# Rand Worldwide Inc. and Subsidiaries
# Consolidated Financial Statements

## For the years ended June 30, 2020 and 2019

**TABLE OF CONTENTS**

DHG
DIXON HUGHES GOODMAN LLP

# Independent Auditors' Report

Board of Directors and Stockholders
Rand Worldwide, Inc. and Subsidiaries
Owings Mills, Maryland

We have audited the accompanying consolidated financial statements of Rand Worldwide, Inc. and Subsidiaries which comprise the consolidated balance sheets as of June 30, 2020 and 2019 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for 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 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rand Worldwide, Inc. and Subsidiaries as of June 30, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***
As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases in accordance with Accounting Standards Codification Topic 842, *Leases,* effective July 1, 2019. The Company adopted this standard using a modified retrospective approach and has elected not to restate prior periods. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

**Tysons, Virginia**
**September 18, 2020**

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Balance Sheets**

| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 25,696,000 | $ 689,000 |
| Accounts receivable, less allowance of $177,000 and $169,000 in 2020 and 2019 | 24,740,000 | 29,774,000 |
| Other receivables | 909,000 | 729,000 |
| Prepaid expenses and other current assets | 1,237,000 | 880,000 |
| Total current assets | 52,582,000 | 32,072,000 |
| Property and equipment: | | |
| Computer software and equipment | 3,406,000 | 3,142,000 |
| Office furniture and equipment | 1,541,000 | 1,562,000 |
| Leasehold improvements | 500,000 | 549,000 |
| | 5,447,000 | 5,253,000 |
| Less: accumulated depreciation and amortization | (4,163,000) | (3,814,000) |
| | 1,284,000 | 1,439,000 |
| Customer lists, net of accumulated amortization of $13,530,000 and $11,060,000 in 2020 and 2019 | 30,662,000 | 33,132,000 |
| Goodwill | 16,415,000 | 16,467,000 |
| Trade name, net of accumulated amortization of $3,027,000 and $2,851,000 in 2020 and 2019 | 904,000 | 1,080,000 |
| Deferred income taxes | 1,650,000 | 2,849,000 |
| Right-of-use assets | 3,944,000 | — |
| Other assets | 149,000 | 174,000 |
| Total assets | $ 107,590,000 | $ 87,213,000 |

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Balance Sheets (Continued)**

| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Borrowings under line of credit | $ — | $ 961,000 |
| Current portion of note payable, net | 4,400,000 | 4,400,000 |
| Accounts payable and accrued expenses | 25,452,000 | 20,153,000 |
| Accrued compensation and related benefits | 4,877,000 | 3,270,000 |
| Deferred revenue | 7,219,000 | 5,702,000 |
| Income tax payable | 788,000 | 842,000 |
| Current portion of lease liabilities | 1,697,000 | — |
| Total current liabilities | 44,433,000 | 35,328,000 |
| Long-term liabilities: | | |
| Note payable, net | 8,855,000 | 15,219,000 |
| Lease liabilities | 2,422,000 | — |
| Total liabilities | 55,710,000 | 50,547,000 |
| Series G Junior Preferred Stock | 357,000 | 489,000 |
| Stockholders' equity: | | |
| Convertible preferred stock, $0.01 par value; 1,300,537 shares authorized, 1,298,728 shares issued; 126,770 and 208,338 shares outstanding at June 30, 2020 and June 30, 2019, respectively; aggregate liquidation preference of $96,000 and $295,000 at June 30, 2020 and June 30, 2019, respectively | 1,000 | 2,000 |
| Common stock, $0.01 par value; 40,000,000 shares authorized; issued and outstanding shares of 32,238,646 and 31,457,462 at June 30, 2020 and June 30, 2019, respectively | 322,000 | 315,000 |
| Additional paid-in capital | 35,565,000 | 35,426,000 |
| Retained earnings | 16,113,000 | 719,000 |
| Accumulated other comprehensive loss | (478,000) | (285,000) |
| Total stockholders' equity | 51,523,000 | 36,177,000 |
| Total liabilities and stockholders' equity | $ 107,590,000 | $ 87,213,000 |

*See accompanying notes.*

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Statements of Income**

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Revenues: | | |
| Product sales | $ 233,538,000 | $ 146,059,000 |
| Service revenue | 29,585,000 | 25,970,000 |
| Commission revenue | 17,899,000 | 12,419,000 |
| Total revenues | 281,022,000 | 184,448,000 |
| Cost of revenues: | | |
| Cost of product sales | 173,409,000 | 105,401,000 |
| Cost of service revenue | 20,425,000 | 17,591,000 |
| Total cost of revenues | 193,834,000 | 122,992,000 |
| Gross margin | 87,188,000 | 61,456,000 |
| Operating expenses: | | |
| Selling, general and administrative | 50,567,000 | 42,017,000 |
| Depreciation and amortization | 3,267,000 | 2,209,000 |
| Total operating expenses | 53,834,000 | 44,226,000 |
| Operating income | 33,354,000 | 17,230,000 |
| Other expense: | | |
| Interest expense | 677,000 | 822,000 |
| Currency exchange (gains) losses | (32,000) | 97,000 |
| Other expense | 98,000 | — |
| | 743,000 | 919,000 |
| Income before income taxes | 32,611,000 | 16,311,000 |
| Income tax expense | 9,220,000 | 4,271,000 |
| Net income | 23,391,000 | 12,040,000 |
| Preferred stock dividends | (26,000) | (33,000) |
| Net income available to common stockholders | $ 23,365,000 | $ 12,007,000 |
| Earnings per common share attributable to common shareholders – basic | $ 0.73 | $ 0.38 |
| Earnings per common share attributable to common shareholders – diluted | $ 0.71 | $ 0.38 |
| Shares used for computing income per common share: | | |
| Weighted average shares used in computation - basic | 31,790,489 | 31,392,076 |
| Weighted average shares used in computation - diluted | 33,044,729 | 32,070,298 |

*See accompanying notes*.

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Income**

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Net income | $ 23,391,000 | $ 12,040,000 |
| Other comprehensive income, net of tax: | | |
| Net change in cumulative foreign currency translation (loss) gain | (193,000) | 14,000 |
| Comprehensive income | $ 23,198,000 | $ 12,054,000 |

*See accompanying notes*.

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Statement of Stockholders' Equity**

| | Convertible Preferred Stock | | Common Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Par Value | Number of Shares | Par Value | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Total |
| **Balance at July 1, 2018** | **208,588** | **$ 2,000** | **31,072,842** | **$ 311,000** | **$ 35,463,000** | **$ (11,321,000)** | **$ (299,000)** | **$ 24,156,000** |
| Issuance of common stock upon the conversion of preferred stock | (250) | — | 384,620 | 4,000 | (4,000) | — | — | — |
| Preferred stock dividends | — | — | — | — | (33,000) | — | — | (33,000) |
| Foreign currency translation adjustment | — | — | — | — | — | — | 14,000 | 14,000 |
| Net income | — | — | — | — | — | 12,040,000 | — | 12,040,000 |
| **Balance at June 30, 2019** | **208,338** | **$ 2,000** | **31,457,462** | **$ 315,000** | **$ 35,426,000** | **$ 719,000** | **$ (285,000)** | **$ 36,177,000** |

*See accompanying notes.*

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Statement of Stockholders' Equity (Continued)**

| | Convertible Preferred Stock | | Common Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Par Value | Number of Shares | Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
| **Balance at July 1, 2019** | **208,338** | **$ 2,000** | **31,457,462** | **$ 315,000** | **$ 35,426,000** | **$ 719,000** | **$ (285,000)** | **$ 36,177,000** |
| Issuance of common stock upon the conversion of preferred stock | (81,568) | (1,000) | 393,743 | 4,000 | (3,000) | — | — | — |
| Issuance of common stock upon the conversion of Series G preferred stock | — | — | 387,440 | 3,000 | 142,000 | — | — | 145,000 |
| Common stock dividends | — | — | — | — | — | (7,971,000) | — | (7,971,000) |
| Preferred stock dividends | — | — | — | — | — | (26,000) | — | (26,000) |
| Foreign currency translation adjustment | — | — | — | — | — | — | (193,000) | (193,000) |
| Net income | — | — | — | — | — | 23,391,000 | — | 23,391,000 |
| **Balance at June 30, 2020** | **126,770** | **$ 1,000** | **32,238,645** | **$ 322,000** | **$ 35,565,000** | **$ 16,113,000** | **$ (478,000)** | **$ 51,523,000** |

*See accompanying notes.*

**Rand Worldwide, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| **Cash flows from operating activities** | | |
| Net income | $ 23,391,000 | $ 12,040,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss on disposal of fixed assets | 26,000 | — |
| Bad debt expense | 318,000 | 171,000 |
| Depreciation and amortization | 3,267,000 | 2,209,000 |
| Stock-based compensation | 13,000 | 12,000 |
| Deferred income taxes | 1,199,000 | 468,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and other receivables | 4,536,000 | (14,271,000) |
| Income tax receivable | (54,000) | 1,003,000 |
| Prepaid expenses and other current assets | (321,000) | (93,000) |
| Other assets | 25,000 | (47,000) |
| Accounts payable and accrued expenses | 5,474,000 | 10,041,000 |
| Accrued compensation and related benefits | 1,607,000 | 2,040,000 |
| Deferred revenue | 1,517,000 | (37,000) |
| Net cash provided by operating activities | 40,998,000 | 13,536,000 |
| | | |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (499,000) | (610,000) |
| Acquisitions, net of cash acquired | — | (19,732,000) |
| Proceeds from sale of asset | — | 40,000 |
| Net cash used in investing activities | (499,000) | (20,302,000) |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings under line of credit | 16,258,000 | 67,141,000 |
| Repayment of borrowings under line of credit | (17,219,000) | (68,375,000) |
| Proceeds from borrowings under note payable | — | 22,000,000 |
| Repayment of borrowings under note payable | (6,400,000) | (14,200,000) |
| Payment of common stock dividends | (7,971,000) | — |
| Payment of preferred stock dividends | (26,000) | (33,000) |
| Net cash (used in) provided by financing activities | (15,358,000) | 6,533,000 |
| Effect of exchange rate changes on cash | (134,000) | 12,000 |
| Net change in cash | 25,007,000 | (221,000) |
| Cash - beginning of year | 689,000 | 910,000 |
| Cash - end of year | $ 25,696,000 | $ 689,000 |

*See accompanying notes.*

**Rand Worldwide, Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**

## 1. Nature of Business and Summary of Significant Accounting Policies

When used throughout these notes, the terms "Rand Worldwide", "the Company", "we", "us" and "our" refer to Rand Worldwide, Inc. and, unless the context clearly indicates otherwise, its consolidated subsidiaries.

### Nature of Business

Rand Worldwide is a leading supplier in the design automation, facilities and data management software marketplace. Rand Worldwide also provides value-added services, such as training, technical support and other consulting and professional services to businesses, government agencies and educational institutions worldwide.

The Company is organized into five divisions: IMAGINiT Technologies ("IMAGINiT"), Rand 3D, Rand Simulation, Facilities Management, and ASCENT – Center for Technical Knowledge ("ASCENT").

The IMAGINiT division operates in the United States and Canada and is one of the largest value-added resellers of Autodesk, Inc. ("Autodesk") products in the world, providing Autodesk solutions and system integration and consulting services to customers in the manufacturing, infrastructure, building, and media and entertainment industries. IMAGINiT also sells its own proprietary software products and related services, enhancing its total client solution offerings.

The Rand 3D division offers 3DExperience products from Dassault Systèmes which include CATIA, ENOVIA, SIMULIA, DELMIA, and DMU. Rand 3D also specializes in training solutions for Dassault Systèmes and PTC products including Pro/ENGINEER, CREO, and Windchill.

The Rand Simulation division offers ANSYS engineering simulation software to help organizations incorporate engineering simulation technology into the product development process. Rand Simulation also provides simulation consulting services to enable organizations to achieve cost savings and design improvements through simulation technology.

The Facilities Management Division offers ARCHIBUS products for facilities management software for space planning, strategic planning, and lease/property administration, and provides a full range of training, consulting and support services for the ARCHIBUS products.

ASCENT is the courseware division of Rand Worldwide and is a leading developer of professional training materials and knowledge products for engineering software tools.

### Basis of Presentation

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of credit risks**

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in financial institutions in excess of federally insured limits.

**Property and Equipment**

Property and equipment is stated at cost. Depreciation for computer software and equipment and office furniture and equipment is provided for by the straight-line method over estimated useful lives ranging from three to seven years. Leasehold improvements are amortized over the lesser of the lease term or 15 years using the straight-line method. Repairs and maintenance costs are expensed as incurred. Depreciation expense for the years ended June 30, 2020 and June 30, 2019 was $621,000 and $481,000, respectively.

**Impairment of Long-Lived Assets Excluding Goodwill**

Long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk.

**Goodwill**

Goodwill is the excess of the purchase price paid over the fair value of the identifiable net assets acquired in purchase business combinations. The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Goodwill and Other Intangible Assets*. Under ASC 350, goodwill is subject to annual impairment tests or more frequently when events and circumstances occur indicating that recorded goodwill may be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is the amount determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit to which goodwill has been allocated from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess.

The change in the carrying amount of goodwill during the years ended June 30, 2020 and 2019 is as follows:

| | |
|---|---|
| Balance as of July 1, 2018 | $ 16,463,000 |
| Effect of foreign currency translation | 4,000 |
| Balance as of June 30, 2019 | 16,467,000 |
| Effect of foreign currency translation | (52,000) |
| Balance as of June 30, 2020 | $ 16,415,000 |

**Revenue Recognition and Accounts Receivable**

Substantially all of the Company's revenues are derived from contracts with its customers. The Company recognizes revenue once control of promised goods and services has passed to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods and services. Revenue is recognized when all of the following criteria are met:

A contract is identified with a customer. A contract with a customer arises upon the customer's written acceptance of a sales proposal or upon the Company's acceptance of a customer's purchase order. In the case of a complex services project, a contract with a customer arises from the execution of both a master services agreement and a statement of work. Such contracts define each party's rights and obligations, specify the goods or services to be transferred and define the payment terms related to these goods or services. Contracts are recognized as valid only to the extent the contracts have commercial substance and collection of consideration is deemed probable.

Performance obligations in the contract are identified. A promised good or service is a performance obligation if it is capable of being distinct and distinct in the context of the contract. Each performance obligation is separately described, in an itemized manner, on the underlying proposal or purchase order. In the case of a complex services project, performance obligations are defined as tasks or phases within the statement of work. To the extent a contract includes promised goods or services, judgment is applied to determine whether such obligations are distinct. Promised goods or services that are not distinct are combined with existing performance obligations.

Transaction price is determined. The transaction price is determined based on the price listed on the underlying proposal or purchase order. The Company does not provide any rebates or early-pay discounts to customers and need not consider discounts or rebates when determining the transaction price.

Transaction price is allocated to the performance obligations in the contract. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. When contracts contain multiple performance obligations the transaction price is allocated to each performance obligation based on a relative standalone selling price basis. Standalone selling price is determined based on prices historically charged for the item in question. Any discounts provided off the standalone selling price are allocated ratably to each performance obligation.

Performance obligations are satisfied. The Company satisfies its performance obligations and recognizes revenue upon the delivery of a good or service, or the provision of services over a period of time. Recognition of each category of revenue is described further in the following paragraphs.

The Company recognizes certain revenues over time, and other revenues at a point in time. Revenue recognized over time primarily consists of support services, which are recognized over the period of support purchased, and totaled $7.6 million and $4.7 million for the years ended June 30, 2020 and 2019, respectively. Revenue recognized at a point in time includes substantially all other revenue categories, and is recognized at the time of sale.

*Product Sales*

The Company's products can be delivered to customers in a variety of ways, including (i) as physical product shipment, (ii) via drop-shipment by the vendor or supplier or (iii) via electronic delivery of keys for software licenses. Software product sales billed and not recognized as revenue are included in deferred revenue. The Company does not require collateral for accounts receivable. The Company allows returns from customers in limited situations. The Company has historically not experienced significant returns, and accordingly, allowances for returned products are not recorded.

The Company recognizes revenue from the sale of perpetual as well as term-based software licenses, hardware and training materials when control has passed to the customer, which is usually upon shipment of the products to the customer. Revenues from most software license sales are recognized as a single performance obligation on a gross basis as the Company is acting as a principal in these transactions at the point the software license is delivered to the customer.

*Service Revenue*

Revenue from installation, training and consulting services is recognized upon completion of the requested service, which typically occurs within ninety days of receipt of an order. Support services are sold either in prepaid blocks of hours which typically expire in one year, or as annual contracts for unlimited support for a specified number of users and products supported. Prepaid support service revenue is recognized monthly based upon usage with unused balances recognized in full upon expiration. Annual support contract revenues are recognized ratably over the contract period. Installation and consulting services provided by the Company are not considered essential to the functionality of any software products sold as those services do not alter the functionality or capabilities of the product and could be performed by customers or other vendors.

*Commission Revenue*

Fees earned from the resale of Autodesk's software maintenance agreements and its cloud-hosted subscriptions are reported as commission revenue and presented net of their related costs. For these transactions, the Company considers Autodesk to be the principal in the arrangement as Autodesk has the responsibility of providing the end customer all the deliverables under the contract, including software upgrades and various support services. As a result, the Company assumes an agency relationship in these transactions, and recognizes the net fee associated with serving as an agent in revenue.

Commissions revenue also includes referral fees paid by Autodesk and other vendors for major account and government customer transactions, determined based on specified percentages of the gross sale amount to the referred customer. These referral fees are recorded as revenue in the period earned, based on reporting by Autodesk, and are typically settled within ten days following the end of the reporting period.

*Multiple Performance Obligations*

The Company's arrangements with its customers may involve the sale of one or more products and services at the same time. The Company allocates the transaction price to each distinct performance obligation based on the relative standalone selling price of each obligation. Arrangement consideration allocated to undelivered performance obligations is deferred until the individual obligation is fulfilled.

*Customer Acceptance Criteria*

If an arrangement includes customer acceptance criteria, the Company defers all revenue from the arrangement until acceptance is received or the acceptance period has lapsed, unless those acceptance criteria only require that the product perform in accordance with the software vendor's standard published product specifications. If a customer's obligation to pay the Company is contingent upon a future event, such as installation or acceptance, the Company defers all revenue from the arrangement until that event has occurred.

*Deferred Revenue*

Deferred product revenue is comprised of amounts that have been invoiced to customers upon delivery of a product, but are not yet recognizable as revenue because one or more of the conditions required for revenue recognition have not yet been met. Deferred service revenue represents amounts invoiced to customers for telephone support contracts or maintenance and support contracts, which are recognized ratably as revenue over the term of the arrangements, or for installation, training or professional services that have not yet been performed.

*Product Returns*

The Company's arrangements with customers do not contain any rights of product return.

**Allowance for Doubtful Accounts**

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to its expected net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. Actual collection experience has not varied significantly from estimates, due primarily to credit policies, collection experience, and a lack of concentration of accounts receivable. The Company charges-off receivables deemed to be uncollectible to the allowance for doubtful accounts.

**Cost of Product Sales**

Cost of product sales consists of the cost of purchasing products from software suppliers or hardware manufacturers. The Company earns a volume-based rebate from its primary supplier, Autodesk, paid monthly as a percentage of qualifying purchases. The rebate percentage is established based on the level of new product and maintenance purchases as measured against quarterly targets developed by Autodesk and rebates serve to reduce the cost of product sales which the Company accrues in the month in which the underlying sales are posted. The Company has generally been able to focus its sales efforts in a manner to achieve margins on its product sales that are within a relatively narrow range from period to period.

**Cost of Service Revenue**

Cost of service revenue consists primarily of direct employee compensation of all service personnel, the cost of subcontracted services and direct expenses billable to customers. Cost of service revenue does not include an allocation of overhead costs.

**Advertising and Marketing Costs**

The Company's marketing activities performed and executed over the course of the year include public relations, tradeshows, email campaigns, social media, website development and enhancement, marketing automation initiatives, virtual events, advertising and promotions as well as ongoing branding efforts. The Company receives funding from its primary vendor, Autodesk, which offsets a portion of the costs incurred for marketing and advertising. Marketing and advertising costs are expensed as incurred, net of vendor funding and are included in selling, general and administrative expenses in the accompanying statements of operations. Advertising expenses, net of reimbursements from suppliers, were approximately $145,000 and $208,000 for the years ended June 30, 2020 and June 30, 2019, respectively.

**Income Taxes**

The Company uses the liability method to account for income taxes. Income tax expense includes income taxes currently payable and deferred taxes arising from temporary differences between financial reporting and income tax bases of assets and liabilities. Deferred income taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when the realization of deferred tax assets are not considered more likely than not. The Company records liabilities from uncertain tax positions in accordance with ASC 740-10, *Income Taxes*. The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax position have been recorded. Interest and penalties related to unrecognized tax benefits are recorded as part of income tax expense.

**Foreign Currency Translation**

Assets and liabilities of the Company's foreign subsidiary, whose functional currency is the local currency, is translated into U.S. dollars at the current rates of exchange in effect at the balance sheet dates. Revenues and expenses are translated using the average exchange rates for the period. The resulting translation adjustments are included as a separate component of stockholders' equity in the consolidated balance sheets within accumulated other comprehensive loss. Foreign currency transaction gains or losses resulting from the re-measurement of monetary assets and liabilities stated in a currency other than the functional currency are included in the Company's results of operations.

In addition, for the years ended June 30, 2020 and June 30, 2019, realized currency transaction gains of $32,000 and losses from operations of $97,000, respectively, were recorded in the consolidated statements of income.

**Recent Accounting Standards**

In February 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (ASC Topic 842) (“ASU 2016-02”) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. The new standard requires entities to reflect the net present value of all future fixed lease payments for both operating and finance leases on the balance sheet. It also requires entities to disclose fixed and variable lease payments separately and by lease type (operating vs. finance leases). On July 1, 2019, the Company adopted ASU No. 2016-02, using the modified retrospective method permitted under ASU No. 2018-11 for all existing leases which does not include retrospectively adjusting prior periods presented in the financial statements. Under ASU No. 2016-02, as the lessee, the Company recognized a right-of-use ("ROU") asset and offsetting lease liability for leases that existed on adoption. The liability was measured at present value of all future fixed lease payments, discounted using the Company’s incremental borrowing rate. The corresponding ROU asset was measured at an amount equal to the lease liability adjusted by the amounts of certain assets and liabilities, such as prepaid rent and deferred lease obligations. The Company has elected the following package of three practical expedients: to not reassess whether any existing contracts are leases or contain a lease; to not reassess the lease classification of existing leases; and to not reassess initial direct costs for existing leases. In addition, the Company elected the practical expedient to use hindsight in determining the lease term and in assessing impairment of ROU assets.

The Company determines if an arrangement is a lease at inception. Leases are included in “Right-of-use assets” and “Lease liabilities” in the Consolidated Balance Sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. The Company uses its incremental borrowing rate if the Company's leases do not provide an implicit rate based on the information available at commencement date. Options to extend or terminate the lease are considered in determining the lease term when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Upon adoption, the Company recognized an ROU asset and a related lease liability of $5.3 million and $5.5 million, respectively, with the prior year’s straight-line rent liability of $200,000 reducing the ROU asset.

**Reclassification**

In order to present the prior year revenues in a comparable manner as the current year revenues, the Company has reclassified $7.2 million between cost of sales and revenue for its fiscal year ended June 30, 2019. The reclassication results in revenues from cloud-hosted subscriptions being reported net of cost. The gross margin and net income were unaffected as a result of this reclassification.

**2. Supplemental Disclosure of Cash Flow Information**

The Company paid interest of approximately $700,000 and $833,000, and federal and state income taxes of approximately $8.3 million and $2.9 million, respectively, for the years ended June 30, 2020 and June 30, 2019.

The fair value of the assets acquired and liabilities assumed in our acquisitions during the year ended June 30, 2019 is as follows:

| | |
|---|---|
| Customer lists acquired | $ 22,032,000 |
| Prepaid expenses acquired | 85,000 |
| Property and equipment acquired | 178,000 |
| Accounts payable and accrued expenses assumed | (21,000) |
| Deferred revenue assumed | (2,542,000) |
| Cash paid for acquisitions, net of cash acquired | $ 19,732,000 |

### 3. Asset Acquisitions

On February 15, 2019, the Company acquired certain assets and assumed certain liabilities of Advanced Solutions, Inc. for a purchase price of $19.7 million. The fair value of the assets acquired and liabilities assumed as of the acquisition date were $22 million of customer list, $300,000 of other assets and $2.6 million of liabilities. The customer list has an estimated useful life of 15 years and future expected amortization expense is approximately $1,469,000 per year for fiscal years 2020 through 2024 and $14,137,000 thereafter.

### 4. Borrowings Under Line of Credit and Note Payable

On February 15, 2019, the Company entered into an amended and restated credit agreement with JP Morgan Chase Bank ("Chase") consisting of two credit facilities which replaced the Company's previous credit agreements. The first facility is a five-year $10 million line of credit, secured by all assets of the Company with borrowing levels subject to borrowing base limits. The interest rate on the line of credit is the one-month LIBOR rate plus a margin of 1.75%. The second facility is a five-year, $22 million term note loan ("note payable") with scheduled principal payments of $1,100,000 per quarter over the five-year term, and interest paid quarterly based on one-month LIBOR rate plus a margin of 2.05%. Proceeds of the $22 million term note were used to fund the acquisition of Advanced Solutions, Inc. and to refinance the previous outstanding loans to Chase. The new Chase loans contain certain financial covenants including a maximum leverage ratio and a minimum fixed charge coverage ratio, as defined in the credit agreement. The Company was in compliance with all covenants as of June 30, 2020 and June 30, 2019.

The Company had no outstanding borrowings and $1 million of outstanding borrowings from Chase under its line of credit as of June 30, 2020 and June 30, 2019, respectively.

Long-term debt consists of the following as of June 30, 2020 and 2019:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Principal amount | $ 13,400,000 | $ 19,800,000 |
| Less: unamortized debt issuance costs | (145,000) | (181,000) |
| Less: current portion of note payable | (4,400,000) | (4,400,000) |
| Note payable, net | $ 8,855,000 | $ 15,219,000 |

Remaining principal payments on the note payable are due as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2021 | $ 4,400,000 |
| 2022 | 4,400,000 |
| 2023 | 4,400,000 |
| 2024 | 200,000 |
| Total payments | $ 13,400,000 |

## 5. Preferred Stock

The Company's preferred stock included in the equity section of the accompanying consolidated balance sheets consists of the following as of June 30, 2020 and 2019:

| | June 30 | |
|---|---|---|
| | **2020** | **2019** |
| Series D Convertible Preferred Stock, $0.01 par value; 1,297,537 shares authorized and issued; and 126,750 shares and 208,168 shares outstanding at June 30, 2020 and 2019, respectively; aggregate liquidation preference of $76,000 and $125,000 at June 30, 2020 and 2019, respectively | $ 1,000 | $ 2,000 |
| Series E Convertible Preferred Stock, $0.01 par value; 3,000 shares authorized; 1,191 shares issued; 20 shares and 170 shares outstanding at June 30, 2020 and 2019, respectively; aggregate liquidation preference of $20,000 and $170,000 at June 30, 2020 and 2019, respectively | — | — |
| Total Preferred Stock | $ 1,000 | $ 2,000 |

### Convertible Preferred Stock

In 2004, the Company issued 813,050 shares of Series D Convertible Preferred Stock for cash proceeds totaling $330,000 and a reduction in notes payable to a related party of $98,000. At June 30, 2020 and 2019, 126,750 shares and 208,168 shares, respectively, of Series D Convertible Preferred Stock were outstanding with the following terms:

Redemption Feature- The Series D shares are redeemable in the event that the Company is engaged in a business combination that is approved by the Board of Directors and subsequently submitted and approved by a vote of the Company's stockholders. The redemption price is $0.30 (upon conversion) per share plus an amount equal to all declared and unpaid dividends accrued on such shares since the original issue date.

Voting Rights- Each holder of the Series D shares shall vote together with all other classes and series of stock of the Company as a single class on all actions. Each share shall entitle the holder to one vote per share of common stock into which the preferred stock is then convertible on each such action. In addition, these holders have special voting rights in connection with certain matters, including the issuance of senior stock or debentures, certain mergers, the dissolution of the Company and any amendment to the charter or the terms of the securities that would impair their rights.

Dividend Rate- The holders of the Series D shares are entitled to receive cumulative dividends at a rate of 10% per annum when and as declared by the Board of Directors. Dividends are paid quarterly to preferred stockholders.

Conversion Feature- The Series D shares are convertible at any time beginning 120 days after the original issuance date at the option of the holder and automatically convert into common stock if the common stock is listed on the NASDAQ exchange and trades for more than $2.25 per share for 60 consecutive trading days. Each Series D share is convertible into shares of common stock by multiplying the appropriate conversion rate in effect by the number of shares of preferred stock being converted. As of June 30, 2020, the conversion rate would yield approximately two shares of common stock for each share of Series D share; however, this rate may be adjusted due to stock splits, dividends, and other events defined in the stock purchase agreement between the Company and the holders of the Series D shares.

Liquidation Preference- In the event of a liquidation, dissolution or winding up of the Company, the holders of Series D shares are entitled to receive for each share, prior and in preference to any distribution of any of the assets or surplus funds to the holders of common stock, an amount equal to $0.60 per share plus all accumulated but unpaid dividends. If upon the occurrence of such event, the assets and funds thus distributed among the holders are insufficient to permit the payment of the preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the preferred stockholders.

In July 2005, the Company issued 1,191 shares of Series E Convertible Preferred Stock which raised $1,191,000 for working capital purposes. At June 30, 2020 and 2019, 20 shares and 170 shares, respectively, of Series E Convertible Preferred Stock (the "Series E shares") were outstanding with the following terms:

Redemption Feature- The Series E shares are redeemable in the event that the Company is engaged in a business combination that is approved by the Board of Directors and subsequently submitted and approved by a vote of the Company's stockholders. The redemption price is $0.65 per share (upon conversion) plus an amount equal to all declared and unpaid dividends accrued on such shares since the original issue date.

Voting Rights- Each holder of the Series E shares shall vote together with all other classes and series of stock of the Company as a single class on all actions. Each share shall entitle the holder to one vote per share of common stock into which the preferred stock is then convertible on each such action. In addition, these holders have special voting rights in connection with certain matters, including the issuance of senior stock or debentures, certain mergers, the dissolution of the Company and any amendment to the charter or the terms of the securities that would impair their rights.

Dividend Rate- The holders of the Series E shares are entitled to receive cumulative dividends at a rate of 10% per annum when and as declared by the Board of Directors. Dividends are paid quarterly to preferred stockholders.

Conversion Feature- The Series E shares are convertible at any time beginning 120 days after the original issuance date at the option of the holder and automatically converts into common stock if the common stock is listed on the NASDAQ exchange and trades for more than $2.25 per share for 60 consecutive trading days. Each Series E share is convertible into shares of common stock by multiplying the appropriate conversion rate in effect by the number of shares of preferred stock being converted. As of June 30, 2020, the conversion rate would yield 1,538 shares of common stock for each share of Series E; however, this rate may be adjusted due to stock splits, dividends, and other events defined in the stock purchase agreements between the Company and the holders of the Series E shares.

Liquidation Preference- In the event of a liquidation, dissolution or winding up of the Company, the holders of Series E shares are entitled to receive for each share, prior and in preference to any distribution of any of the assets or surplus funds to the holders of common stock, an amount equal to $0.65 per share (upon conversion) plus all accumulated but unpaid dividends. If upon the occurrence of such event, the assets and funds thus distributed among the holders are insufficient to permit the payment of the preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the preferred stockholders.

**6. Series G Junior Preferred Stock**

During the year ended June 30, 2016, the Company designated 2,000,000 shares of Series G Junior Preferred Stock ("Series G") as part of a long-term incentive plan for its senior management team. During the year ended June 30, 2018, the Company designated an additional 300,000 shares of the Series G, bringing the total designated shares to 2,300,000 as of June 30, 2018. As of June 30, 2020 and 2019, 1,393,333 shares and 1,950,000 shares, respectively, of Series G were outstanding. The Series G stock has the following terms:

Vesting- The stock vests ratably over three years, one third each year from the date issued, so long as each Series G stockholder continues their employment with the Company or continues to serve on its Board of Directors. Vesting is accelerated upon a liquidation event in which a majority ownership is transacted in a stock sale, asset sale or merger. As of June 30, 2020 and 2019, 1,366,000 and 1,916,666 were vested, respectively.

Share valuation- The Series G shares are convertible to shares of common stock at future dates based upon the growth in the value of the Company's common stock in excess of an assumed annual 8% hurdle rate. The Board of Directors determines, and reports in an annual valuation notice to each Series G holder, the per share value of the Series G stock, the conversion ratio which the Series G shares may be converted to common stock, and, when applicable as described below, the put option value. Should a liquidation event occur, as defined in the Series G Certificate of Designations, the common stock and the Series G value will be based on the amount paid or distributed to the holders of capital stock of the Company upon such a liquidation event.

Conversion rights- Following each fiscal year ended through June 30, 2022, each Series G holder may elect to convert their vested shares into common stock based on the ratio of Series G share value to common stock per share value as determined by the Board of Directors and reported to the holders in the annual valuation notice.

Put option- Following the fiscal years ending June 30, 2018, 2020 and 2022, each holder of Series G will have the option to require the Company to redeem all of the holder's shares of Series G stock, payable in three equal installments with the first payment made the month after the put exercise, and the next two payments one and two years thereafter. The put option value will be determined by the Board of Directors based on an earnings multiple applied to its trailing 12 months earnings before interest, taxes depreciation and amortization. The put option value will be reported within the annual valuation notice for the periods which the put option is available.

Redemption feature- The Company will have the right, but not the obligation, to redeem the Series G stock at any time after June 30, 2023 for a value that is based upon the growth in the value of the Company's common stock in excess of an assumed annual 8% hurdle rate.

Voting rights- Other than for the election of directors, each holder of outstanding shares of Series G stock is entitled to cast one vote for each whole share of Series G stock held.

Liquidation rights- In the event of a liquidation, dissolution or winding up of the Company, the holders of shares of common stock will be entitled payment of a preferred return, which is equivalent to $1.272 per share, plus a compound return of 8% per year, from August 1, 2015, before any payment will be made to the holders of the Series G shares. The holders of Series D and Series E Convertible Preferred stock, or any other securities with liquidation preferences senior to the common stock will also be paid their liquidation preference before any payment will be made to the holders of the Series G shares. After payment of all the preferential amounts to the holders of common and senior securities, the remaining assets available for distribution or payment to the Company's shareholders will be distributed among the holders of the shares of Series G and common stock (including holders of common stock issued upon conversion of Series D and E preferred stock), pro rata based on the number of shares held by each such shareholder.

As a result of the previously-described put option, the carrying value of the Series G Junior Preferred Stock is classified as temporary equity in the accompanying consolidated balance sheets as the terms of the issuance do not warrant classification as a liability nor as equity. The Series G shares have a $0.01 par value and have no liquidation preference.

The Company recorded and included in selling, general and administrative expenses, $13,000 and $12,000 of stock-based compensation expense, during the years ended June 30, 2020 and June 30, 2019, respectively, all of which was attributable to the value of Series G shares that vested during such periods.

During the year ended June 30, 2020, shareholders converted 556,667 shares of Series G Junior Preferred Stock into common stock, resulting in 387,440 shares of common stock issued upon conversion.

**7. Earnings Per Share**

Basic earnings per common share is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Such outstanding shares include those issued through equity compensation plans and Board compensation. Diluted earnings per common share include the potential dilution that would occur from common shares issuable upon the exercise of outstanding stock options and the conversion of preferred stock. As of June 30, 2020 and 2019, 1,254,240 and 678,222 shares of common stock were issuable upon the conversion or exercise of options and preferred stock. The following summarizes the computations of basic and diluted earnings per common share:

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Numerator for basic and diluted earnings per share: | | |
| Net income | $ 23,391,000 | $ 12,040,000 |
| Payment of preferred stock dividends | (26,000) | (33,000) |
| Net income available to common stockholders | $ 23,365,000 | $ 12,007,000 |
| Weighted average shares used in computing basic net earnings per share: | 31,790,489 | 31,392,076 |
| Assumed conversion of preferred stock | 1,254,240 | 678,222 |
| Weighted average shares used in computing diluted net earnings per share: | 33,044,729 | 32,070,298 |
| Earnings per common share attributable to common shareholders – basic | $ 0.73 | $ 0.38 |
| Earnings per common share attributable to common shareholders – diluted | $ 0.71 | $ 0.38 |

**8. Intangible Assets**

The following is a summary of the carrying amount, accumulated amortization and the resulting net book value of intangible assets:

**June 30, 2020**

| | Carrying amount | Accumulated amortization | Net book value |
|---|---|---|---|
| Customer lists | $ 44,192,000 | $ 13,530,000 | $ 30,662,000 |
| Trade name | 3,931,000 | 3,027,000 | 904,000 |
| Total intangible assets | $ 48,123,000 | $ 16,557,000 | $ 31,566,000 |

**June 30, 2019**

| | Carrying amount | Accumulated amortization | Net book value |
|---|---|---|---|
| Customer lists | $ 44,192,000 | $ 11,060,000 | $ 33,132,000 |
| Trade name | 3,931,000 | 2,851,000 | 1,080,000 |
| Total intangible assets | $ 48,123,000 | $ 13,911,000 | $ 34,212,000 |

Intangible assets are amortized using the straight-line method over the estimated economic life of the asset which ranges from 5 to 15 years. Amortization expense for intangible assets for the years ended June 30, 2020 and June 30, 2019 was $2,646,000 and $1,728,000, respectively. Future estimated amortization expense for intangible assets is as follows:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2021 | $ | 2,646,000 |
| 2022 | | 2,646,000 |
| 2023 | | 2,646,000 |
| 2024 | | 2,646,000 |
| 2025 | | 2,646,000 |
| Thereafter | | 18,336,000 |
| Total amortization expense | $ | 31,566,000 |

**9. Director and Employee Stock Compensation Plans**

*Series G Junior Preferred Stock*

As described in Note 6, the Company issued 1,900,000 shares of Series G Junior Preferred Stock during the twelve months ended June 30, 2016 as part of a long-term incentive plan for its senior management. The grant-date fair value of the stock was $0.25 per share or an aggregate value of $475,000 for all shares granted, based on a market-based valuation performed by an independent appraiser. This issuance of stock was fully vested as of June 30, 2018.

In May 2018, the Company issued 50,000 shares of Series G Junior Preferred Stock with a grant-date fair value of $0.74 per share or an aggregate value of $37,000 for the shares granted. The stock vests ratably over three years on May 31, 2019, 2020 and 2021, respectively.

The Company incurs compensation expense over the service period, and thus incurred $13,000 and $12,000 of share-based compensation associated with the Series G Junior Preferred Stock for the years ended June 30, 2020 and 2019, respectively. Future share-based compensation for the currently outstanding Series G Junior Preferred Stock is $12,000 in 2021.

During the year ended June 30, 2020, shareholders converted 556,667 shares of Series G Junior Preferred Stock into common stock, resulting in 387,440 shares of common stock issued upon conversion.

**10. Shares Reserved for Future Issuance**

At June 30, 2020, the Company has reserved 1,677,813 shares of common stock for future issuance upon the conversion of Series D, Series E, and Series G Stock.

**11. Fair Value Measurements**

Our balance sheets include non-financial assets and liabilities that are measured at fair value on a non-recurring basis. Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

Level 1 – defined as observable inputs such as quoted prices in active markets for identical assets;

Level 2 – defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

An asset’s or liability’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, we perform a detailed analysis of our assets and liabilities that are measured at fair value. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

*Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis*

We have no non-financial assets and liabilities that are measured at fair value on a recurring basis. Property and equipment, intangible assets and goodwill are measured at fair value on a non-recurring basis (upon impairment). The grant-date value of the Series G Junior Preferred Stock, which forms the basis of share-based compensation expense over the requisite service period, is measured at fair value on a non-recurring basis (at the date of the grant) based on an independent expert valuation. The Series G Junior Preferred Stock grant-date fair value measurement utilized a combination of valuation methods including applying multiples of current and weighted average EBITDA to those of peer group public companies, an analysis of the OTC Markets stock price, and an income-based valuation on discounted cash flow, and the results of the various methods were weighted into an average in arriving at the grant-date fair value.

## 12. Income Taxes

The components of income before income taxes are as follows:

| | Years ended | |
|---|---|---|
| | June 30, 2020 | June 30, 2019 |
| Domestic | $ 30,205,000 | $ 15,613,000 |
| Foreign | 2,406,000 | 698,000 |
| Total | $ 32,611,000 | $ 16,311,000 |

The components of the income tax provision are as follows:

| | Years ended | |
|---|---|---|
| | June 30, 2020 | June 30, 2019 |
| Federal tax | $ 7,704,000 | $ 3,573,000 |
| State tax | 1,516,000 | 698,000 |
| Total | $ 9,220,000 | $ 4,271,000 |

| | Years ended | |
|---|---|---|
| | June 30, 2020 | June 30, 2019 |
| Current | $ 8,023,000 | $ 3,803,000 |
| Deferred | 1,197,000 | 468,000 |
| Total | $ 9,220,000 | $ 4,271,000 |

Significant components of the Company's deferred tax assets and liabilities are as follows:

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 7,204,000 | $ 8,445,000 |
| Accrued expenses | 212,000 | 178,000 |
| Expenses not currently deductible | 47,000 | 46,000 |
| Excess of book over tax depreciation | 34,000 | 29,000 |
| Other asset | 2,000 | 1,000 |
| Total deferred tax assets | 7,499,000 | 8,699,000 |
| | | |
| Deferred tax liabilities: | | |
| Intangible assets | 742,000 | 722,000 |
| Excess of tax over book depreciation | 255,000 | 275,000 |
| Other liabilities | -- | 1,000 |
| Total deferred tax liabilities | 997,000 | 998,000 |
| | | |
| Deferred tax assets, net of liabilities | $ 6,502,000 | $ 7,701,000 |
| Valuation allowance | (4,852,000) | (4,852,000) |
| | | |
| Net deferred tax asset | $ 1,650,000 | $ 2,849,000 |

The Company's provision for income taxes resulted in effective tax rates attributable to income from continuing operations that varied from the statutory federal income tax rates, as summarized in the table below.

| | Years ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Expected federal income tax expense at statutory rates | $ 6,848,000 | $ 3,424,000 |
| Expenses not deductible for income tax purposes | 69,000 | 81,000 |
| Stock option expense | 3,000 | 3,000 |
| Global Intangible Low Tax income reported in US | 292,000 | — |
| State income taxes, net of federal benefit | 1,508,000 | 735,000 |
| Other | 500,000 | 28,000 |
| Income tax expense | $ 9,220,000 | $ 4,271,000 |

The June 30, 2020 financial statements reflect all anticipated tax expense resulting from the completion of the accounting related to U.S. tax reform. This primarily resulted in adjustments of the provisional amounts previously reported on the June 30, 2018 financial statements under SEC Accounting Bulletin No. 118 (SAB 118). The adjustments of any provisional amounts were not material to the financial statements.

As of June 30, 2020, the Company had U.S. federal net operating loss carryforwards available to reduce future taxable income of approximately $24 million; however, $23 million of these carryforwards were not recognized because they are subject to annual limitations under Internal Revenue Code Section 382 and are expected to expire before being utilized. For the tax year ended June 30, 2020, approximately $560,000 of net operating loss carryforwards that will be utilized to offset taxable income. The balance of the U.S. net operating loss carryforwards will expire between 2021 and 2027.

In addition, as of June 30, 2020, the Company had foreign net operating loss carryforwards of approximately $7 million available to reduce future taxable income. The balance of the foreign net operating losses will expire between 2028 and 2035.

The Company maintains a valuation allowance of approximately $4.8 million for its United States subsidiaries due to the expiration of net operating loss carryforwards prior to utilization and a portion of state net operating loss carryforwards. The valuation allowances are evaluated quarterly to determine the appropriate allowance amount.

**13. Leases**

The Company has operating leases for real estate and certain equipment. Leases have remaining lease terms of less than 1 year to 5 years, some of which include options to extend the lease with renewal terms from 2 years to 5 years and some of which include options to terminate the leases. Options to extend the lease are included in the lease liability if they are reasonably certain of being exercised. Options to terminate are considered in determining the lease liability if they are reasonably certain of being exercised. Payments under the Company's lease arrangements are fixed. The Company's leases do not contain residual value guarantees or material restrictive covenants. Short-term leases are recognized in the consolidated statement of operations on a straight-line basis over the lease term. Short-term lease expense was not material for the periods presented.

As disclosed in Note 1 – Summary of Significant Accounting Policies, the Company adopted ASU No. 2016-02 using the modified retrospective method. As a result, disclosures required under the new standard will not be provided for periods prior to July 1, 2019. For the comparative periods, disclosures required by ASC 840, *Leases* will be provided.

The following table presents lease cost and other information for the year ended June 30, 2020:

| | **Year ended June 30, 2020** |
|---|---|
| Lease cost: | |
| Operating lease cost | $ 2,430,000 |
| Sublease income | (60,000) |
| Total lease cost | $ 2,370,000 |
| | |
| Other information: | |
| Weighted-average remaining lease term | 3.2 years |
| Weighted-average discount rate | 5% |

The following table presents a reconciliation of the total amount of lease payments, on an undiscounted basis, to the lease liability in the Consolidated Balance Sheet as of June 30, 2020:

| | **Year ended June 30, 2020** |
|---|---|
| Year ending June 30: | |
| 2021 | $ 2,371,000 |
| 2022 | 1,609,000 |
| 2023 | 1,150,000 |
| 2024 | 722,000 |
| 2025 | 229,000 |
| Thereafter | 9,000 |
| Total undiscounted cash flows | $ 6,090,000 |

| | | |
|---|---|---|
| Present value: | | |
| Long-term lease liabilities | $ | 4,119,000 |
| Total lease liabilities | $ | 4,119,000 |
| Difference between undiscounted cash flows and discounted cash flows | $ | 1,971,000 |

Rent expense related to operating leases recognized on a straight-line basis over the lease period under previous accounting guidance, was $2.2 million for the year ended June 30, 2019.

## 14. Commitments and Contingencies

*Litigation*

As of June 30, 2020 and June 30, 2019, the Company was not party to any material litigation.

*Guarantees*

In the normal course of business, the Company indemnifies third parties and enters into commitments and guarantees ("Agreements") under which it may be required to make payments. These Agreements include indemnities to the following parties: lessors in connection with facility leases; customers in relation to the performance of services; vendors in connection with guarantees of expenses incurred by employees in the normal course of business; former employees in connection with their prior services as a director or officer of the Company or its subsidiary companies; vendors or principals in connection with performance under asset or share purchase and sale agreements and performance under credit facilities and other agreements of the Company's subsidiaries. The duration of these Agreements varies, and in certain cases, is indefinite. In addition, the Company is party to a guarantee with its largest vendor, Autodesk, in relation to all of the Company's subsidiaries' obligations to Autodesk. The Company has recorded no accrued liability related to these Agreements, based on its historical experience and information known as of June 30, 2020.

## 15. Employee Benefit Plans

The Company has a defined contribution savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan is a defined contribution plan, which covers substantially all U.S.-based employees of the Company, or its wholly-owned subsidiaries, who have completed three months of service. Participants may elect a pre-tax payroll deduction up to IRS maximums.  As amended, the 401(k) Plan provides that the Company will match 100% of the participant salary deferrals up to 3% of a participant's compensation and 50% of the next 2% of a participant's compensation, or a total possible maximum matching contribution of 4% of a participant's compensation, for all participants. The Company may also make discretionary profit-sharing contributions to the 401(k) Plan for all participants who are employed on the last day of the plan year but has not done so during the two years ended June 30, 2020.

The Company also has a retirement savings plan ("RSP") that covers substantially all Canadian-based employees of the Company and its wholly-owned subsidiaries.  Upon hire, participants may elect a pre-tax payroll deduction, subject to limitations as prescribed by the Canadian Revenue Agency.  The RSP provides that the Company will match 100% of the participant salary deferrals up to 3% of a participant's compensation and 50% of the next 2% of a participant's compensation, for a total possible maximum matching contribution of 4% of a participant's compensation, for all participants who have completed 12 months of service.

The total amount recorded by the Company as expense, under both plans, during the years ended June 30, 2020 and June 30, 2019 was approximately $1.7 million and $1.3 million, respectively.

## 16. Significant Supplier

Approximately 96% of the Company's inventory purchases for the years ended June 30, 2020 and 2019 were from Autodesk and its distributors, and approximately 90% and 93% of accounts payable at June 30, 2020 and 2019, respectively, were due these parties. Approximately 95% of the Company's total product revenues are related to the sale of Autodesk products.

The Company is a party to a Value Added Reseller Agreement with Autodesk effective February 1, 2019. The agreement has a term of three years and designates the Company as an authorized reseller of Autodesk software and prescribes the authorized sales territories, authorized products and services, rebate and incentive program details and marketing support. The Company fully expects to execute another Agreement prior to the expiration of the current one.

## 17. Special Dividend

On November 14, 2019, the Board of Directors of Rand Worldwide, Inc., declared a special dividend of $0.25 per share of common stock. The dividend, totaling approximately $8 million, was paid on January 15, 2020 to shareholders of record at the close of business on December 16, 2019.

## 18. Recent Developments

*Effect of three year Autodesk subscriptions*

A significant portion of revenues from our IMAGINiT division are from the resale of Autodesk software subscriptions. Since December of 2018, Autodesk has offered a pricing advantage to customers who bought three-year subscriptions rather than annual subscriptions, and many of our customers have taken advantage of this discount. Since Rand Worldwide Inc. has no material post-sale obligation on these subscriptions, we recognize revenues for the entire subscription term at the time of sale as we have determined the related performance obligation is complete at that time. For the year ended June 30, 2020, the elevated level of multi-year subscriptions increased our revenues by $84 million over what we would have realized if our customers' historical purchase patterns continued. This revenue increase from multi-year subscriptions in 2020 compared to prior years was a key reason for the improved revenues, profitability and cash flows during the year ended June 30, 2020.

*Effects of COVID-19*

The Company is closely monitoring the impact of the outbreak of the COVID-19 virus and how it continues to impact its business. While COVID-19 did not have a material impact on the Company's reported results for the second half of its fiscal year, the Company has seen business volumes begin to weaken and cannot yet predict the full extent of future impacts that the virus may have on its operations.

## 19. Subsequent Events

On August 25, 2020, the Board of Directors of Rand Worldwide, Inc., declared a special dividend of $0.25 per share of common stock. The dividend, totaling approximately $8 million, will be paid on, or about October 17, 2020 to shareholders of record at the close of business on September 17, 2020.

In September 2020, holders of the Company's Series G Junior Preferred Stock converted 1,376,667 Series G shares into 1,153,647 shares of Common Stock. Following these conversions, there are 16,666 remaining Series G shares, all of which will vest in May of 2021.

Management has evaluated events and transactions through September 18, 2020, the date these financial statements were available for issuance, and, except for the dividend declaration and the Series G conversions stated above, has not identified any events that would require disclosure in the footnotes to the financial statements.