-term Liabilities in the accompanying balance sheets.

Earnout Shares

During the year ended December 31, 2021, the Company issued earnout shares to various affiliates in connection to the 2021 acquisitions (Note 3). These earnout shares are common stock that may be issued upon satisfaction of certain earnout thresholds pursuant to the Share Purchase Agreement by and among ZO Skin Health, Inc. As of December 31, 2021, the Company could issue up to 1,939,623 shares related to these earnouts. The fair value of the contingent consideration is measured at the estimated fair value using a Monte Carlo simulation analysis, which is a level 3 measurement. During the year ended December 31, 2021, the Company recorded an increase of \$26,099,792 to contingent consideration, which was recorded within selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive operations. At December 31, 2021, contingent consideration totals \$54,265,543 recorded as contingent consideration from acquisitions in the consolidated balance sheets.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
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**NOTE 13 - INCOME TAXES**

The net benefit from income taxes consisted of the following:

	<b>For the year ended December 31, 2021</b>	<b>For the period from October 2, 2020 through December 31, 2020</b>
Current:		
Federal	\$ 7,917,846	\$ 2,219,074
State	1,767,717	552,702
Foreign	1,260,939	
Total	<u>10,946,502</u>	<u>2,771,776</u>
Deferred:		
Federal	(5,656,976)	(4,830,826)
State and local	(5,975,335)	(1,205,001)
Foreign	(371,843)	
Total	<u>(12,004,154)</u>	<u>(6,035,827)</u>
Benefit from income taxes	<u>\$ (1,057,652)</u>	<u>\$ (3,264,051)</u>



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
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**NOTE 13 - INCOME TAXES (continued)**

The tax effect of temporary differences that gives rise to significant portions of the deferred tax assets (liabilities) are as follows as of December 31:

	2021	2020
Allowance for doubtful accounts	\$ -	\$ 16,983
Accrued vacation	-	150,267
Accrued interest	-	49,904
Accrued payroll taxes	-	239,245
Accrued expenses	(420,347)	6,803
Unicap	-	349,474
Accrued royalty	-	297,650
Reserve for inventory	452,584	357,186
Sales returns allowance	-	22,549
Deferred rent	-	139,476
State tax	-	(56,933)
Property and equipment	(957,319)	(1,057,111)
Inventory	-	(790,917)
Intangibles	(58,674,972)	(66,665,734)
Stock options	4,390,694	4,070,915
Deferred revenue	-	1,526,325
UNICAP	523,589	-
Other deferred tax assets	623,264	-
Deferred tax liabilities (net)	<u>\$ (54,062,507)</u>	<u>\$ (61,343,918)</u>

**NOTE 14 - 401(K) PROFIT SHARING PLAN**

The Company has a qualified 401(k) Profit Sharing Plan (the "Plan") covering substantially all full-time employees. Contributions to the Plan are at the discretion of management. For the year ended December 31, 2021 and the period ended December 31, 2020, employer contributions to the Plan were \$943,734 and \$237,146, respectively.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

Employment Contracts

In addition, the Company has made contractual commitments to certain officers and other employees providing for severance payments, including salary continuation, upon the termination of employment by the Company without substantial cause or by the officer for good reason or non-renewal. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interest, the contracts also generally provide for certain protections in the event of a change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, and bonuses upon the termination of employment following a change in control (note 12).



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
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**NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)**

Leases

The Company leases warehouse, office space and office equipment under several non-cancelable operating leases that expire at various dates through December 31, 2028, which require minimum monthly payments of approximately \$529,000. Certain leases provide for annual rental increases. Some of these leases are with related parties. For the year ended December 31, 2021 and the period ended December 31, 2020, rental expense was \$3,179,828 and \$714,609, respectively.

Operating Leases

As of December 31, 2021, future minimum rental payments required under operating leases with related parties are as follows:

Year ending December 31,		
2022	\$	1,830,000
2023		1,870,000
2024		1,910,000
2025		1,790,000
2026		1,320,000
Thereafter		2,720,000
<b>Total</b>	<b>\$</b>	<b>11,440,000</b>

As of December 31, 2021, future minimum rental payments required under operating leases with third parties are as follows:

Year ending December 31,		
2022	\$	484,000
2023		438,000
2024		413,000
2025		255,000
2026		152,000
<b>Total</b>	<b>\$</b>	<b>1,742,000</b>

Litigation

From time to time, the Company is involved in litigation matters relating to claims arising out of the ordinary course of business. The Company's management believes no claims or actions are pending or threatened against the Company that, individually or in the aggregate, would have a material adverse effect on the Company's operations, financial position or cash flows.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

**NOTE 16 – CAPITAL LEASE OBLIGATIONS**

The Company leases certain furniture and equipment under capital lease arrangements. The lease term runs through February 2024.

Future minimum capital lease payments as of December 31, 2021 are:

Year ending December 31,		
2022	\$	167,815
2023		178,041
2024		30,533
Total minimum lease payments		376,389
Less current portion of obligations under capital leases		(167,815)
Capital lease obligations excluding current portion	\$	<u>208,574</u>

As of December 31, 2021, the gross amount of furniture and fixtures and related accumulated amortization recorded under capital leases is as follows:

Furniture and fixtures	\$	497,354
Less: accumulated depreciation		(181,959)
<b>Total</b>	\$	<u>315,395</u>

Amortization of assets held under capital leases is included within depreciation expense.

**NOTE 17 - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events after the balance sheet date of December 31, 2021 through June 29, 2022, the date the consolidated financial statements were available to be issued. Based upon its evaluation, management has determined that no material subsequent events have occurred that would require recognition in the accompanying consolidated financial statements or disclosure in the notes thereto except as follows:

On February 1, 2022, the Company purchased a 100% interest in SCM Products Inc. ("SCM"), a distributor, for \$5,976,152, 50% paid at closing on February 1, 2022 and the remaining 50% (the "SCM Contingent Amount") to be paid in three equal installments on each of the first, second and third anniversary dates thereof subject to compliance with certain post-closing covenants. Subject to compliance with such post-closing covenants, payment the SCM Contingent Amount will accelerate upon the occurrence of a change of control of the Company occurring prior to January 31, 2025.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**NOTE 17 - SUBSEQUENT EVENTS (continued)**

On April 1, 2022, the Company purchased 100% of the interests in JC Imp B.V. and De Huidacademie (collectively, "JC Imp"), a distributor, for \$4,885,429 and an earn-out of up to \$4,694,058 to be paid in three equal installments on each of the first, second and third anniversary dates of closing contingent upon achievement of performance conditions and compliance with certain post-closing covenants. Subject to achievement of the performance conditions and compliance with such post-closing covenants, payment the earn-out will accelerate upon the occurrence of a change of control of the Company occurring prior to March 31, 2025.



**ZO SH HOLDINGS, INC.**

Notes to the Consolidated Financial Statements  
December 31, 2021 and 2020

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**Supplementary Information**



**ZO SH HOLDINGS, INC.**  
**Supplementary Consolidated Statements of Operations and Comprehensive Operations**  
**For the periods from January 1, 2020 through October 1, 2020 and**  
**October 2, 2020 (inception) through December 31, 2020**

	12/31/2020	
	Predecessor For the period from January 1, 2020 through October 1, 2020	Successor For the period from October 2, 2020 (inception) through December 31, 2020
Net sales	\$ 106,651,756	\$ 52,801,383
Cost of goods sold	27,573,364	16,978,197
Gross profit	79,078,392	35,823,186
Selling, general and administrative expenses	76,323,324	40,985,007
Depreciation and amortization	1,588,461	9,580,529
Income (loss) from operations	1,166,607	(14,742,350)
Interest expense	547,234	9,538
Income (loss) before provision for income taxes	619,373	(14,751,888)
Benefit from income taxes	(380,128)	(3,264,051)
Net income (loss)	<u>\$ 999,501</u>	<u>\$ (11,487,837)</u>
Net loss attributable to non-controlling interests	-	(27,359)
Net income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 999,501</u>	<u>\$ (11,460,478)</u>
Net income (loss)	<u>\$ 999,501</u>	<u>\$ (11,487,837)</u>
Other comprehensive loss:		
Foreign currency translation loss	(190,049)	(66,887)
Net comprehensive income (loss)	<u>\$ 1,189,550</u>	<u>\$ (11,554,724)</u>
Comprehensive loss attributable to non-controlling interests	-	(27,359)
Net comprehensive income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 1,189,550</u>	<u>\$ (11,527,365)</u>

See independent auditors' reports.



**ZO SH HOLDINGS, INC.**  
**Supplementary Consolidated Statements of Stockholders' Equity**  
**For the periods from January 1, 2020 through October 1, 2020 and**  
**And October 2, 2020 (inception) through December 31, 2020**

	Series A Common Stock		Series B Common Stock		Non-voting Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest in Consolidated Affiliate	Other Accumulated Comprehensive Income	Stockholders' Equity
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
<b>Balance - January 1, 2020</b>	6,357,598	\$ 636	3,025,000	\$ 303	333,056	\$ 6,000,000	\$ 18,921,164	\$ (9,196,699)	\$ -	\$ (46,376)	\$ 15,679,118
Share-based stock compensation	-	-	-	-	-	-	27,947,070	-	-	-	27,947,070
Options exercised	134,981	135	20,000	2	-	-	4,312,370	-	-	-	4,512,667
Net income	-	-	-	-	-	-	-	1,189,550	(190,049)	-	999,501
Other accumulated comprehensive income	-	-	-	-	-	-	-	-	-	(5,371)	(5,371)
<b>Balance - October 1, 2020</b>	6,492,579	\$ 771	3,045,000	\$ 305	333,056	\$ 6,000,000	\$ 50,780,594	\$ (8,007,059)	\$ (190,049)	\$ (51,747)	\$ 48,532,775

	Preferred Stock		Common Stock		Additional Paid-in-Capital		Accumulated Deficit	Noncontrolling Interest in Consolidated Affiliate	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance - October 2, 2020</b>	25,167,997	\$ 251,680	18,718,716	\$ 187,187	339,892,046	\$ -	\$ -	\$ -	\$ -	\$ 340,330,913
Capitalization of the Company	-	-	-	-	14,719,275	-	-	-	-	14,719,275
Share-based stock compensation	-	-	-	-	(117,091,831)	-	-	-	-	(117,091,831)
Return of capital	-	-	-	-	-	-	(27,359)	-	-	(11,487,837)
Net loss	-	-	-	-	-	-	(11,460,478)	-	-	(11,487,837)
Other comprehensive loss	-	-	-	-	-	-	-	(66,887)	(66,887)	(66,887)
<b>Balance - December 31, 2020</b>	25,167,997	\$ 251,680	18,718,716	\$ 187,187	\$ 237,519,490	\$ (11,460,478)	\$ (27,359)	\$ (66,887)	\$ (66,887)	226,403,633

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**ZO SH HOLDINGS, INC.**  
Supplementary Consolidated Statements of Operations

	Predecessor	Successor
	For the period from January 1, 2020 through October 1, 2020	For the period from October 2, 2020 (inception) through December 31, 2020
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 999,501	\$ (11,487,837)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Allowance for doubtful accounts	59,329	58,998
Amortization of inventory purchase accounting adjustment	-	3,013,346
Depreciation	617,839	175,125
Amortization of intangible assets	622,879	6,651,250
Amortization of goodwill	290,169	2,754,155
Amortization of debt issuance costs	-	3,315
Share-based stock compensation	27,347,070	14,719,275
Loss from disposal of intangible assets	6,322	-
Deferred income taxes	460,139	(6,035,827)
Change in assets and liabilities:		
Accounts receivable	(2,767,579)	(3,986,378)
Accounts receivable - related parties	5,393	19,643
Inventory	593,399	(9,461,792)
Prepaid expenses	(1,657,867)	421,181
Prepaid taxes	(5,872,921)	3,034,358
Deposits	1,931	(105,525)
Accounts payable	831,513	6,051,191
Accounts payable - related parties	(11,368)	(6,923)
Accrued expenses	(3,185,190)	8,308,948
Sales returns	145,829	37,034
Deferred revenue	(86,454)	9,933
Deferred rent	115,147	18,810
Other liabilities	-	230,816
Net cash flow provided by operating activities	<u>18,515,081</u>	<u>14,423,096</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(784,028)	(171,689)
Investment in UAE Skin Centres	(5,275,057)	-
Proceeds from asset sale	77,472	-
Acquisition of ZO Skin Health, Inc., net of cash acquired	-	(237,562,054)
Net cash flow used in investing activities	<u>(5,981,613)</u>	<u>(237,733,743)</u>
<b>Cash flows from financing activities</b>		
Capitalization of the Company	-	251,604,199
Debt issuance costs	-	(2,932,525)
Repayment of shareholder note	(10,175,961)	-
Principal payments on capital leases	(109,910)	(35,967)
Proceeds from note payable	129,635	120,000,000
Repayment of line of credit	(2,500,000)	-
Return of capital	-	(117,091,831)
Options exercised	4,512,457	-
Dividends	(875,000)	-
Net cash flow provided by (used in) financing activities	<u>(9,018,779)</u>	<u>251,543,876</u>
<b>Effect of foreign currency on cash</b>	(5,371)	-
<b>Net change in cash</b>	3,509,318	28,233,229
<b>Cash, beginning of period</b>	10,532,827	-
<b>Cash, end of period</b>	<u>\$ 14,042,145</u>	<u>\$ 28,233,229</u>
<b>Supplemental disclosure for cash flow information</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 547,234	\$ 9,538
Income taxes	<u>\$ 6,085,942</u>	<u>\$ 2,820,510</u>
<b>Supplemental disclosure for non-cash investing and financing activities</b>		
Rollover equity consideration for ZO SH Health, Inc.	<u>\$ -</u>	<u>\$ 88,726,714</u>

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**ZO SH HOLDINGS, INC.**

**Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc.  
Balance Sheets as of December 31, 2020**

	<b>ASSETS</b>			
	<b>ZO SH</b>			<b>ZO SH</b>
	<b>Intermediate, Inc.</b>	<b>Adjustments</b>	<b>Notes</b>	<b>Holdings, Inc.</b>
<b>Current assets</b>				
Cash	\$ 28,233,229	\$ -		\$ 28,233,229
Accounts receivable, net of allowance for doubtful accounts of \$58,998	13,388,369	-		13,388,369
Accounts receivable - related parties	77,206	-		77,206
Inventory, net	25,467,820	-		25,467,820
Prepaid expenses	3,760,342	-		3,760,342
Prepaid income taxes	2,848,857	-		2,848,857
Total current assets	<u>73,775,823</u>	<u>-</u>		<u>73,775,823</u>
<b>Property and equipment</b>				
Machinery and equipment	1,233,115	-		1,233,115
Furniture and fixtures	907,179	-		907,179
Leasehold improvements	955,528	-		955,528
	<u>3,095,822</u>	<u>-</u>		<u>3,095,822</u>
Less accumulated depreciation	(178,386)	-		(178,386)
Property and equipment, net	<u>2,917,436</u>	<u>-</u>		<u>2,917,436</u>
<b>Intangibles and Other assets</b>				
Deposits	664,752	-		664,752
Investment	5,275,057	-		5,275,057
Intangible assets, net	259,398,750	-		259,398,750
Goodwill, net	103,325,515	-		103,325,515
Total other assets	<u>368,664,074</u>	<u>-</u>		<u>368,664,074</u>
<b>Total assets</b>	<b>\$ 445,357,333</b>	<b>\$ -</b>		<b>\$ 445,357,333</b>

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**ZO SH HOLDINGS, INC.**

Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc.  
Balance Sheets as of December 31, 2020

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	ZO SH			ZO SH
	Intermediate, Inc.	Adjustments	Notes	Holdings, Inc.
<b>Current liabilities</b>				
Accounts payable	\$ 13,939,428	\$ -		\$ 13,939,428
Accounts payable - related parties	22,889	-		22,889
Accrued expenses	19,158,122	-		19,158,122
Sales return liability	812,830	-		812,830
Current portion of deferred rent	29,535	-		29,535
Current portion of capital lease obligations	152,691	-		152,691
Current portion of deferred revenue	177,749	-		177,749
Current portion of note payable	6,000,000	-		6,000,000
Total current liabilities	40,293,244	-		40,293,244
<b>Noncurrent liabilities</b>				
Note payable, net of current portion	111,070,790	-		111,070,790
Deferred revenue	5,000,000	-		5,000,000
Deferred rent, net of current portion	447,976	-		447,976
Capital lease obligations, net of current portion	376,389	-		376,389
Other long - term liabilities	421,383	-		421,383
Deferred tax liabilities	61,343,918	-		61,343,918
Consideration payable	-	-		-
Total long-term liabilities	178,660,456	-		178,660,456
Total liabilities	218,953,700	-		218,953,700
<b>Stockholders' equity</b>				
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 25,167,997 shares issued and outstanding	-	251,680	{a}	251,680
Common stock, \$0.01 par value, 50,000,000 shares authorized, 18,718,716 shares issued and outstanding	10	187,177	{b}	187,187
Additional paid-in-capital	237,958,347	(438,857)	{a}{b}	237,519,490
Accumulated deficit	(11,460,478)	-		(11,460,478)
Accumulated other comprehensive income	(66,887)	-		(66,887)
Total stockholders' equity attributable to ZO SH Health, Inc.	226,430,992	-		226,430,992
Noncontrolling interest	(27,359)	-		(27,359)
Total stockholders' equity	226,403,633	-		226,403,633
<b>Total liabilities and stockholders' equity</b>	<b>\$ 445,357,333</b>	<b>\$ -</b>		<b>\$ 445,357,333</b>

**Notes:**

- {a} Preferred stock adjustment when ZO SH Holdings, Inc. was formed.  
{b} Common stock adjustment when ZO SH Holdings, Inc. was formed.

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## ZO SH HOLDINGS, INC.

### Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc. Statements of Operations for the period from October 2, 2020 (inception) to December 31, 2020

	ZO SH			ZO SH	
	Intermediate, Inc.	Adjustments	Notes	Holdings, Inc.	
Net sales	\$ 52,801,383	\$ -		\$ 52,801,383	
Cost of goods sold	16,978,197	-		16,978,197	
Gross profit	35,823,186	-		35,823,186	
Selling, general and administrative expenses	40,985,007	-		40,985,007	
Depreciation and amortization	9,580,529	-		9,580,529	
Total operating expenses	50,565,536	-		50,565,536	
Loss from operations	(14,742,350)	-		(14,742,350)	
Interest expense	9,538	-		9,538	
Loss before provision for income taxes	(14,751,888)	-		(14,751,888)	
Provision for income taxes	(3,264,051)	-		(3,264,051)	
Net income (loss)	\$ (11,487,837)	\$ -		\$ (11,487,837)	
Less: Net loss attributable to non-controlling interests	(27,359)	-		(27,359)	
Net loss attributable to ZO SH Holdings, Inc.	\$ (11,460,478)	\$ -		\$ (11,460,478)	
Net income (loss)	\$ (11,487,837)	\$ -		\$ (11,487,837)	
Other comprehensive loss:					
Foreign currency translation loss	(66,887)	-		(66,887)	
Net comprehensive income (loss)	\$ (11,554,724)	\$ -		\$ (11,554,724)	
Comprehensive loss attributable to non-controlling interest	(27,359)	-		(27,359)	
Net comprehensive loss attributable to ZO SH Holdings, Inc.	\$ (11,527,365)	\$ -		\$ (11,527,365)	

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## ZO SH HOLDINGS, INC.

### Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc. Balance Sheets as of December 31, 2021

	ASSETS			
	ZO SH Intermediate, Inc.	Adjustments	Notes	ZO SH Holdings, Inc.
<b>Current assets</b>				
Cash	\$ 53,421,199	\$ -		\$ 53,421,199
Accounts receivable, net of allowance for doubtful accounts of \$13,969	14,585,015	-		14,585,015
Accounts receivable - related parties	29,018	-		29,018
Inventory	40,033,885	-		40,033,885
Prepaid expenses	4,329,306	-		4,329,306
Prepaid income taxes	772,097	-		772,097
Other current assets	148,796	-		148,796
Total current assets	<u>113,319,316</u>	<u>-</u>		<u>113,319,316</u>
<b>Property and equipment</b>				
Machinery and equipment	1,723,517	-		1,723,517
Furniture and fixtures	985,929	-		985,929
Leasehold improvements	1,038,919	-		1,038,919
Construction in progress	720,731	-		720,731
	<u>4,469,096</u>	<u>-</u>		<u>4,469,096</u>
Less accumulated depreciation	<u>(1,197,969)</u>	<u>-</u>		<u>(1,197,969)</u>
Property and equipment, net	<u>3,271,127</u>	<u>-</u>		<u>3,271,127</u>
<b>Intangibles and Other assets</b>				
Deposits	686,831	-		686,831
Investment	5,275,057	-		5,275,057
Intangible assets, net	255,813,165	-		255,813,165
Goodwill, net	120,377,419	-		120,377,419
Total other assets	<u>382,152,472</u>	<u>-</u>		<u>382,152,472</u>
<b>Total assets</b>	<u>\$ 498,742,915</u>	<u>\$ -</u>		<u>\$ 498,742,915</u>

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**ZO SH HOLDINGS, INC.**

**Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc.  
Balance Sheets as of December 31, 2021**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	ZO SH			ZO SH	
	Intermediate, Inc.	Adjustments	Notes	Intermediate, Inc.	Holdings, Inc.
<b>Current liabilities</b>					
Accounts payable	\$ 10,321,714	\$ -		\$ 10,321,714	
Accounts payable - related parties	106,921	-		106,921	
Accrued expenses	21,447,885	-		21,447,885	
Sales return liability	522,314	-		522,314	
Current portion of deferred rent	42,929	-		42,929	
Current portion of capital lease obligations	167,815	-		167,815	
Current portion of deferred revenue	189,160	-		189,160	
Current portion of note payable	6,000,000	-		6,000,000	
Total current liabilities	<u>38,798,738</u>	<u>-</u>		<u>38,798,738</u>	
<b>Noncurrent liabilities</b>					
Note payable, net of current portion and discount of \$2,324,138 and \$2,929,210, respectively	105,675,862	-		105,675,862	
Deferred revenue	-	-		-	
Deferred rent, net of current portion	480,927	-		480,927	
Capital lease obligations, net of current portion	208,574	-		208,574	
Other long - term liabilities	658,011	-		658,011	
Deferred tax liabilities	54,062,507	-		54,062,507	
Contingent consideration payable	54,265,543	-		54,265,543	
Total long-term liabilities	<u>215,351,424</u>	<u>-</u>		<u>215,351,424</u>	
Total liabilities	<u>254,150,162</u>	<u>-</u>		<u>254,150,162</u>	
<b>Commitments and contingencies</b>					
<b>Stockholders' equity</b>					
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 25,167,997 shares issued and outstanding	-	251,680 {a}		-	251,680
Common stock, \$0.01 par value, 50,000,000 shares authorized, 18,718,716 shares issued and outstanding in 2021 and 2020, respectively	-	187,187 {b}		-	187,187
Additional paid-in-capital	240,279,526	(438,867) {a}{b}		239,840,659	
Retained earnings	1,220,013	-		1,220,013	
Accumulated other comprehensive loss	(672,786)	-		(672,786)	
Total Stockholders' equity attributable to ZO SH Holdings, Inc.	<u>240,826,753</u>	<u>-</u>		<u>240,826,753</u>	
Noncontrolling interest	3,766,000	-		3,766,000	
Total stockholders' equity	<u>244,592,753</u>	<u>-</u>		<u>244,592,753</u>	
<b>Total liabilities and stockholders' equity</b>	<u>\$ 498,742,915</u>	<u>\$ -</u>		<u>\$ 498,742,915</u>	

**Notes:**

{a} Preferred stock adjustment when ZO SH Holdings, Inc. was formed.

{b} Common stock adjustment when ZO SH Holdings, Inc. was formed.

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**ZO SH HOLDINGS, INC.**

Reconciliation of ZO SH Intermediate, Inc. to ZO SH Holdings, Inc.  
Statements of Operations for the period ended December 31, 2021

	ZO SH Intermediate, Inc.	Adjustments	Notes	ZO SH Holdings, Inc.
Net sales	\$ 258,691,669	\$ -		\$ 258,691,669
Cost of goods sold	65,497,086	-		65,497,086
Gross profit	193,194,583	-		193,194,583
Selling, general and administrative expenses	134,414,906	-		134,414,906
Depreciation and amortization	42,802,995	-		42,802,995
Total operating expenses	177,217,901	-		177,217,901
Income (loss) from operations	15,976,682	-		15,976,682
Interest expense	4,513,645	-		4,513,645
Income (loss) before benefit from income taxes	11,463,037	-		11,463,037
Benefit from income taxes	(1,057,652)	-		(1,057,652)
Net income (loss)	<u>\$ 12,520,689</u>	<u>\$ -</u>		<u>\$ 12,520,689</u>
Less: Net loss attributable to non-controlling interests	(159,802)	-		(159,802)
Net income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 12,680,491</u>	<u>\$ -</u>		<u>\$ 12,680,491</u>
Net income (loss)	\$ 12,520,689	\$ -		\$ 12,520,689
Other comprehensive loss:				
Foreign currency translation loss	(605,899)	-		(605,899)
Net Comprehensive income (loss)	11,914,790	-		11,914,790
Comprehensive loss attributable to noncontrolling interest	(159,802)	-		(159,802)
Net comprehensive income (loss) attributable to ZO SH Holdings, Inc.	<u>\$ 12,074,592</u>	<u>\$ -</u>		<u>\$ 12,074,592</u>

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