CCOM GROUP, INC.

ANNUAL FINANCIAL STATEMENTS AND RELATED FOOTNOTES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

CCOM GROUP, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
CCOM Group, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CCOM Group, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 consolidated financial position of CCOM Group, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
April 27, 2018

CCOM GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ 506,635	$ 448,758
Accounts receivable, net of allowance for doubtful accounts of $1,052,963 and $1,078,613, respectively	11,522,688	10,788,257
Inventory	16,231,516	14,888,025
Prepaid expenses and other current assets	1,121,745	680,039
Total current assets	29,382,584	26,805,079
Property and equipment, net	568,079	756,050
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	424,375	171,144
Deferred income tax asset - noncurrent	1,682,000	2,316,500
	$33,473,967	$31,465,702
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under credit facility - revolving credit	$14,464,649	$13,417,855
Notes payable, current portion; includes related party notes of $196,587 and $176,283, respectively	279,606	353,208
Trade payables	4,558,305	3,852,007
Accrued liabilities	2,165,224	1,995,083
Income taxes payable	18,488	42,188
Total current liabilities	21,486,272	19,660,341
Convertible notes payable; related parties	-	100,000
Notes payable, non-current portion; includes related party notes of $599,291 and $795,879, respectively	645,231	877,304
Deferred income tax liability - noncurrent	567,000	567,000
Total liabilities	22,698,503	21,204,645
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, $.05 par value, 2,500,000 shares authorized, 284,612 shares issued and outstanding, liquidation preference of $1,423,060	14,231	14,231
Common stock, $.05 par value, 20,000,000 shares authorized, 9,154,928 shares issued and outstanding	457,746	457,746
Additional paid-in capital	12,596,853	12,596,853
Accumulated deficit	(2,293,366)	(2,807,773)
Total stockholders' equity	10,775,464	10,261,057
	$33,473,967	$31,465,702

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

CCOM GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	For the Years Ended December 31, 2017	2016
Sales	$92,330,429	$87,283,700
Cost of sales	67,751,419	63,924,181
Gross profit	24,579,010	23,359,519
Selling, general and administrative expenses, net	23,000,348	21,980,338
Operating income	1,578,662	1,379,181
Other income	205,456	189,961
Interest expense, net; includes related party interest expense of $79,093 and $101,464, respectively	(646,523)	(589,302)
Income before income tax expense	1,137,595	979,840
Income tax expense	623,188	265,868
Net income	$514,407	$713,972
Income per common share:		
Basic	$ 0.05	$ 0.08
Diluted	$ 0.05	$ 0.07
Weighted average common shares outstanding:		
Basic	9,154,928	9,154,928
Diluted	9,439,540	9,439,540

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

CCOM GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2017 and 2016

	Number of shares						
	Redeemable Convertible Preferred Stock	Common Stock	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2015	284,612	9,154,928	$ 14,231	$ 457,746	$ 12,596,853	$ (3,521,745)	$ 9,547,085
Net Income	-	-	-	-	-	713,972	713,972
Balance at December 31, 2016	284,612	9,154,928	$ 14,231	$ 457,746	$ 12,596,853	$ (2,807,773)	$ 10,261,057
Net Income	-	-	-	-	-	514,407	514,407
Balance at December 31, 2017	284,612	9,154,928	$ 14,231	$ 457,746	$ 12,596,853	$ (2,293,366)	$10,775,464

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

CCOM GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For The Years Ended December 31, 2017	2016
Cash flows from operating activities:		
Net income	$ 514,407	$ 713,972
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income tax expense	517,899	150,000
Provision for doubtful accounts	585,168	339,551
Depreciation and amortization	359,184	368,323
Net gain on sale of property and equipment	(200)	(4,757)
Changes in operating assets and liabilities:		
Accounts receivable	(1,319,599)	(1,084,802)
Inventory	(1,343,491)	(1,342,071)
Prepaid expenses and other current assets	(441,706)	(74,576)
Other assets – noncurrent	(136,630)	8,131
Trade payables	706,298	18,428
Accrued liabilities	170,141	622,010
Income taxes payable	(23,700)	41,768
Net cash used in operating activities	(412,229)	(244,023)
Cash flows from investing activities:		
Additions to property and equipment	(119,301)	(160,991)
Proceeds from disposal of property and equipment	200	11,847
Net cash used in investing activities	(119,101)	(149,144)
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of $276,283 and $262,773, respectively	(457,587)	(436,706)
Repayments of short term financing, related party	(2,000,000)	(3,750,000)
Issuance of short term financing, related party	2,000,000	3,750,000
Borrowings under credit facility - revolving credit, net	1,046,794	701,328
Net cash provided by financing activities	589,207	264,622
Increase (decrease) in cash	57,877	(128,545)
Cash - beginning of year	448,758	577,303
Cash - end of year	$ 506,635	$ 448,758

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

1. Summary of Significant Accounting Policies and Practices

(a) Description of Business and Liquidity

CCOM Group, Inc., through its operating subsidiaries Universal Supply Group, Inc. ("Universal"), The RAL Supply Group, Inc. ("RAL"), and S&A Supply, Inc. ("S&A") (together, the "Company"), is a distributor of heating, ventilating and air conditioning equipment (HVAC), parts and accessories, whole-house generators, climate control systems, and plumbing and electrical fixtures and supplies to building contractors and other users, which the Company considers its only operating segment. The Company's products are marketed primarily to HVAC, plumbing and electrical contractors, who, in turn, sell such products to residential and commercial/industrial customers. The Company's customers are primarily located in New Jersey, New York, Massachusetts and portions of eastern Pennsylvania, Connecticut and Vermont. The Company has no long term agreement with any customer. The Company deals with its customers one sale at a time. The Company has no material long term agreements with any supplier. The Company enters into agreements with vendors which include volume rebates, pricing and advertising, all within the standard practices of the industry. Additionally, certain supplier agreements limit the sale of competitive products in designated markets that the Company serves. All purchases are made with domestic vendors, some of which, however, may manufacture products in foreign locations.

On November 12, 2013, the Company filed a Form 15 with the Securities and Exchange Commission to voluntarily deregister its common stock and convertible preferred stock under the Securities Exchange Act of 1934. The filing suspended the Company's obligation to file all periodic reports with the SEC.

(b) Principles of Consolidation

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

(c) Revenue Recognition

Revenue is recognized when the earnings process is complete, which is generally upon shipment or delivery of products, and the price is determined and collectability is reasonably assured, in accordance with agreed-upon shipping terms and when title and risk of loss transfers to the customer. The Company has no further obligations subsequent to shipment or delivery. Customers have the right to return defective products, which are substantially covered under the manufacturer's warranty. The customer receives a credit from the Company for defective products returned and the Company receives a corresponding credit provided by the manufacturer. The only warranty provided on products sold is the one provided by the manufacturer.

(d) Accounts Receivable

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for doubtful accounts. Trade credit is generally extended on a short-term basis; thus trade receivables generally do not bear interest. However, a service charge may be applied to receivables that are past due. These charges, when collected, are included as other income. Trade receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Changes in the estimated collectability of trade receivables are recorded in the results of operations for the period in which the estimate is revised. Trade receivables that are deemed doubtful are offset against the allowance for doubtful accounts. The Company generally does not require collateral for trade receivables.

(e) Inventory

Inventory is stated at the lower of cost or net realizable value and consists solely of finished goods. Cost is determined using the first-in, first-out method. Inventory is analyzed for potential obsolescence and slow-moving items based upon the aging of the inventory and the inventory turns by product. Inventory items designated as obsolete or slow moving are reduced to their net realizable value.

(f) Distribution Costs

Distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs are included in selling, general and administrative expenses. Such costs were $551,655 and $507,112 for the years ended December 31, 2017 and 2016, respectively.

(g) Vendor Rebates

The Company has arrangements with several vendors that provide rebates to be payable to the Company when the Company achieves various specified measures, generally related to the volume level of purchases. The Company accounts for such rebates as a reduction of inventory until the sale of the product. Rebates under arrangements with vendors that require a specified cumulative level of purchases are recognized by the Company based on progress toward achieving such levels, provided the rebates are probable and estimable. The Company had $339,319 and $253,425 accrued at year end December 31, 2017 and 2016, respectively.

(h) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	3-5 years
Furniture and fixtures	5 years
Automobiles	3-5 years
Showroom fixtures and displays	3 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset.

(i) Goodwill

The Company completed its annual impairment tests on goodwill in December 2017 and 2016, and no impairments were recognized in either year. Goodwill is assessed for impairment using either a qualitative or quantitative approach. Where a qualitative assessment is used, the Company first determines if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include historical financial performance, macroeconomic and industry conditions and legal and regulatory environment. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed. The quantitative assessment requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates and the selection of assumptions underlying a discount rate (weighted average cost of capital) based on market data available at the time.

(j) Stock-Based Compensation

The Company recognizes equity based compensation expense in accordance with established standards for transactions in which an entity exchanges its equity instruments for goods or services. The Company measures the cost of services received in exchange for an award of equity instruments based on the grant date fair value of the award.

(k) Net Income Per Common Share

Basic income per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(l) Income Taxes

The Company accounts for income taxes in accordance with the asset and liability approach for financial accounting and reporting of income taxes. The realization of future tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company evaluates both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized.

Management has determined that based on the cumulative recent history of income and income projections, including the expense related to the amortization of goodwill for tax purposes, that it will be more likely than not that only a portion of the deferred tax asset will be realized. In 2016, management reduced the valuation allowance by $150,000 based on utilization of the net operating loss. Due to the "Tax Cuts and Jobs Act" signed in December 2017, the Company re-evaluated its deferred tax asset both with updated projections and revised tax rates. Management determined a deferred tax asset of approximately $1,682,000 will be realized and, accordingly, adjusted the valuation allowance from December 31, 2016 by $634,500 in total, of which, $514,500 related to the new law changes in rates.

The Company follows the provisions that tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized. The Company had no unrecognized tax benefits recorded for the years ended December 31, 2017 and 2016. When an accrual for interest and penalties is required, interest and penalties will be recognized in tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and various states. There are currently no federal or state income tax examinations in process.

(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets, such as furniture, equipment and leasehold improvements, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. No such impairments were recorded in 2017 or 2016.

(n) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory, income taxes, assessment of goodwill impairment and the impairment of long lived assets. Actual results could differ from those estimates.

(o) Recent Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. ASU 2014-09 will be effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases*" which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. This ASU will be effective beginning on or after January 1, 2020. Early adoption as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling pricings in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. The adoption of this ASU did not have a material effect on the Company's financial position or results of operations.

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-01, Financial Instruments – Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01, among other things, eliminates the requirement for entities that are not public business entities to disclose fair value information for financial instruments measured at amortized cost, and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 is effective for periods beginning after December 15, 2018 including interim periods within those fiscal years. The new guidance must be applied using a modified-retrospective approach with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year in which the guidance is adopted, except the guidance on equity securities without readily determinable fair values will be applied prospectively to all equity investments that exist as of the date of adoption. ASU 2016-01 does not permit early adoption of most of its amendments except it does permit early adoption of the amendment that exempts the Company from disclosing the fair value of financial instruments that are not recognized and measured at fair value. The Company is currently evaluating the remaining effects that the new guidance will have on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13*, Financial Instruments (Topic 326) - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. This ASU will be effective for fiscal years beginning after December 15, 2020, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on its financial statements.

In January 2017, the FASB issued ASU 2017-04*, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard will be effective for the Company beginning in the fiscal year after December 15, 2021 and is required to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company's adoption of this standard did not have on its consolidated financial statements.

(p) Subsequent Events

The Company has evaluated subsequent events through the date that the consolidated financial statements were available to be issued on April 27, 2018.

(q) Other Comprehensive Income

The Company does not currently have any items of other comprehensive income and therefore has not included a statement of comprehensive income in its consolidated financial statements.

(r) Reclassification

Certain amounts previously reported have been reclassified to conform to current year presentation.

2. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Computer hardware and software	$1,662,816	$1,635,786
Furniture and fixtures	248,716	248,716
Leasehold improvements	2,081,952	2,056,548
Showroom fixtures and displays	425,559	425,559
Automobiles	954,196	847,152
	5,373,239	5,213,761
Less accumulated depreciation and amortization	(4,805,160)	(4,457,711)
	$ 568,079	$ 756,050

Depreciation and amortization expense amounted to $359,184 and $368,323 for the years ended December 31, 2017 and 2016, respectively and is included in general and administrative expenses.

3. Financing Arrangements

The Company and KeyBank National Association ("KeyBank") are parties to a Credit and Security Agreement dated as of October 18, 2011, as amended (the "KeyBank Agreement"). The KeyBank Agreement, based on the September 5, 2017 amendment, provides for a revolving credit facility under which the Company may borrow up to the lesser of (i) $20,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than $8,500,000) of the lower of cost or market of eligible inventory, or $9,000,000 during any Inventory Advance Limit Increase Period, defined as the period from March 1 to May 31 of each calendar year, less designated reserves.

Borrowings bear interest at 2.0% above the Eurodollar Rate (as defined) or 1.75% above the Eurodollar Rate if the Fixed Charge Coverage Ratio (as defined) is above 2.0, or the Base Rate (as defined), and are secured by a first lien on substantially all of the Company's assets, as well as a pledge of the stock of CCOM Group, Inc.'s operating subsidiaries. The facility contains covenants relating to the financial condition of the Company and its business operations. Among other things, the covenants require that as of December 31, 2017, the Company maintain a consolidated net worth of at least $8,089,347, and a Fixed Charge Coverage Ratio of 1.1. As of December 31, 2017, the Company's Eurodollar Rate was 3.625% and Base Rate was 4.5%, additionally the Company was in compliance with the loan covenants.

On March 15, 2016, the KeyBank Agreement was amended to, among other things, allow the Company to incur a short-term indebtedness to Goldman Associates of New York, Inc. ("Goldman Associates") or Michael Goldman, both related parties, in an amount not to exceed $1,000,000, as long as each advance was incurred no later than March 18, 2016 and had a maturity date of no longer than 60 days.

On February 23, 2017, the KeyBank Agreement was amended to, among other things, temporarily raise the inventory cap and provide for a special overadvance from February 23, 2017 to May 31, 2017.

On April 7, 2017, the KeyBank Agreement was amended to, among other things, permit deposits from a third-party payment collection company no later than two business days after receipt of customer payments.

During the year ended December 31, 2017, the Company borrowed an aggregate of $100,339,370 and repaid an aggregate of $99,292,576 under the revolving credit facility with KeyBank. As of December 31, 2017, the balance outstanding under the facility was $14,464,649 and availability was $1,979,308.

The Company believes that the KeyBank credit facility is sufficient to finance its current operating needs. The business of the Company will be materially and adversely affected if KeyBank substantially reduces the amount of the credit availability under the terms of the facility or KeyBank demands payment and the Company is unable to refinance the facility, or if liquidity is otherwise substantially reduced.

On January 12, 2016, Goldman Associates loaned $750,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on February 25, 2016.

On February 26, 2016, Goldman Associates loaned $1,000,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on May 22, 2016. A $500,000 increase in the Borrowing Base that KeyBank made on March 3, 2016 ended on May 20, 2016.

On March 17, 2016, Goldman Associates loaned $1,000,000 to the Company. Interest accrued on the loan at 5% per annum and the loan was repaid in installments on April 21, 2016, April 29, 2016 and May 13, 2016.

On May 23, 2016, Goldman Associates loaned $1,000,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on July 20, 2016 and August 2, 2016.

On February 10, 2017, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on May 10, 2017.

On April 20, 2017, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on June 27, 2017.

On May 10, 2017, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on August 2, 2017.

On July 10, 2017, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 5% per annum and the loan was repaid on September 8, 2017.

On March 7, 2018, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 5% per annum and the loan was repaid on April 9, 2018.

On April 9, 2018, Goldman Associates loaned $500,000 to the Company. Interest accrues on the loan at 5% per annum and the loan is repayable on July 3, 2018. On April 10, 2018, KeyBank increased the Borrowing Base by $500,000.

All increases to the Borrowing Base were made pursuant to the KeyBank Agreement that provides, in the event the Company then meets the Temporary Increase Conditions, for KeyBank to make up to $500,000 in additional loans to the Company to match loans in the same aggregate amount that one or more Investor Subordinated Creditors (as defined) elect to make.

Michael Goldman is the majority shareholder, Chief Executive Officer and Chairman of the Board of Goldman Associates. Michael Goldman is the Chairman of the Board of the Company. Mr. Goldman served as Chief Executive Officer of the Company from February 15, 2013 until his resignation as Chief Executive Officer on July 1, 2013. On July 1, 2013, Peter Gasiewicz was appointed Chief Executive Officer of the Company. Prior to July 1, 2013, Peter Gasiewicz served as President and Chief Operating Officer of the Company. The Company will be considered in default of the KeyBank Agreement in the event Peter Gasiewicz shall cease to hold the position of Chief Executive Officer, or a similar or higher position of the Company and the Company shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of KeyBank, necessary for the successful management of the Company. Additionally, the facility restricts, among other things, the payment of dividends, and further restricts, subject to specified exceptions, subordinated debt, purchase of securities, and the merger and sale of the Company. The KeyBank Agreement terminates on September 18, 2019.

4. Notes Payable

Notes payable consist of the following at December 31:

	2017	2016
Various term notes payable: (collateralized by equipment, the purchase of which such notes financed) with aggregate monthly principal and interest installments of $11,411 and $12,079 for 2017 and 2016, respectively, bearing interest between 0% and 6.3%.	$116,673	$199,069
Term notes payable to related parties: subordinated unsecured convertible notes payable, bearing interest at the prime rate, which was 3.75% at December 31, 2017 and 2016, plus 2%, interest payable quarterly. The notes were convertible into 33,333 shares of common stock at $3.00 per share during the term of the notes. Interest expense amounted to $4,364 and $8,729 for the years ended December 31, 2017 and 2016, respectively. On July 29, 2016, the Company paid half of the term notes payable to each of two related parties, in the aggregate amount of $100,000. On September 21, 2017, the Company paid the remaining half of the term notes payable to each of two related parties, in the aggregate amount of $100,000.	0	100,000
Term note of $750,000 payable to a related party entity: subordinated secured note payable, bearing interest at the prime rate, which was 4.5% and 3.75% at December 31, 2017 and 2016, respectively, plus 2%, interest payable quarterly. On September 1, 2017, the note was amended bear interest at the prime rate plus 2% with interest only monthly payments from October 1, 2017 through April 1, 2018 and forty-one monthly payments of principle and interest commencing May 1, 2018. Interest expense amounted to $45,703 and $41,406 for the years ended December 31, 2017 and 2016, respectively.	750,000	750,000
Promissory notes payable to related parties, a related party entity and a private investor: subordinated unsecured notes payable, bearing interest at 8% per annum, repaid in equal monthly installments aggregating $19,810 commencing April 2013 and ending March 2018. Interest expense amounted to $14,446 and $31,558 for the years ended December 31, 2017 and 2016, respectively.	58,164	281,443
	924,837	1,330,512
Less current installments	(279,606)	(353,208)
	$ 645,231	$ 977,304

Maturities of notes payable are as follows:

2018	$279,606
2019	232,194
2020	238,310
2021	171,638
2022	3,089
	$ 924,837

5. Capital Stock

Each share of the Company's convertible preferred stock is convertible into one share of the Company's common stock. Convertible preferred stockholders will be entitled to a dividend, based upon a formula, when and if any dividends are declared on the Company's common stock. The convertible preferred stock is redeemable, at the option of the Company, at $7.50 per share. The shares contain a liquidation preference provision entitling the holder to receive payments equaling $5.00 per share.

The voting rights of the common stockholders and preferred stockholders are based upon the number of shares of convertible preferred stock outstanding. The Company's Restated Certificate of Incorporation provides that the Board of Directors is to consist of one class of Directors if there are less than 600,000 shares Convertible Preferred Stock outstanding. As of December 31, 2017, the number of preferred shares outstanding was 284,612; accordingly, the Board of Directors to be elected at the annual shareholders' meetings will consist of one class of Directors elected by the holders of common stock and convertible preferred stock voting together as one class on a share for share basis.

At December 31, 2017, there were 284,612 shares of common stock reserved for conversion of convertible preferred stock.

6. Stock Option Plans

On September 29, 2006, the Company adopted the CCOM Group, Inc. (formerly Colonial Commercial Corp.) 2006 Stock Plan, (the "2006 Plan"). The 2006 Plan enabled the Company to grant equity and equity-linked awards to the Company's Directors, officers, employees and other persons who provided services to the Company. The 2006 Plan expired on September 29, 2016.

No options were granted, exercised or forfeited during the years ended December 31, 2017 and 2016.

In 2017 and 2016, the amount of stock-based compensation was $0, and as of December 31, 2017, the Company had no unrecognized compensation.

There were no options outstanding and exercisable at December 31, 2017.

7. Net Income Per Common Share

Our basic and diluted earnings per share are computed using the two-class method. The two-class method is an earnings allocation method that determines net income per share for each class of common stock and participating securities according to their participation rights in dividends and undistributed earnings or losses. Convertible preferred stock, whose holders are entitled to a dividend when and if any are declared on the Company's common stock, are considered participating securities. Per share amounts are computed by dividing net income available to common shareholders by the weighted average shares outstanding during each period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the years ended December 31, 2017 and 2016, convertible preferred stock, convertible into 284,612 shares of common stock were included as common stock equivalents when calculating diluted earnings per share. Convertible notes, in the principal amount of $100,000, convertible into 33,333 shares of common stock, were not included in the net income per share calculation for the years ended December 31, 2017 and 2016, because their effect would have been anti-dilutive.

A reconciliation of the numerators and denominators of the basic and diluted per share computations follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Numerator:		
Net income	$514,407	$713,972
Less distributed and undistributed income allocated to participating securities	15,510	21,527
Net Income Attributable to Common Shareholders	$498,897	$692,445
Denominator:		
Weighted average common shares (Basic)	9,154,928	9,154,928
Weighted average common shares including assumed conversions (Diluted)	9,439,540	9,439,540

8. Income Taxes

The provision for income taxes consists of the following:

	2017 Federal	2017 State And Local	2017 Total	2016 Federal	2016 State And Local	2016 Total
Current	$ 24,166	$81,123	$105,289	$ 7,766	$108,102	$115,868
Deferred	479,078	38,821	517,899	135,000	15,000	150,000
Total tax expense (benefit)	$503,244	$119,944	$623,188	$142,766	$123,102	$265,868

A reconciliation of the provision for income taxes computed at the Federal statutory rate to the reported provision for income taxes follows:

	2017	2016
Tax provision at Federal statutory rate	34.00 %	34.00 %
State income tax, net of federal benefit	4.71%	7.21%
Change in valuation allowance for deferred tax assets	(23.45)%	(18.67)%
Effect of new tax rates	34.98%	-%
Other	2.49%	2.38%
Permanent differences	2.05%	2.12%
Total	54.78%	27.04%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2017 and 2016 are presented below.

	2017	2016
Deferred Tax Assets:		
Federal net operating loss carryforwards	$ 3,880,800	$ 6,987,511
State net operating loss carryforwards	8,054	109,569
Allowance for doubtful accounts	292,576	473,906
Additional costs inventoried for tax purposes	402,322	534,186
Alternative Minimum Tax Credit Carryforward	-	81,592
Compensation	42,625	53,412
Rent	40,200	74,634
Goodwill and intangible assets	23,879	55,432
Depreciation	53,051	35,787
Deferred Tax Assets	4,743,507	8,406,029
Less Valuation Allowance	(3,061,507)	(6,089,529)
Net Deferred Tax Assets	$ 1,682,000	$ 2,316,500
Deferred Tax Liability:		
Goodwill	$ 567,000	$ 567,000
Deferred Tax Liability	$ 567,000	$ 567,000

Management has determined that based on the cumulative recent history of income and income projections, including the expense related to the amortization of goodwill for tax purposes, that it will be more likely than not that only a portion of the deferred tax asset will be realized. In 2016, management reduced the valuation allowance by $150,000 based on utilization of the net operating loss. Due to the "Tax Cuts and Jobs Act" signed in December 2017, the Company re-evaluated its deferred tax asset both with updated projections and revised tax rates. Management determined a deferred tax asset of approximately $1,682,000 will be realized and, accordingly, adjusted the valuation allowance from December 31, 2016 by $634,500 in total, of which, $514,500 related to the new law change in rates.

As of December 31, 2017, the Company's pre-tax net operating loss carryforwards available for federal income tax purposes were approximately $21,470,000. Various amounts of net operating loss carryforwards will expire from 2020 through 2032.

Expiration Year	Net Operating Losses
2020	$ 1,059,000
2021	2,737,000
2022	14,532,000
2028	1,010,000
2029	1,878,000
2030	134,000
2031	16,000
2032	104,000
	$ 21,470,000

The difference between the net operating losses above and the net operating losses used to calculate the deferred tax assets is due to the additional goodwill amortization for tax purposes which will be recognized when realized by the Company.

Section 382 of the Internal Revenue Code ("Section 382") imposes a limitation on a corporation's ability to utilize net operating loss carryforwards ("NOLs") if it experiences an "ownership change." In general, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The Company has not had an ownership change under Section 382. If such a change did occur, a limitation could be placed on the Company's ability to utilize its NOLs.

9. Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows:

Cash paid during the years for:	2017	2016
Interest	$638,725	$591,593
Supplemental disclosure of non-cash financing and investing activities:		
Notes issued for purchase of fixed assets	$ 51,912	$ 80,606

10. Employee Benefit Plans

The Company has a 401(k) plan, which covers substantially all employees. Participants in the plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. In 2017 and 2016, the plan did not provide for matching contributions. In March 2017, the Company retroactively contributed a 1% match of employees' qualified wages for the 2016 calendar year in the amount of $58,757, which was expensed in 2016. In March 2018, the Company retroactively contributed a 1% match of employees' qualified wages for the 2017 calendar year in the amount of $58,149, which was expensed in 2017.

11. Business and Credit Concentrations

The top five suppliers accounted for 47% and 52% of the Company's purchases for each of the years 2017 and 2016, respectively. The largest supplier accounted for 28% and 31% of the Company's purchases for each of the years 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company's outstanding balance payable to these suppliers was $1,877,973 and $1,176,110, respectively. The loss of one or all of these suppliers could have a material adverse effect upon the Company's business for a short-term period.

12. Commitments and Contingencies

(a) Leases

The Company records lease payments via the straight line method and, for leases with step rent provisions whereby the rental payments increase over the life of the lease, the Company recognizes the total minimum lease payments on a straight-line basis over the lease term. The Company is obligated under operating leases for warehouse, office facilities and certain office equipment which amounted to $3,084,351 and $3,258,461 for the years ended December 31, 2017 and 2016, respectively and is included in general and administrative expenses. At December 31, 2017, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

2018	$2,661,558
2019	2,412,204
2020	2,317,327
2021	2,227,839
2022	1,355,253
Thereafter	4,680,476
Total	$15,654,657

(b) Litigation

(1) Universal Supply Group, Inc.

Universal Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation (“Universal”). On June 25, 1999, Universal acquired substantially all of the assets of Universal Supply Group, Inc., a New Jersey corporation, including its name, pursuant to the terms of a purchase agreement. Subsequent to the acquisition, Universal Supply Group, Inc. (the selling corporation) changed its name to Hilco, Inc. Hilco, Inc. acquired the assets of Amber Supply Co., Inc., formerly known as Amber Oil Burner Supply Co., Inc., in 1998, prior to Hilco’s sale of assets to Universal. Hilco, Inc. is hereinafter referred to as the “Universal Predecessor.” The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul H. Hildebrandt.

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of December 31, 2017, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs as of December 31, 2017, 2 filed actions in 2017, 2 filed actions in 2015 and 1 filed an action in 2014. There are 221 other plaintiffs that have had their actions dismissed and 19 other plaintiffs that have settled as of December 31, 2017 for a total of $3,770,000 paid by defendants other than Universal. There has been no judgment against the Universal Predecessor.

The Company's Universal subsidiary was previously named by 42 plaintiffs; of these, 2 filed actions in 2017, 1 filed an action in 2016, 1 filed an action in 2014, 1 filed an action in 2012, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-seven plaintiffs naming Universal have had their actions dismissed and, of the total $3,364,500 of settled actions, 3 plaintiffs naming Universal have settled for $27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there were 2 plaintiffs that named Universal as of December 31, 2017.

As set forth in more detail below, the Company has been indemnified against asbestos-based claims, and insurance companies are defending the interests of the Universal Predecessor and the Company in these cases.

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company's Universal subsidiary is material, and that the only material litigation that was brought against the Universal Predecessor to date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for $3,250,000 ("Settlement") under an agreement reached in connection with a $10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

The Company believes that Rhodes differed from the other lawsuits in that plaintiff established that he contracted mesothelioma as a result of his occupational exposure to asbestos dust and fibers and that a predecessor of the Company was a major supplier of the asbestos containing products that allegedly caused his disease.

(1)(a) Indemnification

John A. Hildebrandt, Paul H. Hildebrandt and the Universal Predecessor have jointly and severally agreed to indemnify the Company's Universal subsidiary from and against any and all damages, liabilities and claims due to exposure to asbestos at any time prior to the June 25, 1999 closing of the purchase agreement referred to earlier. These agreements are set forth in the purchase agreement.

The indemnitors may use their own counsel to defend these claims. The indemnitors are not liable for any settlement effected without their consent. The indemnitors may settle and pay money claims without the consent of the Company. There is no indemnification unless claims aggregate $50,000; once this trigger point is reached, indemnification is required for all claims, including the first $50,000, but excluding claims of less than $10,000. The indemnification requirement survives at least until 30 days after the running of any relevant statutes of limitation.

The obligation of the indemnitors is joint and several, so that the Company can have recourse against any one or more of these indemnitors, whether or not any other indemnitor has previously defaulted on its obligation to us. There are no other limitations to the Company's rights to indemnification. The Company cannot be certain that the indemnitors have the financial wherewithal to meet their obligations to indemnify the Company.

(1)(b) Insurance

The assets that the Universal Predecessor sold to the Company included its insurance policies and other agreements and contracts. The policies provide coverage for liability accruing during the periods for which premiums were paid. The Universal Predecessor was formed in 1940. Copies of policies are available for each year beginning in 1970 and ending with the closing under the purchase agreement in 1999. Copies of policies for the period from 1940 to 1969 are not available.

Insurance companies acknowledge coverage for potential asbestos claims under certain of these policies. Insurance companies under additional policies have reserved their right to deny coverage but have continued to defend and indemnify the Universal Predecessor and the Company under the contested policies.

There are periods during the years from 1940 to 1999 in which the Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of December 31, 2017, no insurance company has claimed any contribution for a gap in coverage except for a claim for $160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of December 31, 2017, defended the Company and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for $160 referred to above, the insurance companies have not requested any payments from the Company or from the Universal Predecessor.

The Company's Universal subsidiary has not engaged in the sale of asbestos products since its formation in 1997. Its product liability policies for all years since 1998 exclude asbestos claims.

(2) The RAL Supply Group, Inc.

The RAL Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation ("RAL"), formerly known as RAL Purchasing Corp. On September 30, 2003, RAL acquired substantially all of the assets of The RAL Supply Group, Inc., formerly known as The LAR Acquisition Corp., also a New York corporation, including its name, pursuant to the terms of a purchase agreement. Subsequent to the acquisition, The RAL Supply Group, Inc. (the selling corporation) changed its name to RSG, Inc. RSG, Inc. is hereinafter referred to as the "RAL Predecessor." The RAL Predecessor acquired certain assets from Dyson-Kissner-Moran Corporation ("RSG Predecessor") in 1993, prior to the RAL Predecessor's sale of assets to RAL.

The Company understands that the RAL Predecessor and many other companies have been sued in the Supreme Court of New York (New York County) and the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of December 31, 2017, there were 4 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the RAL Predecessor. The Company never sold any asbestos related products.

The Company's RAL subsidiary was previously named by 7 plaintiffs; of these, 3 filed actions in 2017, 1 filed an action in 2016, 1 filed an action in 2015, 1 filed an action in 2013 and 1 filed an action in 2008. Two plaintiffs naming RAL had their actions dismissed and 1 plaintiff naming RAL settled for $25,000. Following these dismissed and settled actions there were 4 plaintiffs that named RAL as of December 31, 2017.

The RAL Predecessor agreed in the RAL purchase agreement to indemnify and hold harmless the Company's RAL subsidiary from and against, among other things, damages that relate to products sold or manufactured or services performed or other actions taken or omitted by the RAL Predecessor prior to the closing of the acquisition. The Company cannot be certain that the indemnitor has the financial wherewithal to meet its obligations to indemnify the Company.

The lawsuits alleged injury due to asbestos prior to RAL Predecessor's acquisition of assets from the RSG Predecessor and RAL's acquisition of assets from the RAL Predecessor. The Company never sold any asbestos related products.

(3) General

Regardless of indemnification and insurance coverage, management does not in any event consider the Company to be liable for the asbestos-based lawsuits that name the Company or for any other claim that arises as a result of actions or omissions by the Universal Predecessor or RAL Predecessor companies. The Company expressly disclaimed the assumption of any liabilities when the Company purchased the assets of the Universal Predecessor and RAL Predecessor. It is the opinion of management that asbestos litigation will not have a material adverse effect on the Company. Nevertheless, the Company could be materially and adversely affected if it is held liable for substantial asbestos claims or if it incurs substantial legal or settlement costs. This material and adverse effect would occur if indemnitors fail to honor their indemnification agreements and insurance is not available either because policy limits are exceeded, or because insurance companies successfully deny coverage or claim limitations on their liabilities by reason of gaps in coverage or otherwise.

Since management regards as remote the potential payment of any asbestos-based claim, no amounts have been accrued for any period relating to asbestos claims.

(4) Other Litigation

The Company is periodically involved in other litigation in the ordinary course of business. The Company vigorously defends all matters in which the Company or its subsidiaries are named defendants and, for insurable losses, maintains significant levels of insurance to protect against adverse judgments, claims or assessments. Although the adequacy of existing insurance coverage or the outcome of any legal proceedings cannot be predicted with certainty, the Company does not believe the ultimate liability associated with any claims or litigation will have a material impact to its financial condition or results of operations.

13. Related Party Transactions

(a) The Company leases five warehouses and stores from related parties. The Company paid these related parties rent expense of $1,029,490 and $1,102,043 for the years ended December 31, 2017 and 2016, respectively.

(b) A related party provided legal services to the Company in the amount of $8,625 and $1,810 for the years ended December 31, 2017 and 2016, respectively.

(c) During the year ended December 31, 2016, Goldman Associates made short term loans to the Company aggregating $3,750,000 in principal amount, all of which have been repaid with interest aggregating $26,416 in 2016.

(d) During the year ended December 31, 2017, Goldman Associates of New York, Inc. ("Goldman Associates") made short term loans to the Company aggregating $2,000,000 in principal amount, all of which have been repaid with interest aggregating $17,623 in 2017.

(e) Please refer to Note 4. Notes Payable, above, for additional information pertaining to notes payable to related parties and related party entities at each of the years ended December 31, 2017 and 2016.