NORTH STATE GROCERY, INC.

FINANCIAL STATEMENTS
December 28, 2013 and December 29, 2012

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NEAL & LEIDHOLDT
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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
North State Grocery, Inc.
Cottonwood, California

Report on the Financial Statements

We have audited the accompanying financial statements of North State Grocery, Inc., (a California S-Corporation), which comprise the balance sheets as of December 28, 2013 and December 29, 2012, and the related statements of income, retained earnings, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North State Grocery, Inc. as of December 28, 2013 and December 29, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 16-17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Neal & Leidholdt

Redding, California
July 22, 2014

NORTH STATE GROCERY, INC.
BALANCE SHEETS
December 28, 2013 and December 29, 2012

ASSETS

		2013		2012
CURRENT ASSETS:				
Cash	$	1,363,700	$	2,443,739
Trade receivables (net of allowances for doubtful accounts of $47 and $316, respectively)		59,632		50,421
Other receivables (net of allowances for doubtful accounts of $60,946 and $66,591, respectively)		709,761		594,542
Merchandise inventory		9,772,139		9,696,580
Prepaid expenses		454,483		433,700
TOTAL CURRENT ASSETS		12,359,715		13,218,982
PROPERTY AND EQUIPMENT (Note 2):		25,507,801		25,240,952
Less accumulated depreciation		(16,254,282)		(17,309,349)
PROPERTY AND EQUIPMENT, NET		9,253,519		7,931,603
OTHER ASSETS:				
Off-sale liquor licenses		588,754		486,924
Investment in real estate (Note 3)		1,390,651		1,390,651
Goodwill – net (Note 1)		1,054,006		1,054,006
Covenants not to compete - net of accumulated amortization (Note 4 and 13)		0		2,274
Loan fees - net of accumulated amortization (Note 4)		161,664		71,500
Deposits		56,930		59,941
Cash surrender value of officers' life insurance		86,489		38,969
TOTAL OTHER ASSETS		3,338,494		3,104,265
TOTAL ASSETS	$	24,951,728	$	24,254,850

LIABILITIES AND STOCKHOLDERS' EQUITY

	2013	2012
CURRENT LIABILITIES:		
Current maturities of notes payable (Note 5 and 13)	$ 1,167,639	$ 2,519,439
Obligations under capital leases, current portion (Note 6)	83,501	120,859
Trade accounts payable and disbursements outstanding	7,726,101	8,027,065
Accrued wages, payroll taxes, and employee benefits withheld	2,000,943	1,897,568
Accrued liabilities (Note 13)	1,675,883	1,473,541
Deferred income taxes (Note 10)	2,080	1,688
TOTAL CURRENT LIABILITIES	12,656,147	14,040,160
LONG-TERM LIABILITIES:		
Notes payable, net of current maturities (Note 5 and 13)	9,254,639	10,040,500
Obligations under capital leases, net of current portion (Note 6)	66,475	135,489
Accrued interest expense	166,750	151,750
Deferred income taxes (Note 10)	12,056	12,180
TOTAL LONG-TERM LIABILITIES	9,499,920	10,339,919
TOTAL LIABILITIES	22,156,067	24,380,079
STOCKHOLDERS' EQUITY:		
Common stock, no par value, 1,000,000 shares authorized, 222,800 shares issued and outstanding	11,140	11,140
Additional paid in capital (Note 12)	3,271,537	3,145,491
Unearned ESOP shares (Note 9)	(927,153)	(1,043,048)
Accumulated earnings (deficit)	440,137	(2,238,812)
TOTAL STOCKHOLDERS' EQUITY	2,795,661	(125,229)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,951,728	$ 24,254,850

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF INCOME
For The Year Ended December 28, 2013 and December 29, 2012

	2013		2012	
	Amount	%	Amount	%
SALES	$ 182,907,653	100.0	$ 175,277,974	100.0
COST OF SALES	134,789,931	73.7	129,863,634	74.1
GROSS PROFIT	48,117,722	26.3	45,414,340	25.9
Lottery income	81,946	.0	68,923	.0
Money order fees	18,078	.0	15,617	.0
Miscellaneous income	196,151	.2	224,605	.1
TOTAL OPERATING REVENUES	48,413,897	26.5	45,723,485	26.0
OPERATING EXPENSES	44,224,316	24.2	42,936,797	24.4
INCOME FROM OPERATIONS (Note 14)	4,189,581	2.3	2,786,688	1.6
OTHER INCOME (EXPENSES):				
Interest income	0	.0	115	.0
Interest expense	(853,873)	(.5)	(952,667)	(.6)
Gain (loss) on disposal of assets	(233,240)	(.1)	(64,596)	(.0)
OTHER EXPENSES, NET	(1,087,113)	(.6)	(1,017,148)	(.6)
INCOME (LOSS) BEFORE TAXES	3,102,468	1.7	1,769,540	1.0
Income tax (expense) benefit (Note 10)	(69,305)	(.0)	(9,301)	(.0)
NET INCOME (LOSS)	$ 3,033,163	1.7	$ 1,760,239	1.0

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For The Year Ended December 28, 2013 and December 29, 2012

2013

	Common Stock	Paid In Capital	Unearned ESOP Share	Accum. Earnings	Total
Beginning Balance	$ 11,140	$ 3,145,491	$ (1,043,048)	$ (2,238,812)	$ (125,229)
Current Period Income	0	0	0	3,033,163	3,033,163
Shareholder Distributions	0	0	0	(457,329)	(457,329)
ESOP Funding	0	126,046	115,895	103,115	345,056
Ending Balance	$ 11,140	$ 3,271,537	$ (927,153)	$ 440,137	$ 2,795,661

2012

	Common Stock	Paid In Capital	Unearned ESOP Share	Accum. Earnings/ (Deficit)	Total
Beginning Balance	$ 11,140	$ 3,104,841	$ (1,158,943)	$ (3,832,724)	$ (1,875,686)
Current Period Inc(Loss)	0	0	0	1,760,239	1,760,239
Shareholder Distributions	0	0	0	(222,150)	(222,150)
ESOP Funding	0	40,650	115,895	55,823	212,368
Ending Balance	$ 11,140	$ 3,145,491	$ (1,043,048)	$ (2,238,812)	$ (125,229)

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF CASH FLOWS
For The Year Ended December 28, 2013 and December 29, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 3,033,163	$ 1,760,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,150,824	1,157,308
Loss on disposition of fixed assets	233,240	64,596
(Increase) Decrease in cash surrender value of life insurance	(47,520)	(33,106)
Increase (Decrease) in deferred income tax liability	268	(535)
Changes in current assets and liabilities:		
Trade accounts receivable	(9,211)	8,776
Other accounts receivable	(115,219)	250,463
Merchandise inventory	(75,559)	(284,673)
Prepaid expenses	(20,783)	(173,562)
Deposits	3,011	(1,754)
Trade accounts payable	(300,964)	730,939
Accrued salaries and wages, payroll taxes and employee benefits	103,375	321,188
Accrued liabilities	202,342	(531,792)
Accrued interest	15,000	15,000
NET CASH PROVIDED BY OPERATIONS	4,171,967	3,283,087
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of liquor license	(101,830)	0
Proceeds from sale of assets	16,961	2,750
Purchase of property and equipment	(2,705,831)	(1,730,155)
NET CASH (USED) BY INVESTING ACTIVITIES	(2,790,700)	(1,727,405)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings on notes payable	429,094	1,082,469
Principal payments on notes payable	(2,566,755)	(941,360)
ESOP Funding	345,056	212,368
Proceeds from borrowings on capital leases	15,667	43,876
Shareholder distributions	(457,329)	(222,150)
Payment of loan fees	(105,000)	0
Payments on capital leases	(122,039)	(137,578)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(2,461,306)	37,625
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,080,039)	1,593,307
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,443,739	850,432
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,363,700	$ 2,443,739

See accompanying notes and accountant's report.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS ACTIVITY OR NATURE OF BUSINESS - The Company engages in the business of retail grocery sales. As of the balance sheet date, operations consisted of stores in nineteen locations throughout Northern California.

ACCOUNTING PERIOD - The Company has adopted a 52-53 week fiscal year and has elected to end its accounting period on the last Saturday in December.

ACCOUNTING METHOD - The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles, whereby revenues are recognized when earned, and expenses are recognized when incurred.

CASH AND CASH EQUIVALENTS - For purposes of the accompanying statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments purchased with an original maturity of three months or less.

CONCENTRATION OF CREDIT RISK – The Company's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit; however, the Company believes that the credit risk is nominal. As of December 28, 2013 and December 29, 2012, the Company had cash and cash equivalents in excess of the FDIC insured limit of $350,514 and $937,795, respectively.

ACCOUNTS RECEIVABLE - Allowances and reserves for doubtful accounts have been recorded at December 28, 2013 and December 29, 2012. The Company's policy is not to accrue interest on accounts receivable. Accounts are written off as uncollectable at the time management determines that collection is unlikely.

INVENTORIES - Merchandise inventory is valued at cost, as determined by the first-in, first-out method, or by a method similar to the retail inventory method. This latter method involves pricing the individual inventory items at current retail prices and reducing the amounts so determined to current replacement cost by the application of appropriate mark-up percentages.

PROPERTY AND EQUIPMENT - Additions to property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; except for leasehold improvements, which are generally amortized over the lesser of the lease term or the estimated useful lives of the improvements.

Estimated useful lives are as follows:

Description	Lives Years
Store fixtures and equipment	3-15
Leasehold improvements	6-40

INTANGIBLE ASSETS - Intangible assets, including liquor licenses, are stated at cost less accumulated amortization. Amortization has been provided for on a straight-line basis for covenants not to compete and leasehold acquisition costs. Covenants not to compete and leasehold acquisition costs are amortized over the lives of the underlying agreements, on the straight-line method.

GOODWILL – The Company has classified as goodwill the cost in excess of the carrying value of net assets related to the acquisition of several businesses from their former owners. The company tests goodwill annually for impairment. If goodwill is determined to be impaired, it will be adjusted to its fair value. The value of the goodwill at December 28, 2013 and December 29, 2012 is $1,054,006 and $1,054,006, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) – The Company accounts for its ESOP in accordance with FASB Accounting Standards Codification (ASC) 718-40, *Employee Stock Ownership Plans*. Accordingly, shares pledged as collateral are reported as "Unearned ESOP Shares" in the Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares.

Dividends on unallocated shares are recorded as compensation expense. Dividends on allocated shares are recorded as a reduction in retained earnings.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LITIGATION - Although the Company is involved in certain legal actions and lawsuits, it is the opinion of management, after consultation with counsel, that the resolution of such actions will not have a material adverse effect on the financial statements.

INCOME TAXES – The company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code and the California Income Tax Code. Under those tax provisions the Company generally does not pay federal corporate income taxes on its taxable income. Instead, the stockholder's are liable for individual income taxes on his share of the Company's taxable income for both federal and California tax purposes.

The Company, however, is required to pay a 1.5% California corporate tax in addition to the taxes paid to California by its stockholders. Accordingly, the Company accounts for income taxes in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 740. Deferred taxes are provided for accumulated temporary differences due to basis differences for assets and liabilities for financial reporting and income tax purposes.

It is the Company's policy to include interest and penalties assessed by income taxing authorities as a component of income tax expense. No such penalties and interest were incurred during the years ended December 28, 2013 and December 29, 2012. The Company's federal and state income tax returns for 2010 through 2013 are subject to examination (generally for the three years after they are filed and four years for California) by the Internal Revenue Service and the State of California.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FASB ASC 740 details how companies should recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts.

The Company did not have unrecognized tax benefits as of December 28, 2013 and December 29, 2012, and does not expect this to change significantly over the next 12 months.

PRESENTATION OF SALES TAX – The State of California and counties within the State impose a sales tax on certain products the Company sells to customers. The Company collects that sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

ADVERTISING – Advertising costs are expensed as incurred. Advertising expenses for the years ended December 28, 2013 and December 29, 2012 were $280,822 and $544,192, respectively.

Note 2 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 28, 2013 and December 29, 2012:

	2013	2012
Fixtures and equipment	$ 17,380,985	$ 16,959,528
Leasehold improvements	5,926,622	5,797,452
Vehicles	654,189	743,609
Office equipment	1,546,005	1,740,363
TOTAL	$ 25,507,801	$ 25,240,952

Note 3 INVESTMENT IN REAL ESTATE

In a prior year the Company foreclosed on the note receivable from Violet Plaza, LLC. As a result of the foreclosure, the Company received a piece of real estate valued at $1,390,651 and had to assume a note payable of $500,000 payable to various individuals and a profit sharing plan. Also, as a result of the transaction the Company booked an interest expense accrual of $166,750 related to the note payable the Company assumed.

Note 4 INTANGIBLE ASSETS

Various covenants not to compete have been acquired and capitalized in the purchase of several store locations and are being amortized using the straight-line method over terms ranging from seven to fifteen years. Costs incurred in connection with obtaining financing through the bank have been capitalized and are being amortized using the straight-line method over the life of the related financing arrangement. Amortization expense for the year ended December 28, 2013 and December 29, 2012 were $17,110 and $35,003, respectively.

The Company's intangible assets consisted of the following at December 28, 2013 and December 29, 2012:

	2013	2012
COVENANT NOT TO COMPETE		
Costs	$ 1,729,411	$ 1,729,411
Accumulated amortization	(1,729,411)	(1,727,137)
	0	2,274
LOAN FEES		
Costs	220,066	320,555
Accumulated amortization	(58,402)	(249,055)
	161,664	71,500
TOTALS		
Costs	1,949,477	2,049,966
Accumulated amortization	(1,787,813)	(1,976,192)
TOTAL NET	$ 161,664	$ 73,774

Note 4 INTANGIBLE ASSETS (Continued)

Future amortization expenses as of December 28, 2013 are as follows:

Year Ending:		
December 27, 2014	$	9,086
December 26, 2015		14,336
December 31, 2016		14,336
December 30, 2017		14,336
December 29, 2018		14,336
Thereafter		95,234
TOTAL	$	161,664

Note 5 NOTES PAYABLE

Notes payable consist of the following at December 28, 2013 and December 29, 2012:

		2013		2012
Note payable to C & S Wholesale Grocers, Inc., Revolving Credit Line in the amount of $2,000,000 from November 1 to May 31, and $1,500,000 from June 1 to October 31, currently matures on July 31, 2014, interest at 7%, secured by equipment and inventory.	$	0	$	1,500,000
Note payable to Premier West Bank, payable in monthly installments of $379, including interest at 7%, original note $19,120, due September 2013, secured by vehicle		0		3,316
Note payable to Ford Motor Credit Company, payable in monthly installments of $721, including interest at 7.99%, original note $35,506, due April 2014, secured by vehicle		2,834		10,898
Note payable to four individuals and a Profit Sharing plan, payable in monthly interest-only installments of $3,333, interest is accruing at 11%, only being paid at 8%. The difference is being posted to accrued interest and is due at the loan maturity date of May 2014, secured by land.		500,000		500,000
Note payable to Ford Motor Credit Company, payable in monthly installments of $657, including interest at 7.49%, original note $27,174 due January 2015, secured by vehicle.		8,178		15,162
Note payable to R & K Market, payable in monthly installments of $2,769, including interest at 10%, original note $60,000, due January 2015.		33,978		0
Note payable to PG&E, payable in monthly installments of $2,651, including interest at 0%, original note $98,078, due September 2015, unsecured.		55,666		87,475
Note payable to PG&E, payable in monthly installments of $2,564, including interest at 0%, original note $100,000, due January 2016, unsecured.		64,103		94,872

Note payable to PG&E, payable in monthly installments of \$2,041, including interest at 0%, original note \$100,000, due December 2016, unsecured.	73,470	97,959
Note payable to PG&E, payable in monthly installments of \$2,041, including interest at 0%, original note \$100,000, due December 2016, unsecured.	73,470	97,960
Note payable to Ford Motor Credit, payable in monthly installments of \$598, including interest at 4.24%, original note \$26,355, due December 2016, secured by vehicle.	20,178	26,355
Note payable to Ford Motor Credit, payable in monthly installments of \$598, including interest at 4.24%, original note \$26,355, due December 2016, secured by vehicle.	20,179	26,355
Note payable to PG&E, payable in monthly installments of \$1,907, including interest at 0%, original note \$99,183, due January 2017, unsecured.	70,572	93,460
Note payable to PG&E, payable in monthly installments of \$1,923, including interest at 0%, original note \$100,000, due March 2017, unsecured.	98,077	0
Note payable to PG&E, payable in monthly installments of \$1,818, including interest at 0%, original note \$100,000, due May 2017, unsecured.	74,545	96,364
Note payable to Plumas Bank, payable in monthly installments of \$661, including interest at 7.24%, original note \$33,100, due July 2017, secured by vehicle.	24,920	30,782
Note payable to PG&E, payable in monthly installments of \$1,534, including interest at 0%, original note \$73,615, due September 2017, unsecured.	69,014	0
Note payable to PG&E, payable in monthly installments of \$2,174, including interest at 0%, original note \$100,000, due September 2017, unsecured.	97,826	0
Note payable to Ally Bank, payable in monthly installments of \$647, including interest at 4.99%, original note \$34,301, due October 2017, secured by vehicle.	27,045	33,290
Note payable to Ford Motor Credit, payable in monthly installments of \$513, including interest at 0%, original note \$30,783, due November 2017, secured by vehicle.	24,113	30,270
Note payable to Ford Motor Credit, payable in monthly installments of \$649, including interest at 4.99%, original note \$34,313, due January 2018, secured by vehicle.	28,655	34,313
Note payable to Toyota Financial, payable in monthly installments of \$462, including interest at 3.49%, original note \$25,349, due August 2018, secured by vehicle.	23,795	0

Note payable to PG&E, payable in monthly installments of $1,169, including interest at 0%, original note $70,131, due November 2018, unsecured.	68,962	0
Note payable to C & S Wholesale Grocers, Inc., Principal amount of up to $7,200,000, interest only at 7%. On each anniversary of the loan the principal of the loan shall be forgiven by the lender in an amount equal to the principal forgiveness amount set forth in the loan agreement, provided that purchases are no less than the corresponding amount of merchandise required by supply agreement. Loan matures July 2019, secured by all assets not previously encumbered.	4,105,892	4,690,631
Note payable to Lavonne Morgan, related party, related to the purchase of shares for the ESOP, payable in monthly installments of $15,094, including interest at 7%, original note $2,633,156, due February 2022, unsecured (See Note 13).	1,599,567	1,762,180
Note payable to Richard Morgan, Jr. and Lavonne Morgan, the 54% shareholder and related party respectively, payable in monthly installments of $27,895, including interest at 8%, original note $3,800,000, due November 2032, unsecured (See Note 13).	3,257,239	3,328,297
Total Notes Payable	10,422,278	12,559,939
Less Current Portion	(1,167,639)	(2,519,439)
LONG-TERM PORTION	$ 9,254,639	$ 10,040,500

Maturities for notes payable for each of the next five years and thereafter are as follows:

Year Ending	
December 27, 2014	$ 1,167,639
December 26, 2015	1,177,720
December 31, 2016	1,200,701
December 30, 2017	1,165,063
December 29, 2018	1,154,139
Thereafter	4,557,016
TOTAL NOTES PAYABLE	$ 10,422,278

The note agreements with C & S Wholesale Grocers, Inc. contain a number of restrictive covenants, including net payables to inventory, cash plus inventory per square foot, collateral requirements and EBITDA to funded debt. The Company is in compliance with all loan covenants at December 28, 2013 and December 29, 2012.

Note 6 CAPITALIZED LEASES

Leased property under capital leases at December 28, 2013 and December 29, 2012 consists of:

	2013	2012
Fixtures and equipment	$ 658,301	$ 642,633
Less accumulated depreciation	(426,410)	(235,421)
LEASED PROPERTY, NET	$ 231,891	$ 407,212

The following is a schedule by years of future minimum lease payments for all capital leases, together with the present value of the net lease payments at December 28, 2013:

Year Ending	
December 27, 2014	$ 90,719
December 26, 2015	44,737
December 31, 2016	19,837
December 30, 2017	3,600
December 29, 2018	2,100
Thereafter	0
Total Minimum Lease Payments	160,993
Less amount representing interest and executors costs	(11,017)
Present Value of Net Minimum Lease Payments	149,976
Less Current Portion	(83,501)
LONG-TERM PORTION	$ 66,475

Note 7 OPERATING LEASE COMMITMENTS

The Company occupies all of its store facilities under operating lease agreements, which expire at various dates. Rent expenses under these leases for the year ended December 28, 2013 and December 29, 2012 were $4,106,023 and $4,159,047 respectively. Future minimum payments under these leases are as follows:

Year Ending	
December 27, 2014	$ 3,934,395
December 26, 2015	2,953,848
December 31, 2016	2,338,124
December 30, 2017	2,277,777
December 29, 2018	1,408,766
Thereafter	7,030,986
TOTAL FUTURE MINIMUM LEASE PAYMENTS	$ 19,943,896

Many of these leases have renewal options and require payment of property taxes and insurance. At December 28, 2013, some store leases provide for additional rentals based on a percentage of sales, (ranging from 1% to 2%) if sales exceed a specified amount.

Note 8 PROFIT-SHARING PLAN

The Company has a profit-sharing plan for its eligible employees. The Company maintains a deferred-salary arrangement under Internal Revenue Service code section 401(k). The Company's matching contribution is discretionary; additional contributions may be made at the discretion of the Board of Directors. The expense for the profit sharing plan was $0 for the year ended December 28, 2013 and December 29, 2012.

Note 9 ESOP

On January 1, 2006 the company adopted an Employee Stock Ownership Plan for its employees. Employees are eligible to participate after attaining the age of 21, completing one year of service and are credited with at least 1,000 hours of service during the year. All contributions to the plan are made by the employer and are at the employer's discretion. Company stock that was in the company's 401K plan was transferred to the ESOP in 2006. The company made a $345,056 contribution during the year ended December 28, 2013. The company made a $212,368 contribution during the year ended December 29, 2012.

Note 10 INCOME TAX EXPENSE

Income tax expense consists of the following for the year ending December 28, 2013 and December 29, 2012:

	2013	2012
Federal income tax	$ 0	$ 0
Federal income tax - deferred	0	0
State income tax	69,037	9,836
State income tax - deferred	268	(535)
INCOME TAX EXPENSE (BENEFIT)	$ 69,305	$ 9,301

Deferred income tax expense arises from timing differences between financial and tax reporting and relates principally to depreciation, amortization and vacation accruals. On July 30, 2006, the Company converted to an S-Corp and is no longer subject to Federal taxes.

The net deferred tax asset (liabilities) in the accompanying balance sheet includes the following amounts of deferred tax assets (liabilities):

	2013		2012	
	State	Total	State	Total
Deferred tax current	$ (2,080)	$ (2,080)	$ (1,688)	$ (1,688)
Deferred tax non-current	(12,056)	(12,056)	(12,180)	(12,180)
NET DEFERRED TAX ASSETS (LIABILITIES)	$ (14,136)	$ (14,136)	$ (13,868)	$ (13,868)

The deferred tax liability results from the use of accelerated methods of depreciation of property and equipment and the difference in amortization methods and the items that can be amortized between tax and GAAP. The deferred tax asset results from a difference in inventory basis due to overhead costs capitalized in accordance with tax law and vacation accruals.

Note 11 STATEMENT OF CASH FLOWS

Cash paid for interest and income taxes for the year ended December 28, 2013 and December 29, 2012:

	2013	2012
Interest Paid	$ 858,616	$ 936,147
Income Taxes Paid	$ 69,037	$ 9,836

Note 12 STOCK TRANSACTIONS

During the fiscal year ending July 29, 2006 North State Grocery, Inc., had a 200 for 1 stock split. After the stock split the company agreed to redeem 80,000 shares of stock from its 36% shareholder, effectively buying them out, for a purchase price of $2,633,156. A note for $2,633,156 was issued to pay for the purchase with monthly payments of $15,094 at a 7% interest rate. An annual principal payment of $100,000 will be paid in addition to the monthly payment above. The transaction resulted in an adjustment of $2,629,156, which was recorded to the accumulated deficit account.

Immediately after the purchase of the 80,000 shares of stock they were sold to the ESOP plan for $2,128,000. The transaction resulted in an increase of $2,124,000 to additional paid in capital and created a new account, Unearned ESOP Shares, to account for the shares that have not yet been allocated in the ESOP

Note 13 RELATED PARTY TRANSACTIONS

The Company leases stores and office facilities from a related party. Rent expense for these facilities for the year ended December 28, 2013 and December 29, 2012 were $612,324 and $612,324 respectively.

The Company has a covenant not to compete with a related party. The amortization expense under this covenant for the year ended December 28, 2013 and December 29, 2012 was $2,274 and $8,444, respectively.

The Company has an outstanding loan with the 54% shareholder and a related party. The balances as of December 28, 2013 and December 29, 2012 are $3,257,239 and $3,328,297, respectively. The shareholder and related party secured a note with Rabobank the loan was put in place in 2002 to replace an existing company loan that was secured by company assets. The new loan is secured by non-company assets, all of the proceeds of the loan were placed in the company. Payments are disbursed directly from the corporation to Rabobank.

The Company has an outstanding loan with a related party, related to the purchase of company stock for the ESOP. The balance as of December 28, 2013 and December 29, 2012 is $1,599,567 and $1,762,180, respectively.

Note 14 SUBSEQUENT EVENTS

The Company has evaluated subsequent events through July 22, 2014, the date which the financial statements were available to be issued.

Subsequent to the year end the Company entered into a new financing arrangement with the National Cooperative Bank. The new loan is for $8,000,000 payable in monthly installments of $66,667 in principle plus interest at 5.16% for the first five years. Beginning in June 2019 the remaining $4,000,000 balance will be amortized over 120 months including interest at the greater of 5% or the prevailing five year treasury rate plus 350 basis points.

The new loan proceeds were used to pay off the notes payable to C & S Wholesale Grocers, Inc., Richard Morgan Jr. and Lavonne Morgan, as referenced in paragraph 3 of note 13, and the $500,000 note payable to four individuals and a profit sharing plan. Any remaining funds were used to pay the accrued interest on the $500,000 note and for operating capital.

The Company also entered into a new revolving credit line agreement with National Cooperative Bank for $2,000,000 with an interest rate of 4.25% which is based on the lenders base rate plus 100 basis points. The revolving credit line with C & S Wholesale Grocers, Inc. is no longer in affect.

SUPPLEMENTAL SCHEDULES

NORTH STATE GROCERY, INC.
SCHEDULES OF GROSS PROFIT
For The Year Ended December 28, 2013 and December 29, 2012

	2013		2012	
	AMOUNT	%	AMOUNT	%
SALES:				
Grocery	$ 57,392,336	31.3	$ 57,683,991	32.9
Grocery DSD	25,971,634	14.2	23,334,843	13.3
Produce	21,179,331	11.6	19,417,124	11.1
Liquor	16,229,132	8.9	14,598,919	8.3
Meat	14,011,145	7.7	13,826,855	7.9
Meat/Deli	13,718,941	7.5	13,190,647	7.5
Fuel	12,632,722	6.9	12,646,362	7.2
Bakery	12,315,840	6.7	11,805,637	6.8
General merchandise	6,274,567	3.4	6,022,550	3.4
Bakery/Deli	3,813,007	2.1	3,341,496	1.9
Discounts	(631,002)	(.3)	(590,450)	(.3)
TOTAL SALES	182,907,653	100.0	175,277,974	100.0
COST OF SALES:				
Grocery	41,958,847	22.9	42,610,526	24.3
Grocery DSD	18,876,697	10.3	16,877,067	9.6
Produce	14,850,902	8.1	13,842,397	7.9
Liquor	12,637,811	6.9	11,218,727	6.4
Meat	10,436,128	5.8	10,327,449	5.9
Meat/Deli	9,619,056	5.3	9,224,806	5.3
Fuel	12,046,124	6.6	11,986,579	6.8
Bakery	7,576,274	4.1	7,303,829	4.2
General merchandise	4,262,830	2.3	4,261,993	2.4
Bakery/Deli	2,525,262	1.4	2,210,261	1.3
TOTAL COST OF SALES	134,789,931	73.7	129,863,634	74.1
GROSS PROFIT:				
Grocery	15,433,489	26.9	15,073,465	26.1
Grocery DSD	7,094,937	27.3	6,457,776	27.7
Produce	6,328,429	29.9	5,574,727	28.7
Liquor	3,591,321	22.1	3,380,192	23.2
Meat	3,575,017	25.5	3,499,406	25.3
Meat/Deli	4,099,885	29.9	3,965,841	30.1
Fuel	586,598	4.6	659,783	5.2
Bakery	4,739,566	38.5	4,501,808	38.1
General Merchandise	2,011,737	32.1	1,760,557	29.2
Bakery/Deli	1,287,745	33.8	1,131,235	33.9
Discounts	(631,002)	(100.0)	(590,450)	(100.0)
TOTAL GROSS PROFIT	$ 48,117,722	26.3	$ 45,414,340	25.9

See accountant's report.

NORTH STATE GROCERY, INC.
SCHEDULES OF OPERATING EXPENSES
For The Year Ended December 28, 2013 and December 29, 2012

	2013		2012	
	AMOUNT	%	AMOUNT	%
OPERATING EXPENSE:				
Wages	$ 18,484,359	10.1	$ 17,789,497	10.1
Occupancy costs	4,789,517	2.6	4,699,539	2.7
Employee benefits	4,638,415	2.6	4,580,523	2.6
Utilities	3,354,010	1.8	3,416,860	1.9
Payroll taxes	1,860,505	1.0	1,754,621	1.0
Operating supplies	1,790,826	1.0	1,800,290	1.0
Worker's compensation	1,717,438	.9	1,490,816	.8
Bank charges	1,704,627	.9	1,631,185	.9
Repairs and maintenance	1,179,688	.6	1,060,805	.6
Depreciation and amortization	1,150,824	.6	1,157,308	.7
Promotions	650,336	.4	838,457	.5
Insurance	466,440	.3	425,742	.2
Legal and accounting	456,102	.2	234,310	.1
Dues and subscriptions	313,902	.2	260,424	.2
Janitorial and laundry	286,120	.2	289,581	.2
Advertising	280,822	.2	544,192	.3
Training	280,341	.2	146,398	.1
Telephone	259,517	.1	255,970	.2
Auto expense	158,392	.1	180,033	.1
Taxes and licenses	149,657	.1	133,500	.1
Office supplies	108,515	.1	101,795	.1
Other contract services	48,404	.0	61,190	.0
Travel	45,946	.0	38,902	.0
Security	17,030	.0	0	.0
Cash shortage	14,349	.0	19,427	.0
Bad debts	6,922	.0	1,257	.0
Settlements	5,767	.0	10,000	.0
Equipment rent	5,545	.0	14,175	.0
TOTAL OPERATING EXPENSES	$ 44,224,316	24.2	$ 42,936,797	24.4

See accountant's report.