NORTH STATE GROCERY, INC.

FINANCIAL STATEMENTS
December 29, 2012 and December 31, 2011

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS:

BALANCE SHEETS 2

STATEMENTS OF INCOME 3

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT 4

STATEMENTS OF CASH FLOWS 5

NOTES TO THE FINANCIAL STATEMENTS 6-14

SUPPLEMENTAL SCHEDULES:

SCHEDULES OF GROSS PROFIT 15

SCHEDULES OF OPERATING EXPENSES 16

NEAL & LEIDHOLDT
An Accountancy Corporation

PO Box 492416 • Redding, CA 96049-2416
448 Redcliff Drive • Redding, CA 96002
(530) 221-7770 • Fax (530) 223-1868

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of North State Grocery, Inc., (a California S-Corporation), as of December 29, 2012 and December 31, 2011 and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 29, 2012 and December 31, 2011, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules, as indicated in the preceding table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Neal + Leidholdt

Redding, California
August 8, 2013

NORTH STATE GROCERY, INC.
BALANCE SHEETS
December 29, 2012 and December 31, 2011

ASSETS

	2012	As Restated 2011
CURRENT ASSETS:		
Cash	$ 2,443,739	$ 850,432
Trade receivables (net of allowances for doubtful accounts of $316 and $905, respectively)	50,421	59,197
Other receivables (net of allowances for doubtful accounts of $66,591 and $93,981, respectively)	594,542	845,005
Merchandise inventory	9,696,580	9,411,907
Prepaid expenses	433,700	260,138
Deferred income taxes (Note 10)	0	546
TOTAL CURRENT ASSETS	13,218,982	11,427,225
PROPERTY AND EQUIPMENT (Note 2):	25,240,952	24,661,373
Less accumulated depreciation	(17,309,349)	(17,270,272)
PROPERTY AND EQUIPMENT, NET	7,931,603	7,391,101
OTHER ASSETS:		
Off-sale liquor licenses	486,924	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)	2,274	10,718
Loan fees - net of accumulated amortization (Note 4)	71,500	98,059
Deposits	59,941	58,187
Cash surrender value of officers' life insurance	38,969	5,863
TOTAL OTHER ASSETS	3,104,265	3,104,408
TOTAL ASSETS	$ 24,254,850	$ 21,922,734

LIABILITIES AND STOCKHOLDERS' EQUITY

	2012	As Restated 2011
CURRENT LIABILITIES:		
Current maturities of notes payable (Note 5 and 13)	$ 2,519,439	$ 2,162,846
Obligations under capital leases, current portion (Note 6)	120,859	135,516
Trade accounts payable and disbursements outstanding	8,027,065	7,296,126
Accrued wages, payroll taxes, and employee benefits withheld	1,897,568	1,576,380
Accrued liabilities (Note 13)	1,473,541	2,005,333
Deferred income taxes (Note 10)	1,688	0
TOTAL CURRENT LIABILITIES	14,040,160	13,176,201
LONG-TERM LIABILITIES:		
Notes payable, net of current maturities (Note 5 and 13)	10,040,500	10,255,985
Obligations under capital leases, net of current portion (Note 6)	135,489	214,535
Accrued interest expense	151,750	136,750
Deferred income taxes (Note 10)	12,180	14,949
TOTAL LONG-TERM LIABILITIES	10,339,919	10,622,219
TOTAL LIABILITIES	24,380,079	23,798,420
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)	3,145,491	3,104,841
Unearned ESOP shares (Note 9)	(1,043,048)	(1,158,943)
Accumulated deficit (Note 14)	(2,238,812)	(3,832,724)
TOTAL STOCKHOLDERS' EQUITY	(125,229)	(1,875,686)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,254,850	$ 21,922,734

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF INCOME
For The Year Ended December 29, 2012 and December 31, 2011

	2012 Amount	2012 %	As Restated 2011 Amount	As Restated 2011 %
SALES	$ 175,277,974	100.0	$ 174,686,739	100.0
COST OF SALES	129,863,634	74.1	128,807,136	73.7
GROSS PROFIT	45,414,340	25.9	45,879,603	26.3
Lottery income	68,923	.0	45,621	.0
Money order fees	15,617	.0	20,757	.0
Miscellaneous income	224,605	.1	257,290	.1
TOTAL OPERATING REVENUES	45,723,485	26.0	46,203,271	26.4
OPERATING EXPENSES	42,936,797	24.4	44,436,372	25.4
INCOME FROM OPERATIONS (Note 14)	2,786,688	1.6	1,766,899	1.0
OTHER INCOME (EXPENSES):				
Interest income	115	.0	0	.0
Interest expense	(952,667)	(.6)	(1,053,838)	(.6)
Gain (loss) on disposal of assets	(64,596)	(.0)	(71,862)	(.0)
OTHER EXPENSES, NET	(1,017,148)	(.6)	(1,125,700)	(.6)
INCOME (LOSS) BEFORE TAXES	1,769,540	1.0	641,199	.4
Income tax (expense) benefit (Note 10)	(9,301)	(.0)	(10,658)	(.0)
NET INCOME (LOSS)	$ 1,760,239	1.0	$ 630,541	.4

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For The Year Ended December 29, 2012 and December 31, 2011

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 Income	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)

As Restated
2011

	Common Stock	Paid In Capital	Unearned ESOP Share	Accum. Earnings/ (Deficit)	Total
Beginning Balance	$ 11,140	$ 3,087,849	$ (1,274,838)	$ (4,294,233)	$ (2,470,082)
Current Period Inc(Loss)	0	0	0	630,541	630,541
Shareholder Distributions	0	0	0	(233,333)	(233,333)
ESOP Funding	0	16,992	115,895	64,301	197,188
Ending Balance	$ 11,140	$ 3,104,841	$ (1,158,943)	$ (3,832,724)	$ (1,875,686)

See accompanying notes and accountant's report.

NORTH STATE GROCERY, INC.
STATEMENTS OF CASH FLOWS
For The Year Ended December 29, 2012 and December 31, 2011

	2012	As Restated 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,760,239	$ 630,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,157,308	1,164,783
Loss on disposition of fixed assets	64,596	71,862
(Increase) Decrease in cash surrender value of life insurance	(33,106)	67,850
(Decrease) in deferred income tax liability	(535)	(69)
Changes in current assets and liabilities:		
Trade accounts receivable	8,776	(9,914)
Other accounts receivable	250,463	(89,721)
Merchandise inventory	(284,673)	296,279
Prepaid expenses	(173,562)	42,859
Deposits	(1,754)	0
Trade accounts payable	730,939	12,121
Accrued salaries and wages, payroll taxes and employee benefits	321,188	(247,274)
Accrued liabilities	(531,792)	439,399
Accrued interest	15,000	15,000
NET CASH PROVIDED BY OPERATIONS	3,283,087	2,393,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	2,750	15,380
Purchase of property and equipment	(1,730,155)	(1,051,250)
NET CASH (USED) BY INVESTING ACTIVITIES	(1,727,405)	(1,035,870)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings on notes payable	1,082,469	27,174
Principal payments on notes payable	(941,360)	(1,261,280)
ESOP Funding	212,368	197,188
Proceeds from borrowings on capital leases	43,876	235,092
Shareholder distributions	(222,150)	(233,333)
Payment of loan fees	0	(10,877)
Payments on capital leases	(137,578)	(129,297)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	37,625	(1,175,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,593,307	182,513
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	850,432	667,919
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,443,739	$ 850,432

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 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 29, 2012 and December 31, 2011, the Company had cash and cash equivalents in excess of the FDIC insured limit of $937,795 and $124,842, respectively.

ACCOUNTS RECEIVABLE - Allowances and reserves for doubtful accounts have been recorded at December 29, 2012 and December 31, 2011. 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 29, 2012 and December 31, 2011 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 29, 2012 and December 31, 2011. The Company's federal and state income tax returns for 2009 through 2012 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 29, 2012 and December 31, 2011, 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 29, 2012 and December 31, 2011 were $544,192 and $362,519, respectively.

Note 2 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 29, 2012 and December 31, 2011:

	2012	2011
Fixtures and equipment	$ 16,959,528	$ 16,411,169
Leasehold improvements	5,797,452	5,604,436
Vehicles	743,609	596,410
Office equipment	1,740,363	2,049,358
TOTAL	$ 25,240,952	$ 24,661,373

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 $151,750 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 29, 2012 and December 31, 2011 were $35,003 and $46,310, respectively.

The Company's intangible assets consisted of the following at December 29, 2012 and December 31, 2011:

	2012	2011
COVENANT NOT TO COMPETE		
Costs	$ 1,729,411	$ 1,729,411
Accumulated amortization	(1,727,137)	(1,718,693)
	2,274	10,718
LOAN FEES		
Costs	320,555	320,555
Accumulated amortization	(249,055)	(222,496)
	71,500	98,059
TOTALS		
Costs	2,049,966	2,049,966
Accumulated amortization	(1,976,192)	(1,941,189)
TOTAL NET	$ 73,774	$ 108,777

Note 4 INTANGIBLE ASSETS (Continued)

Future amortization expenses as of December 29, 2012 are as follows:

Year Ending:		
December 28, 2013	$	6,110
December 27, 2014		3,836
December 26, 2015		3,836
December 31, 2016		3,836
December 30, 2017		3,836
Thereafter		52,320
TOTAL	$	73,774

Note 5 NOTES PAYABLE

Notes payable consist of the following at December 29, 2012 and December 31, 2011:

	2012	2011
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, 2013, interest at 7%, secured by equipment and inventory.	$ 1,500,000	$ 1,200,000
Note payable to Cottonwood Enterprises, payable in monthly installments of $8,722, including Interest at 10%, original note $660,000, due August 2012, secured by covenant not to compete	0	67,230
Note payable to Ford Motor Credit Company, payable In monthly installments of $446, including interest At 0%, original note $26,783, due August 2012, secured by vehicle	0	3,571
Note payable to Ford Motor Credit Company, payable In monthly installments of $422, including interest at 0%, original note $25,322, due August 2012, secured by vehicle	0	3,376
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	3,316	7,473
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	10,898	18,341
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.	15,162	21,644

Note payable to PG&E, payable in monthly installments of \$2,651, including interest at 0%, original note \$98,078, due September 2015, unsecured.	87,475	0
Note payable to PG&E, payable in monthly installments of \$2,564, including interest at 0%, original note \$100,000, due January 2016, unsecured.	94,872	0
Note payable to PG&E, payable in monthly installments of \$2,041, including interest at 0%, original note \$100,000, due December 2016, unsecured.	97,959	0
Note payable to PG&E, payable in monthly installments of \$2,041, including interest at 0%, original note \$100,000, due December 2016, unsecured.	97,960	0
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.	26,355	0
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.	26,355	0
Note payable to PG&E, payable in monthly installments of \$1,907, including interest at 0%, original note \$99,183, due January 2017, unsecured.	93,460	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.	96,364	0
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.	30,782	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.	33,290	0
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.	30,270	0
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.	34,313	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.	4,690,631	5,290,186

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).	1,762,180	1,913,829
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).	3,328,297	3,393,181
Total Notes Payable	12,559,939	12,418,831
Less Current Portion	(2,519,439)	(2,162,846)
LONG-TERM PORTION	$ 10,040,500	$ 10,255,985

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

Year Ending	
December 28, 2013	$ 2,519,439
December 27, 2014	1,551,705
December 26, 2015	1,090,199
December 31, 2016	1,113,902
December 30, 2017	1,090,321
Thereafter	5,194,373
TOTAL NOTES PAYABLE	$ 12,559,939

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. During the previous year the company negotiated a new loan and supply agreement with C & S Wholesale Grocers, Inc. changing some of the covenant ratios. The Company is in compliance with all loan covenants at December 29, 2012 and December 31, 2011.

Note 6 CAPITALIZED LEASES

Leased property under capital leases at December 29, 2012 and December 31, 2011 consists of:

	2012	2011
Fixtures and equipment	$ 642,633	$ 549,331
Less accumulated depreciation	(235,421)	(107,724)
LEASED PROPERTY, NET	$ 407,212	$ 441,607

Note 6 CAPITALIZED LEASES (Continued)

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 29, 2012:

Year Ending		
December 28, 2013	$	131,647
December 27, 2014		87,119
December 26, 2015		41,137
December 31, 2016		16,237
December 30, 2017		0
Thereafter		0
Total Minimum Lease Payments		276,140
Less amount representing interest and executors costs		(19,792)
Present Value of Net Minimum Lease Payments		256,348
Less Current Portion		(120,859)
LONG-TERM PORTION	$	135,489

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 29, 2012 and December 31, 2011 were $4,159,047 and $4,284,007 respectively. Future minimum payments under these leases are as follows:

Year Ending		
December 28, 2013	$	3,819,309
December 27, 2014		2,753,176
December 26, 2015		1,833,968
December 24, 2016		1,308,335
December 30, 2017		1,212,441
Thereafter		10,434,732
TOTAL FUTURE MINIMUM LEASE PAYMENTS	$	21,361,961

Many of these leases have renewal options and require payment of property taxes and insurance. At December 29, 2012, some store leases provide for additional rentals based on a percentage of sales, (ranging from 1% to 2%) if sales exceed a specified amount.

During the year ended December 29, 2012, rentals under equipment lease obligations were $2,936. All operating equipment leases expired during the year, therefore, there are no future minimum payments.

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 29, 2012 and December 31, 2011.

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 $212,368 contribution during the year ended December 29, 2012. The company made a $197,188 contribution during the year ended December 31, 2011.

Note 10 INCOME TAX EXPENSE

Income tax expense consists of the following for the year ending December 29, 2012 and December 31, 2011:

	2012	2011
Federal income tax	$ 0	$ 0
Federal income tax - deferred	0	0
State income tax	9,836	10,727
State income tax - deferred	(535)	(69)
INCOME TAX EXPENSE (BENEFIT)	$ 9,301	$ 10,658

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):

	2012		2011	
	State	Total	State	Total
Deferred tax current	$ (1,688)	$ (1,688)	$ 546	$ 546
Deferred tax non-current	(12,180)	(12,180)	(14,949)	(14,949)
NET DEFERRED TAX ASSETS (LIABILITIES)	$ (13,868)	$ (13,868)	$ (14,403)	$ (14,403)

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 29, 2012 and December 31, 2011:

	2012	2011
Interest Paid	$ 936,147	$ 1,033,764
Income Taxes Paid	$ 9,836	$ 10,727

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 29, 2012 and December 31, 2011 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 29, 2012 and December 31, 2011 was $8,444, respectively.

The Company has an outstanding loan with the 54% shareholder and a related party. The balances as of December 29, 2012 and December 31, 2011 are $3,328,297 and $3,393,181, 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 29, 2012 and December 31, 2011 is $1,762,180 and $1,913,829, respectively.

Included in the accrued liability account at December 31, 2011 is a $300,000 short term advance from the 54% shareholder.

Note 14 ACCUMULATED DEFICIT

As shown in the financial statements during the year ended December 29, 2012, the Company generated a profit from operations of $2,819,274. The Company has a total negative stockholders' equity of $125,229 which is a positive increase of $1,750,457 from the prior year.

In June of 2005, the company changed their major wholesale supplier resulting in an increase in debt which had a negative impact on stockholders' equity. Management made this change to enable the company to increase profitability. Additionally in 2006 there was a negative impact on stockholder' equity when the company redeemed 80,000 shares of common stock in association with the buyout of one of its shareholders, the purpose of this redemption and subsequent loan was related specifically to the company forming an ESOP.

Note 15 PRIOR PERIOD ADJUSTMENT

During the year ended December 29, 2012, management determined that the accounting for the ESOP had been incorrect since its inception. The December 31, 2011 financial statements were restated to account for the changes. Employee benefits expense account increased by $17,407, which decreased Net income by the same amount. The Additional paid in capital account was increased by $55,299. The Unearned ESOP shares account was increased by $534,191. The Accumulated deficit account was decreased by $448,892. There was no effect on the Total Stockholder's Equity.

Note 16 SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 8, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES

NORTH STATE GROCERY, INC.
SCHEDULES OF GROSS PROFIT
For The Year Ended December 29, 2012 and December 31, 2011

	2012 AMOUNT	2012 %	As Restated 2011 AMOUNT	As Restated 2011 %
SALES:				
Grocery	$ 57,683,991	32.9	$ 81,155,985	46.5
Grocery DSD	23,334,843	13.3	0	0
Produce	19,417,124	11.1	19,235,195	10.9
Liquor	14,598,919	8.3	14,294,855	8.2
Meat	13,826,855	7.9	13,742,731	7.9
Meat/Deli	13,190,647	7.5	13,147,099	7.5
Fuel	12,646,362	7.2	12,143,313	7.0
Bakery	11,805,637	6.8	12,176,143	7.0
General merchandise	6,022,550	3.4	6,497,864	3.7
Bakery/Deli	3,341,496	1.9	2,798,138	1.6
Discounts	(590,450)	(.3)	(504,584)	(.3)
TOTAL SALES	175,277,974	100.0	174,686,739	100.0
COST OF SALES:				
Grocery	42,610,526	24.3	59,213,677	33.9
Grocery DSD	16,877,067	9.6	0	0
Produce	13,842,397	7.9	13,481,486	7.7
Liquor	11,218,727	6.4	10,928,602	6.3
Meat	10,327,449	5.9	10,367,162	5.9
Meat/Deli	9,224,806	5.3	9,095,066	5.2
Fuel	11,986,579	6.8	11,736,491	6.7
Bakery	7,303,829	4.2	7,565,530	4.3
General merchandise	4,261,993	2.4	4,576,356	2.6
Bakery/Deli	2,210,261	1.3	1,842,766	1.1
TOTAL COST OF SALES	129,863,634	74.1	128,807,136	73.7
GROSS PROFIT:				
Grocery	15,073,465	26.1	21,942,308	27.0
Grocery DSD	6,457,776	27.7	0	0
Produce	5,574,727	28.7	5,753,709	29.9
Liquor	3,380,192	23.2	3,366,253	23.5
Meat	3,499,406	25.3	3,375,569	24.6
Meat/Deli	3,965,841	30.1	4,052,033	30.8
Fuel	659,783	5.2	406,822	3.4
Bakery	4,501,808	38.1	4,610,613	37.9
General Merchandise	1,760,557	29.2	1,921,508	29.6
Bakery/Deli	1,131,235	33.9	955,372	34.1
Discounts	(590,450)	(100.0)	(504,584)	(100.0)
TOTAL GROSS PROFIT	$ 45,414,340	25.9	$ 45,879,603	26.3

See accountant's report.

NORTH STATE GROCERY, INC.
SCHEDULES OF OPERATING EXPENSES
For The Year Ended December 29, 2012 and December 29, 2011

	2012		As Restated 2011	
	AMOUNT	%	AMOUNT	%
OPERATING EXPENSE:				
Wages	$ 17,789,497	10.1	$ 18,851,731	10.8
Occupancy costs	4,699,539	2.7	4,653,869	2.7
Employee benefits	4,580,523	2.6	5,110,774	2.9
Utilities	3,416,860	1.9	3,670,825	2.1
Operating supplies	1,800,290	1.0	1,820,050	1.0
Payroll taxes	1,754,621	1.0	1,823,893	1.1
Bank charges	1,631,185	.9	1,790,632	1.0
Worker's compensation	1,490,816	.8	996,897	.6
Depreciation and amortization	1,157,308	.7	1,164,970	.7
Repairs and maintenance	1,060,805	.6	892,735	.5
Promotions	838,457	.5	1,126,267	.7
Advertising	544,192	.3	362,519	.2
Insurance	425,742	.2	367,311	.2
Janitorial and laundry	289,581	.2	327,259	.2
Dues and subscriptions	260,424	.2	224,888	.1
Telephone	255,970	.2	240,565	.1
Legal and accounting	234,310	.1	340,639	.2
Auto expense	180,033	.1	157,490	.1
Training	146,398	.1	148,104	.1
Taxes and licenses	133,500	.1	130,077	.1
Office supplies	101,795	.1	92,983	.0
Other contract services	61,190	.0	64,350	.0
Travel	38,902	.0	44,841	.0
Cash shortage	19,427	.0	16,094	.0
Equipment rent	14,175	.0	12,765	.0
Settlements	10,000	.0	0	.0
Bad debts	1,257	.0	3,844	.0
TOTAL OPERATING EXPENSES	$ 42,936,797	24.4	$ 44,436,372	25.4

See accountant's report.