

Financial Statements
Eight O'Clock Coffee Company
For the year ended March 31, 2020

Eight O' Clock Coffee Company
Balance Sheets
March 31, 2020 and 2019
(in thousands of US dollars)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	13,213	4,536
All other current assets	35,673	32,840
Total current assets	48,886	37,376
Property, plant and equipment, net	15,765	16,084
Intangible assets, net	58,967	63,067
Goodwill	114,700	114,700
Total assets	<u>238,318</u>	<u>231,227</u>
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable and accrued expenses	24,775	20,541
Current portion of long-term debt	3,500	3,500
Related party payable	3,167	3,869
Total current liabilities	31,442	27,910
Long-term debt, net of current portion	89,058	92,488
Other liabilities	26,145	23,991
Total liabilities	<u>146,645</u>	<u>144,389</u>
Stockholder's equity		
Common stock, par value \$.01; 10,000 shares authorized, 1,000 issued and outstanding		
Additional paid-in capital	59,900	59,900
Retained earnings	30,582	30,470
Accumulated other comprehensive loss	1,191	(3,532)
Total stockholder's equity	<u>91,673</u>	<u>86,838</u>
Total liabilities and stockholder's equity	<u>238,318</u>	<u>231,227</u>

/s/ SUSAN DONDERO

Susan Dondero

VP Finance

Date: May 12, 2020

Eight O' Clock Coffee Company
Statements of Income
Years Ended March 31, 2020 and 2019
(in thousands of US dollars)

	2020	2019
Sales, net	158,750	157,932
Cost of goods sold	<u>108,765</u>	<u>113,040</u>
Gross profit	49,985	44,892
Selling, general and administrative expenses	<u>24,023</u>	<u>25,759</u>
Income from operations	25,962	19,133
Interest expense	<u>4,791</u>	<u>5,111</u>
Income before income taxes	21,171	14,022
Provision for income taxes	<u>6,274</u>	<u>4,781</u>
Net income	<u><u>14,897</u></u>	<u><u>9,241</u></u>

/s/ SUSAN DONDERO

Susan Dondero

VP Finance

Date: May 12, 2020

Eight O' Clock Coffee Company
Statements of Cash Flows
Years Ended March 31, 2020 and 2019
(in thousands of US dollars)

	2020	2019
Cash flows from operating activities		
Net income	14,897	9,241
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	6,674	7,337
Deferred income taxes	(37)	(92)
Amortization of deferred financing costs	71	71
Change in fair value of derivative instruments	3,498	(3,348)
Changes in operating assets and liabilities		
Accounts receivable	(3,535)	2,898
Inventories	(1,384)	(2,592)
Prepaid expenses and other current assets	6,372	(3,495)
Accounts payable and accrued expenses	3,173	(2,003)
Related party payable/receivable	(696)	2,290
Net cash provided by operating activities	<u>29,033</u>	<u>10,307</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(2,070)</u>	<u>(862)</u>
Net cash used in investing activities	<u>(2,070)</u>	<u>(862)</u>
Cash flows from financing activities		
Dividends paid	(14,786)	(10,000)
Proceeds from draw down on revolver	-	6,000
Repayment of long-term debt and revolver	<u>(3,500)</u>	<u>(7,750)</u>
Net cash used in financing activities	<u>(18,286)</u>	<u>(11,750)</u>
Net change in cash and cash equivalents	8,677	(2,305)
Cash and cash equivalents		
Beginning of year	<u>4,536</u>	<u>6,841</u>
End of year	<u>13,213</u>	<u>4,536</u>

/s/ SUSAN DONDERO

Susan Dondero

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Date: May 12, 2020

1. Description of Business and Basis of Presentation

Organization of the Company

Eight O'Clock Coffee Company ("EOC" or the "Company") is a wholly owned subsidiary of Consolidated Coffee Inc. ("CCI").

The following information outlines the Company's adopted accounting policies to maintain compliance with generally accepted accounting policies in the United States of America.

Nature of Operations

The Company is engaged in the business of manufacturing, distributing and selling coffee products to the supermarket, mass, club, dollar, military and convenience channels. The Company purchases coffee beans then roasts, packages and distributes the roasted coffee to customers primarily within the United States.

2. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized when our performance obligation is satisfied. Our primary performance obligation is satisfied upon the shipment or delivery of products to our customers. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales incentives, costs of certain promotional items, such as slotting fees, trade promotion expenses and discounts are primarily accounted for as a reduction of revenue. The Company estimates and records provisions for returns and other allowances in the period the sale is recorded based upon its past experience.

Royalty Income

Royalty income includes fees generated by licensing the Company's trademark throughout the US and Canada. Licensing fees are recognized when earned, which is generally upon sale of the underlying products by the licensees and are recorded in net sales.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Management reviews its allowance for doubtful accounts periodically and determines the allowance based on the historical write-off experience. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged against the allowance when management determines it is probable the receivable will not be recovered. There are no off-balance-sheet credit exposures related to customers.

Inventories, net

Inventories are stated at the lower of cost, as determined by using the first-in, first-out method, or market.

Property Plant and Equipment, net

Property plant and equipment are recorded at cost. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed utilizing the straight-line method over the shorter of the remaining lease term or estimated useful life. The cost and accumulated depreciation and amortization applicable to assets retired or otherwise disposed of are removed from the asset accounts and any gain or loss is included in the consolidated statement of income and comprehensive income. Repairs and maintenance costs are expensed as incurred. The construction costs of new or refurbished equipment are capitalized and included in construction in progress until completed.

Deferred Financing Costs

The costs incurred for obtaining financing are deferred and amortized to interest expense using the straight line method over the life of the related financing agreements.

Sales Incentives and Trade Promotional Allowances

The Company records the costs of certain promotional items, such as slotting fees and trade promotion expenses, as a reduction of sales.

Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. The more significant estimates include valuation of goodwill and intangible assets, fair value of financial instruments, useful lives of long-lived assets, sales returns, allowances and trade promotions. Actual results could differ from those estimates.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including finite lived intangible assets, for impairment whenever events or circumstances change such that there is an indication that the carrying amounts may not be recoverable. If the estimated cash flows from the use of an asset and its eventual disposition are below its carrying value, then the asset is deemed to be impaired and written down to its estimated fair value.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair market value of net assets of the acquired business at the date of acquisition. The Company tests for impairment annually using a two-step process. The first step identifies potential impairment by comparing the fair value of the Company's reporting unit to its carrying value. If the fair value is less than the carrying value, the second step measures the amount of impairment, if any. The impairment loss is the amount by which the carrying amount of goodwill exceeds the implied fair value of that goodwill.

Intangible assets are recorded at cost. Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives.

Derivative Financial Instruments

The Company utilizes derivative instruments such as interest rate swap contracts and coffee futures and option contracts, to manage exposure to changes in interest rates and commodity prices. The Company accounts for these derivative instruments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. For derivatives designated as a cash flow hedge that are used to hedge an anticipated transaction, changes in fair value are deferred and recognized in shareholders' equity as a component of accumulated other comprehensive (loss) income to the extent the hedge is effective, and then recognized in the consolidated statement of income and comprehensive income in the period during which the hedged transaction affects earnings. Any ineffectiveness associated with the hedge or changes in fair value of derivatives that are nonqualifying are recognized immediately in the consolidated statement of income and comprehensive income. Cash flows from hedging transactions are classified in the same categories as the cash flows from the respective hedged items.

Fair Value of Financial Instruments

The Company's material financial instruments consist primarily of cash, accounts receivable, accounts payable, related party payables and receivables, and accrued expenses, long-term debt, interest rate contracts, coffee futures and option contracts. The fair values of cash, accounts receivable, accounts payable, related party payables and receivables, and accrued expenses approximate their carrying values based on their liquidity. The fair value of the coffee futures and option contracts are based upon quoted prices in active markets. The fair values of the interest rate swap contracts are based primarily on the present value of the difference between the market rate and the contract rate.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company sells primarily to large companies and extends reasonably short collection terms and performs credit evaluations. The Company maintains reserves for potential credit losses. Such losses, in the aggregate, have not exceeded management's estimates.

Advertising, Promotions and Marketing

The costs for advertising, promotion and marketing programs are expensed in the year incurred and are included in selling and marketing expenses.

Income Taxes

CCI files a consolidated federal tax return. Eight O'Clock Coffee Company, Inc. ("EOC") is included in the consolidated federal income tax returns of CCI. EOC's tax liability is computed as if the Company filed a separate federal income tax return. When the Company reports a taxable income or loss, it will currently recognize the respective tax provision or tax benefit for accounting purposes. The related income tax receivable or payable is settled with CCI.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Under ASC 740, assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded if it is more likely than not that a deferred tax asset will not be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

Subsequent events

The impact that the recent COVID-19 outbreak will have on our consolidated results of operations is uncertain. While we have seen increased orders from retail customers in North America in March 2020 in response to increased consumer demand for food at home, near-term elevated retail customer orders may decrease in the coming months. Restrictions by the government or local authorities may limit the opportunity for our customers and consumers to purchase our products. If a significant percentage of our workforce or the workforce of our suppliers is unable to work, including because of illness or travel or government restrictions in connection with this pandemic, our operations may be negatively impacted. The financial impact if any of these occur cannot be reasonably estimated at this time.