

# COMPLIANCE CERTIFICATE

Pursuant to Section 4 of the Credit Agreement

---

## Harbor Retail Group, LLC

For the Fiscal Quarter Ended September 30, 2025

---

### COVENANT BREACH NOTICE

Interest Coverage Ratio has fallen below the minimum required level.  
Management is actively engaging with lender regarding remediation.

## OFFICER'S CERTIFICATION

I, the undersigned Chief Financial Officer of Harbor Retail Group, LLC (the "Borrower"), hereby certify to Commerce Bank & Trust (the "Agent") as follows:

## FINANCIAL COVENANT COMPLIANCE

### 1. Leverage Ratio (Maximum 4.50:1.00)

| Component                              | Amount         |
|--|----------------|
| Total Debt (as of September 30, 2025)  | \$31,200,000   |
| EBITDA (TTM ending September 30, 2025) | \$7,150,000    |
| <b>Leverage Ratio</b>                  | <b>4.36x</b>   |
| Covenant Requirement                   | Maximum 4.50x  |
| <b>Status</b>                          | <b>WARNING</b> |
| Headroom                               | 3.1%           |

### 2. Interest Coverage Ratio (Minimum 2.00:1.00)

| Component  | Amount        |
|--|---------------|
| EBITDA (TTM ending September 30, 2025)           | \$7,150,000   |
| Interest Expense (TTM ending September 30, 2025) | \$3,972,000   |
| <b>Interest Coverage Ratio</b>                   | <b>1.80x</b>  |
| Covenant Requirement                             | Minimum 2.00x |
| <b>Status</b>                                    | <b>BREACH</b> |
| Shortfall  | -10.0%        |

**BREACH EXPLANATION:**

The Interest Coverage Ratio of 1.80x is below the required minimum of 2.00x. This breach is attributable to:

- Declining same-store sales (-8.2% YoY) due to increased e-commerce competition
- Rising interest rates increasing debt service costs by \$680,000 annually
- Store closure costs in Q2 2025 (\$1.2M one-time charge)
- Inventory write-downs of \$850,000 related to seasonal merchandise

**Remediation Plan:** Management has engaged restructuring advisors and is in active discussions with the lender regarding a potential covenant waiver and amendment.

**3. Fixed Charge Coverage Ratio (Minimum 1.10:1.00)**

| Component                          | Amount             |
|------------------------------------|--------------------|
| EBITDA                             | \$7,150,000        |
| (-) Capital Expenditures           | (\$1,850,000)      |
| (-) Cash Taxes Paid                | (\$425,000)        |
| <b>Numerator</b>                   | <b>\$4,875,000</b> |
| Interest Expense                   | \$3,972,000        |
| (+) Scheduled Principal            | \$2,500,000        |
| <b>Denominator</b>                 | <b>\$6,472,000</b> |
| <b>Fixed Charge Coverage Ratio</b> | <b>0.75x</b>       |
| Covenant Requirement               | Minimum 1.10x      |
| <b>Status</b>                      | <b>BREACH</b>      |
| Shortfall                          | <b>-31.8%</b>      |

**EBITDA CALCULATION (Trailing Twelve Months)**

|               | Q4 '24          | Q1 '25          | Q2 '25          | Q3 '25          | TTM             |
|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue       | \$18.2M         | \$14.8M         | \$15.1M         | \$14.5M         | \$62.6M         |
| Net Income    | \$420K          | (\$180K)        | (\$650K)        | \$85K           | (\$325K)        |
| Interest Exp. | \$920K          | \$985K          | \$1,032K        | \$1,035K        | \$3,972K        |
| Taxes         | \$105K          | \$0             | \$0             | \$21K           | \$126K          |
| Depreciation  | \$680K          | \$695K          | \$702K          | \$690K          | \$2,767K        |
| Amortization  | \$150K          | \$150K          | \$155K          | \$155K          | \$610K          |
| <b>EBITDA</b> | <b>\$2,275K</b> | <b>\$1,650K</b> | <b>\$1,239K</b> | <b>\$1,986K</b> | <b>\$7,150K</b> |

## DEBT SCHEDULE

| Debt Instrument                      | Outstanding         | Rate         |
|--------------------------------------|---------------------|--------------|
| Commerce Bank Term Loan              | \$22,500,000        | SOFR + 4.00% |
| Commerce Bank Revolver (fully drawn) | \$6,200,000         | SOFR + 4.00% |
| Equipment Financing                  | \$1,800,000         | 7.25% Fixed  |
| Capital Leases (store fixtures)      | \$700,000           | Various      |
| <b>Total Debt</b>                    | <b>\$31,200,000</b> |              |

## LIQUIDITY POSITION

|                        |                    |
|------------------------|--------------------|
| Cash on Hand           | \$1,850,000        |
| Revolver Availability  | \$0 (fully drawn)  |
| <b>Total Liquidity</b> | <b>\$1,850,000</b> |

## NEXT STEPS

1. Request formal waiver of Q3 2025 covenant breaches
2. Present turnaround plan to lender by November 30, 2025
3. Engage in amendment discussions for relaxed covenants
4. Explore strategic alternatives including store closures and asset sales

## HARBOR RETAIL GROUP, LLC

By: \_\_\_\_\_

Name: Sandra Chen

Title: Chief Financial Officer

Date: November 10, 2025