2024 Inspection TAAD LLP

(Headquartered in Diamond Bar, California)

December 22, 2025

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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2024 INSPECTION

In the 2024 inspection of TAAD LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review two audits of issuers with fiscal years ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2024 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2024	2021
Firm data		
Total issuer audit clients in which the firm was the principal auditor	16	15
Total engagement partners on issuer audit work[1]	4	2
Audits reviewed		
Total audits reviewed	2	2
Audits in which the firm was the principal auditor	2	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	2	1
Percentage of audits with Part I.A deficiencies	100%	50%

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2024 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2024		2021	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	2	**Revenue and related accounts**	1
Leases	1	**Equity and equity-related transactions**	1
Significant transactions	1	**Cash and cash equivalents**	1
		Inventory	1
		Related party transactions	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Communication Services

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The issuer's invoices did not include evidence that the issuer had met its performance obligations. The firm did not perform procedures to test revenue beyond obtaining all invoices and sending positive

confirmations to customers to confirm all invoice amounts. Further, for confirmations for which it did not receive a response, the firm proposed, and the issuer recorded, an adjusting journal entry to reverse revenue. (AS 2301.08 and .13)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not select journal entries and other adjustments for testing for evidence of possible material misstatement due to fraud. (AS 2401.61)

Audits with a Single Deficiency

Issuer B

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The issuer recorded certain sales transactions in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers*. The firm did not evaluate the appropriateness of the issuer's accounting treatment for, and presentation of, these transactions, including the consideration of certain contrary evidence. (AS 2301.08 and .13; AS 2810.03)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the area below was not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

We identified the following deficiency:

In one of two audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by certain other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

In the 2024 inspection, we did not identify, and the firm did not bring to our attention, any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. Although this section does not include any instances of potential non-compliance that we identified or the firm brought to our attention, there may be instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

October 29, 2025

Members of the Public Company Accounting Oversight Board (the "Board"):
George R. Botic
Christina Ho
Kara M. Stein
Anthony C. Thompson

And

Ms. Christine Gunia
Director of Division of Registration and Inspections ("DRI")
Public Company Accounting Oversight Board
1666 K Street NW Washington, DC 20006
United States of America

Dear Honorable Acting Chair Mr. Botic, Honorable members Ms. Ho, Ms. Stein and Mr. Thompson and Ms. Gunia,

Re: Response to the Third Draft Report on the 2024 Inspection of TAAD LLP.

We are submitting our third round of responses to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") third draft report dated September 30, 2025 (the "draft report"), on the 2024 inspection of TAAD LLP ("we" or the "Firm"). This letter along with Attachment 1 is submitted and intended to be included in our public response to the inspection report.

We are including each of the board members in this third response to the multiple revisions of DRI's draft inspection report. While we understand from discussions with DRI leadership that direct communication with the Board about the draft inspection report is not customary, this report response process has been nothing but customary. We believe the process has in large part been to both DRI's and TAAD's shared commitment to arrive at the appropriate conclusions on the quality of our audits.

We conducted a thorough evaluation of the matters identified in this third draft report, and we continue to disagree with the conclusions reached by DRI staff. We respectfully request the Members of the Board provide a comprehensive review, including an understanding of the iterations of our report, and substantive discussions with the various members of DRI staff, and an uncustomary inspection reporting process it reflects. Respectfully, in line with our shared commitment for an accurate inspection report that is grounded in PCAOB standards, we reserve the right to request the Securities and Exchange Commission (SEC) review of this report in accordance with Section 104(h) of the Sarbanes-Oxley Act of 2002.

TAAD cares deeply about ensuring our audits comply with PCAOB standards and protects investors. In that effort, we included experts highly experienced in PCAOB audit inspections and quality controls in our team that has direct impact on assessment of our quality control system. Considering all the facts and circumstances and applying our deep knowledge, understanding and experience from our quality control

experts, and through our engagement team members as experienced auditors, we believe the Firm has obtained sufficient appropriate audit evidence, and any contrary conclusion is patently erroneous. After careful examination we have conveyed our disagreements with the inspection team's (the "PCAOB Staff") conclusions as outlined in Attachment 1 (public portion) and Attachment 2 (non-public portion).

We would like to emphasize that determining whether significant engagement deficiency exists requires reviewers to exercise significant professional judgment due to ambiguous nature of inspection process. Accordingly, we strongly believe any judgment as to whether finding is a significant engagement deficiency leaves potential room for differences in opinion of equally qualified experienced auditors. We understand that "experienced auditor" is the individual who has prior experience in executing relevant PCAOB auditing standards, including AS 3101 (i.e. the one who actually signed an audit report).

We continue to support the PCAOB's goal of improving audit quality to protect investors and promote public trust through promoting informative, accurate, and independent audit reports. We remain dedicated to evaluating and improving our system of quality control, monitoring audit quality and implementing changes to our policies and practices in order to further enhance audit quality. We look forward to continuing to work with the PCAOB regarding the most effective means of achieving these objectives.

Yours sincerely,

TAAD, LLP

FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Attachment 1 – Public Portion

Part I.A

Issuer A

<u>**Revenue:**</u>

The draft report alleges that:

> *"The issuer's invoices did not include evidence that the issuer had met its performance obligations.*
>
> *The firm did not perform procedures to test revenue beyond obtaining all invoices and sending positive confirmations to customers to confirm all invoice amounts.*
>
> *Further, for confirmations for which it did not receive a response, the firm proposed, and the issuer recorded, an adjusting journal entry to reverse revenue. The firm did not perform procedures to obtain further audit evidence to address whether the adjusting journal entries were appropriate or,*
>
> *if the firm was unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the financial statements as a whole were free of material misstatement, the firm should have expressed a qualified opinion or a disclaimer of opinion. (AS 2301.08 and .13; AS 2810.35)"*

It appears that the PCAOB Staff undermines the importance of direct confirmations to be the ultimate most reliable and persuasive audit evidence. Such treatment in our view appears to be in contradiction to the guidance provided in AS 2301.09A, AS 1105.08, and AS 2310.06 that state: "***Audit evidence obtained from a knowledgeable external source is generally more reliable than evidence obtained only from internal company sources***."

As detailed below, the engagement team confirmed **100% of recorded revenue** with the ***knowledgeable external source*** in response to the lack of ***reliable evidence from internal company sources*** in accordance with AS 2301.09A, AS 1105.08, and AS 2310.06.

We vehemently disagree that the Firm did not perform procedures to test revenue *beyond obtaining all invoices and sending positive confirmations to customers to confirm all invoice amounts*. Specifically, the PCAOB Staff appear to ignore the following important procedures the engagement team performed and clearly documented in the workpapers:

- During the process of preparing confirmations, the engagement team has ***examined (not just obtained) all invoices*** and placed them as an attachment to the confirmation request letters. See work paper WP 1301.01 for a sample of invoice retained in the audit file.

- Based on walkthrough of revenue recognition process in work paper WP 1301 – Revenue and AR *Walkthrough* the engagement team noted the following:

- *The Company lacks documentation of service completion records. Not all contracts were in written form. Invoices do not provide sufficiently reliable audit evidence that performance obligation was delivered.*

  In response to the lack of sufficient evidence in the invoice, the Firm designed appropriate confirmations procedures with all customers.

- The engagement team further documented its understanding of the Company's revenue recognition process in the work paper WP 7104 - *Revenue Recognition memo*, and documented the following:

  - *Contracts are either in the form of email, oral or sales agreements in the form of invoice;*
  - *Invoices are issued when services are completed, and payments are to be collected after invoices are issued.*

  Therefore, the engagement team decided, in addition to testing invoices, to request direct confirmations from all customers covering 100% of recorded revenue population.

- The engagement team, with the assistance of the local auditor representative explained the confirmation letter purpose to the customers as well as the issuer after engagement team sent out the letters directly to the customers. See work paper WP 4353 for the example of such evidence of the customers having questions on the confirmation letter details, and signed upon satisfaction proving the customer has reviewed and understood our confirmations. Such procedures demonstrated that the customers were rightly considered the only independent knowledgeable source per AS 1105.05 which the experienced auditor is expected to consider as best available reliable audit evidence.

- Confirmation request letters sent to customers clearly stated the recorded amount of revenue and period for which such confirmation was requested. By confirming and agreeing the customers provided sufficient appropriate evidence that performance obligation was satisfied during the period under the audit. As stated above, the issuer's customers know or are expected to know the nature and timing of performance obligation under the service contracts because customers are the party who actually consumed those services.

Further, we vehemently disagree that for proposed audit adjustments the engagement team *"did not perform procedures to obtain further audit evidence to address whether the adjusting journal entries were appropriate."* We note that the PCAOB Staff appear to ignore the following important considerations that the engagement team evaluated before proposing audit adjustments that were fully discussed and agreed by management and the audit committee:

- The engagement team's evaluation of appropriateness of such adjustment began with the understanding of the revenue cycle that is documented in work paper WP 7104 - *Revenue Recognition memo*. The engagement team clearly noted that "*due to lack of description in the invoices, the Company [issuer] was unable to determine the consulting service in progress, and no other supporting documents proved the service completeness, the engagement team concluded that there was no sufficient evidence for delivery of performance obligation*." Accordingly, the

engagement team determined that there were no procedures that would provide reliable audit evidence other than examining invoices and obtaining direct confirmations from the customers. Customers in this case represent the ***knowledgeable external source*** because they are the ones who consume the services provided and should know better nature and timing of services provided.

- We remind the PCAOB Staff that critical revenue recognition criteria under ASC 606 is delivery or satisfaction of performance obligation. The management of the issuer with approval of its audit committee agreed that for certain invoices for which issuer could not produce any persuasive evidence of satisfaction of performance obligation should be deferred if consideration was paid or reversed if no payment was received. Accordingly, the management of the issuer with approval of its audit committee agreed that for those invoices lacking evidence of satisfaction of performance obligation revenue should be recognized in the current period only to the extent confirmed directly by the customers. Best independent knowledgeable source for nature and timing of services is the one who actually consumed those services which in this case is the customer. Deferred revenue would be further investigated in the subsequent periods.

- We would like to emphasize once again that the financial statements would have been materially misleading if proposed audit adjustments related to the reversal and deferral of certain revenue amounts were not posted by the issuer. Such adjustments were deemed appropriate based on the understanding of the revenue cycle and nature of the evidence available to support that performance obligation was delivered or satisfied. As discussed above there was no reliable internal evidence to support management's assertion that performance obligation was delivered or satisfied other than direct confirmations with customers. Accordingly, we strongly disagree with the PCAOB Staff allegation that the "*the firm was unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the financial statements as a whole were free of material misstatement.*" In contrary, based on sufficient appropriate audit evidence obtained the firm concluded that after these proposed adjustments the financial statements as a whole were free of material misstatement.

- We note that an experienced auditor should know that the SEC does not accept audit report with "*a qualified opinion or a disclaimer of opinion*". Any filings that include audit report with such *"a qualified opinion or a disclaimer of opinion"* would be considered as deficient and filing - delinquent. So, in our humble opinion, this part of suggested action by the PCAOB Staff goes against the SEC filing rules and should not have been included in the draft report. Doing so, the PCAOB Staff creates precedence that may be viewed as acceptable audit report practice.

Lastly, we emphasize that the PCAOB Staff attempted to formulate their alleged issues and changed their allegations several times: comment form, first draft report, second draft report, and this third draft report. It appears the PCAOB Staff simply cannot recognize they made a mistake, and that this should never have been raised as an issue in first place.

Accordingly, we demand that the Board remove these baseless findings from the final inspection report. We intend to defend our position until we exhaust all legally available venues including but not limited to requesting the SEC review.

Journal Entries:

The draft report alleges that:

> *The firm did not select journal entries and other adjustments for testing for evidence of possible material misstatement due to fraud. (AS 2401.61)*

We vehemently disagree that the Firm did not select journal entries and other adjustments for testing for evidence of possible material misstatement due to fraud, because such allegation is baseless and factually incorrect. Specifically, the PCAOB Staff appear to ignore the following important procedures the engagement team performed and clearly documented in the workpapers:

1. The engagement team identified one risk of fraud related to revenue recognition only, specifically occurrence of revenue. We note that the engagement team substantively tested 100% of recorded revenue population by obtaining direct confirmations from the customers. We understand that AS 2401 suggests that the best evidence to respond to the risk of fraud is direct confirmation with knowledge parties, who in this case are the customers consuming these services. Hence, risk of fraud related to revenue recognition was fully addressed and any journal entries made to revenue were covered within such testing.

   We note that any experienced auditor should read AS 2401 in its entirety. AS 2401.08 describes the risk of management override of controls as following: "*Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Management can either direct employees to perpetrate fraud or solicit their help in carrying it out*." AS 2401 clearly describes the risk of management override of controls as a mechanism to commit fraud. The only risk of fraud the engagement team identified was related to revenue recognition.

2. Furthermore, the engagement team searched for and did not find any entry meeting established Risk Criteria determined in accordance with AS 2401.61 in addition to revenue recognition. AS 2401.61 starts with" "*The auditor should **use professional judgment** in determining the nature, timing, and extent of the testing of journal entries and other adjustments.*" As there were no entries that met established Risk Criteria in addition to revenue recognition, there was nothing to select for testing, except for top-side entries discussed below.

3. In addition, we note that the engagement team tested **all the post-closing journal entries,** including both **audit adjustments and entries made by the Issuer consultants**. These are listed as tested in the "trial balance bridge" on the consolidation file. The "trial balance bridge" is the engagement team's independent recalculation and reconstruction of the issuer's trial balance to test consolidation process.

Accordingly, we demand that the Board remove this baseless finding from the final inspection report. We intend to defend our position until we exhaust all legally available venues including but not limited to requesting the SEC review.

Issuer B

Revenue:

The draft report alleges that:

> *"The issuer recorded certain sales transactions in accordance with FASB ASC Topic 606, Revenue from Contracts with Customers. The firm did not evaluate the appropriateness of the issuer's accounting treatment for, and presentation of, these transactions, including the consideration of certain contrary evidence. (AS 2301.08 and .13; AS 2810.03)"*

We vehemently disagree that the Firm did not evaluate *the appropriateness of the issuer's accounting treatment for, and presentation of, these transactions, including the consideration of certain contrary evidence."* We emphasize that the engagement team reviewed and evaluated each contract individually covering 100% of this revenue stream. Based on our review of each contract, the engagement team agreed with the management assertion that sales of property met ASC 606 revenue recognition criteria because each contract was with the customer.

We note that these financial statements have been reviewed by the SEC Staff as part of their regular review of F-1 filing. The SEC Staff in its comment letter did not raise any issues with *accounting treatment for, and presentation of, these transactions*. We include the previously provided SEC's Notice of Effectiveness of F-1 filing dated December 9, 2024 by reference.

The experienced auditor should be expected to know that the FASB included a decision tree in ASC 610-20-15-10 to help entities determine the appropriate derecognition model to apply when they sell or transfer assets to a counterparty. The decision tree addresses scope exceptions to ASC 610-20 starting with first step asking whether a counterparty is a customer, and if answer is Yes, it refers to application of ASC 606. Since each contract reviewed by the engagement team was determined to be with the customer under this FASB guidance the only appropriate accounting treatment was to apply provisions of ASC 606.

Figure PPE 6-2

Determining assets that are in the scope of ASC 610-20 for derecognition

Furthermore, we note that the draft report is silent about alleged "*certain contrary evidence.*" To get better understanding of this allegation the Firm requested a meeting with the PCAOB Staff. During the meeting on October 3, 2025, the PCAOB Staff orally represented that the factors the PCAOB inspection team considered as "*certain contrary evidence"* are those communicated in the respective comment form. We list below those factors communicated to the Firm in the respective comment form (presented in numerical order for convenient organization of our responses).

1) The Issuer referred to third parties buying the salons as "investors" in its public filings and the contingent fee contemplates an investment yield on the purchase price to be paid to the investors;

2) The Issuer identified certain directly owned stores for sale to investors in 2023 but did not reclassify the assets related to these stores to an asset held for sale account, as would be expected for assets being sold in a business' ordinary activity;

3) The new business model was implemented in response to events that materially adversely affected the Issuer's revenues, results of operations, and cash flows; and

4) Paragraph BC53 of FASB ASU 2014-09 indicates the notion of "ordinary activities" is derived from the definition of "revenue" in FASB Concepts Statement 6 (codified in 606-10-20) referring to an entity's "ongoing, major or central operations." In footnote 1 to the financial statements, the Issuer described its business as "a franchisor and operator of healthcare salons across Japan" with the Relaxation Salon segment as the core of the business that owns, develops, operates, or franchises and supports relaxation salons, which does not include the new business model.

5) The Service Agreements were effective on the same day or on the day following the sale of the salons;

6) The Issuer's services to operate the store took effect immediately with no service interruption given the Issuer continued collecting on revenue and paying all operating expenses, and continued accounting processes, all of which indicated that the Contracts were contemplated together;

7) The Issuer described the new strategy as a plan to "sell certain of the owned salons to investors and charge management fees from such sold salons" and also stated it has "sold, and plan to continue to sell, certain of our owned salons to investors and charge management fees from such sold salons;" and

8) The management fee calculation indicated the Issuer may not earn a management fee on all Service Agreements, as evidenced by nine of 22 stores tested having no success fee earned.

The engagement team tested 100% of revenue from sale of salons. This test included among others reviewing each individual contract with customers to determine proper accounting treatment of each contract individually. Accordingly, the allegation that the engagement team *did not evaluate the appropriateness of the issuer's accounting treatment for, and presentation of, these transactions* is factually incorrect. Because each contract with the customer reviewed by the engagement team determines what performance obligation is, the engagement team performed sufficient appropriate procedures to test the Issuer's accounting treatment for, and presentation of, revenue from sale of salons.

As related to each alleged "*contrary evidence*", we note following:

1) The term "investors" in the Issuer's public filings is merely a conventional label. It does not carry any legal or accounting meaning. It is widely accepted practice to label customers with different names such as "clients", "patrons", "buyers", "consumers", or "investors" depending on the nature of the contract the Company has with the customer. Such conventional labeling has nothing to do with accounting treatment of the contract with customers under ASC 606. The competent experienced auditor should look at the substance of contract with customers rather than labeling used by the Issuer.

   Furthermore, the allegation that "*the contingent fee contemplates an investment yield on the purchase price to be paid to the investors*" is factually not accurate because the contingent fee is paid to the Issuer – not to the buyer (investor). An investment yield would suggest that the Issuer promises a fixed or predetermined return on investment, which in this case is not true. Per contracts reviewed by the engagement team, the buyers (investors) were not promised or indicated any return on

investments and the success fees cannot be negative. Accordingly, success [contingent] fees do not in any form or shape represent a return on investments or "*investment yield*".

2) The competent experienced auditor should know that ASC 360-10-45-9 requires that a long-lived asset (disposal group) should be classified as held for sale in the period in which all of the held for sale criteria are met (listed below for your reference). All criteria must be met at or prior to the balance sheet date for a long-lived asset (disposal group) to qualify as held for sale. The sale of directly owned salons in 2023 did not meet all of the held for sale criteria under ASC 360-10-45-9. All these salons were in operation as of December 31, 2022 and mere intention to sell them does not automatically trigger reclassification.

   - Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
   - The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
   - An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
   - The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year.
   - The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
   - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

3) This point is irrelevant because the reason or causation for creating this business model has nothing to do with the determination that this revenue from the sale of directly owned salons is considered "ongoing, major and central operations" and "ordinary activity" as defined under ASC 606.

4) In footnote 13, the Issuer disclosed a disaggregation of revenue, which showed that revenue from the sale of directly owned salons represents the second largest revenue stream and considered a sizeable revenue stream compared to other streams. Accordingly, revenue from the sale of directly owned salons is considered "ongoing, major and central operations" and "ordinary activity" as defined under ASC 606.

   Also, the allegation that "*In footnote 1 to the financial statements, the Issuer described its business as "a franchisor and operator of healthcare salons across Japan" with the Relaxation Salon segment as the core of the business that owns, develops, operates, or franchises and supports relaxation salons, which does not include the new business model*" is not entirely accurate because in order to sell a salon the Issuer first must own and develop it in first place. Furthermore, a description of the business as "a franchisor and operator of healthcare salons across Japan" on itself does not preclude or negate appropriateness of determining that revenue from sale of salons is "ongoing, major and central operations" and "ordinary activity" as defined under ASC 606.

   If one follows PCAOB inspection team logic none of the revenue streams that are not listed in the description of the business such as 'other revenue' should be considered a revenue. This would be contrary to generally accepted practice. More importantly, the Issuer disclosed the amount of revenue from the sale of directly owned salons under the segment "Relaxation Salon" clearly showing components of Relaxation Salon segment.

5) The allegation that "*the Service Agreements were effective on the same day of the sale of the salons*" is factually inaccurate. None of the Service Agreements were effective on the same date as closing date for Sale Agreement. The fact that there is at least one day between the closing date of the Sale Agreement and the date of the Service Agreement is strong evidence that the buyers (investors) had a chance to walk away and avoid the Service Agreement if they choose so. Performance obligation under Sale Agreement was not conditional on the Service Agreement and was fully satisfied at the closing date by delivering full control and access over the salon to the buyer (investor) prior to the Issuer entering into the Service Agreements.

6) The allegation that "*the Contracts were contemplated together*" is baseless. The Service Agreements are proposed to the potential buyers as best solution to avoid any interruptions in the operations of the salons. In addition, offering a success fee is a marketing technique to encourage customers to choose the Issuer to provide services compared to customers running the operations themselves or selecting third party operators.

7) The Issuer's new strategy to "*sell certain of the owned salons to investors and charge management fees from such sold salons*" is just a strategic plan to attract buyers as new customers to grow management services line of business. It is natural for the Issuer to attempt to grow its business by all means available, including incentivizing new investors to stay with the Issuer for their operational needs. Such a strategy does not in any form or shape suggest that subsequent contract with the same customer should be considered as one arrangement.

8) The fact that 9 out of the 22 stores tested having no success fee earned is not a relevant factor because this is a business risk the Issuer takes on when marketing its success fee structure which is consistent to all contracts regardless of sale price of sold salons. We can put the same statistics in a positive way by stating the obvious fact that the majority (13 out of the 22) stores tested had positive success fees, which is strong evidence for the viability of business strategy for a new line of business.

   As success fees are dependent on the actual profit margin of each salon, it is expected that such a portion of the management service fees may vary among serviced salons. The management service fee primarily comprised of reimbursement of all costs incurred by the Issuer to manage the salon, plus a success fee. The fee structure is consistent across all contracts and therefore represents the standalone value of the management services, regardless of the sale price of each salon.

Lastly, we emphasize that the PCAOB Staff attempted to formulate their alleged issues and changed their allegations several times: first comment form, first draft report, second draft report, second comment form, and this third draft report. It appears the PCAOB Staff simply cannot recognize they made a mistake, and that this should never have been raised as an issue in first place.

Accordingly, we demand that the Board remove this baseless finding from the final inspection report. We intend to defend our position until we exhaust all legally available venues including but not limited to requesting the SEC review.

Part I.B

The draft report further alleges that:

> *In one of two audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by certain other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, Auditor Reporting of Certain Audit Participants.*

We respectfully disagree with the PCAOB Staff interpretation of Rule 3211, which lead them to believe that *certain other accounting firms* participated in the audit. Our engagement letters (contracts) were with individuals (not other accounting firms). At the time of these respective engagements back in 2023 we were not aware of any evidence suggesting that those individuals had any working relationship with other accounting firms.

During the PCAOB inspection week on April 1, 2024, the PCAOB inspection team requested that we search on the web (google) to find out whether these individuals worked for other accounting firms. Based on such request, we searched and found certain instances where certain individuals might have working relationships with other firms. We note that the PCAOB inspection team used hindsight information to raise this issue. There was no evidence that such relationships discovered during the inspection week on April 1, 2024 actually existed during the execution of this audit back in 2023.

Accordingly, the PCAOB Staff does not have reasonable basis to allege that these individuals actually worked for other accounting firms during the execution of this audit in 2023.

Nevertheless, we note that it is a general practice that individual contractors may work for multiple firms at the same time and such fact alone does not make those other accounting firms to be considered "participated" in each others audits.

We seek further guidance from the Board on its Staff's interpretation of Rule 3211 that would clearly instruct firms to define individuals as accounting firms only because such individuals happen to be sub-contractors for multiple firms at the same time. Following such logic, if individual A provides contractor services to multiple firms (firm B, C and D) would each of those accounting firms be considered "participated" in each other's audits and all firms B, C and D should be included in Form AP.

Accordingly, we kindly request the Board to reconsider this finding and do not include it in the final inspection report.