

Do it Best Corp.

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 26, 2021, JUNE 27, 2020,
AND JUNE 29, 2019

August, 2021

We state and attest that:

1. To the best of our knowledge, based upon a review of the following reports of Do it Best Corp.
 - a. No report contained an untrue statement of material fact as of the end of the period covered by such report; and
 - b. No report omitted to state a material fact necessary to make the statements in the report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.
2. We have reviewed the contents of this statement with the Do it Best Corp. board of directors.



Dan Starr
President and CEO



J. Douglas Roth
Vice President of Finance and CFO

Do it Best Corp.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Member-Shareholders
Do it Best Corp. and Subsidiaries
Fort Wayne, Indiana

We have audited the accompanying consolidated financial statements of Do it Best Corp. and its subsidiaries, which comprise the consolidated balance sheets as of June 26, 2021 and June 27, 2020, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended June 26, 2021, June 27, 2020, and June 29, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 on the effectiveness of the entity's internal control. Accordingly, we express no such 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.

Board of Directors and Member-Shareholders
Do it Best Corp.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Do it Best Corp. and its subsidiaries as of June 26, 2021 and June 27, 2020, and the results of their operations and their cash flows for each of the three years in the period ended June 26, 2021, June 27, 2020, and June 29, 2019, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
August 26, 2021

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 26, 2021 AND JUNE 27, 2020
(IN THOUSANDS)

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,127	\$ 86,614
Accounts and Notes Receivable, Less Allowance for Doubtful Accounts of \$928 in 2020 (2020; \$736)	590,402	399,778
Income Tax Receivable	-	479
Merchandise Inventories	345,730	270,536
Prepaid Expenses	176	201
Total Current Assets	940,435	757,608
PROPERTY AND EQUIPMENT, Net	111,603	111,992
Accounts and Notes Receivable, Less Current Maturities	770	1,675
Deferred Income Taxes	10,167	14,155
Investment in Affiliates	23,197	20,216
Pension Asset	19,338	-
Other Assets	26,098	19,876
Total Assets	\$ 1,131,608	\$ 925,522
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 655,183	\$ 493,805
Income Tax Payable	815	-
Accrued Expenses	106,214	108,408
Total Current Liabilities	762,212	602,213
Long-Term Portion of Accrued Pension and Other Postretirement Liabilities	3,386	14,662
SHAREHOLDERS' EQUITY		
Common Stock, Voting	3,049	3,044
Common Stock, Nonvoting	645	633
Preference Stock	363,891	322,659
Accumulated Other Comprehensive Loss	(10,269)	(22,260)
Retained Earnings	8,694	4,571
Total Shareholders' Equity	366,010	308,647
Total Liabilities and Shareholders' Equity	\$ 1,131,608	\$ 925,522

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Gross Sales	\$ 5,189,982	\$ 3,578,018	\$ 3,449,877
Returns and Allowances	<u>116,265</u>	<u>99,605</u>	<u>104,772</u>
Net Sales	5,073,717	3,478,413	3,345,105
Cost of Sales	<u>4,799,164</u>	<u>3,237,546</u>	<u>3,139,684</u>
Gross Profit	274,553	240,867	205,421
Selling, General, and Administrative Expenses	<u>80,513</u>	<u>94,208</u>	<u>77,723</u>
Income before Other Income, Profit Sharing, and Pension Costs, Shareholders' Refund and Income Taxes	194,040	146,659	127,698
Other Income, Net	<u>3,729</u>	<u>1,264</u>	<u>2,463</u>
Income before Profit Sharing and Pension Costs, Shareholders' Refund and Income Taxes	197,769	147,923	130,161
Profit Sharing and Pension Costs	<u>22,449</u>	<u>17,249</u>	<u>14,097</u>
Income before Shareholders' Refund and Income Taxes	175,320	130,674	116,064
Shareholders' Refund:			
Cash	98,881	88,258	87,592
Preference Stock	<u>71,268</u>	<u>40,121</u>	<u>26,270</u>
Total Shareholders' Refund	<u>170,149</u>	<u>128,379</u>	<u>113,862</u>
Income before Income Taxes	5,171	2,295	2,202
Federal and State Income Taxes:			
Income Tax Provision	<u>1,048</u>	<u>763</u>	<u>684</u>
Net Income	<u>\$ 4,123</u>	<u>\$ 1,532</u>	<u>\$ 1,518</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
NET INCOME	\$ 4,123	\$ 1,532	\$ 1,518
Other Comprehensive Income (Loss):			
Change in Defined Benefit Plans, Net of Tax	<u>11,991</u>	<u>1,243</u>	<u>(5,095)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 16,114</u>	<u>\$ 2,775</u>	<u>\$ (3,577)</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
COMMON STOCK, VOTING			
Balance - Beginning of Year	\$ 3,044	\$ 3,046	\$ 3,046
Shares Issued	156	122	131
Shares Repurchased	<u>(151)</u>	<u>(124)</u>	<u>(131)</u>
Balance - End of Year	3,049	3,044	3,046
COMMON STOCK, NONVOTING			
Balance - Beginning of Year	633	663	650
Shares Issued	16	-	16
Shares Repurchased	<u>(4)</u>	<u>(30)</u>	<u>(3)</u>
Balance - End of Year	645	633	663
PREFERENCE STOCK			
Balance - Beginning of Year	322,659	306,545	305,951
Shares Issued	71,268	40,121	26,270
Shares Repurchased	<u>(30,036)</u>	<u>(24,007)</u>	<u>(25,676)</u>
Balance - End of Year	363,891	322,659	306,545
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance - Beginning of Year	(22,260)	(23,503)	(18,408)
Other Comprehensive Income (Loss)	<u>11,991</u>	<u>1,243</u>	<u>(5,095)</u>
Balance - End of Year	(10,269)	(22,260)	(23,503)
RETAINED EARNINGS			
Balance - Beginning of Year	4,571	3,039	1,521
Net Income	<u>4,123</u>	<u>1,532</u>	<u>1,518</u>
Balance - End of Year	<u>8,694</u>	<u>4,571</u>	<u>3,039</u>
Total Shareholders' Equity	<u>\$ 366,010</u>	<u>\$ 308,647</u>	<u>\$ 289,790</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS)

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 4,123	\$ 1,532	\$ 1,518
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	14,808	14,252	13,191
Deferred Income Taxes	(447)	230	239
Gain on Investments	(5,364)	(66)	(507)
Provision for Bad Debts	45	236	-
Loss on Sale of Assets	651	1,571	13
Shareholder Refunds in Preference Shares	71,268	40,121	26,270
Equity in Earnings of Unconsolidated Affiliates, Net of Distributions	(2,754)	(81)	-
Changes in Operating Assets and Liabilities:			
Accounts and Notes Receivable, Net	(189,927)	(83,268)	31,205
Income Tax Receivable	479	133	445
Merchandise Inventories	(75,194)	11,493	(905)
Prepaid Expenses, Pension, and Other Assets	(20,226)	192	359
Accounts Payable	161,378	41,171	(9,155)
Income Tax Payable	815	-	-
Accrued Expenses, Pension, and Other Postretirement Liabilities	2,956	36,076	1,363
Net Cash Provided (Used) by Operating Activities	(37,389)	63,592	64,036
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	(4,591)	(18,157)	(5,722)
Proceeds from Redemption of Investments	4,582	18,994	16,920
Investment in Unconsolidated Affiliate	-	(19,150)	-
Proceeds from Sale of Property and Equipment	51	67	19
Capital Expenditures	(15,121)	(14,599)	(13,329)
Net Cash Used by Investing Activities	(15,079)	(32,845)	(2,112)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Common Shares	156	122	131
Purchase of Common Shares	(151)	(124)	(131)
Issuance of Nonvoting Common Shares	16	-	16
Purchase of Nonvoting Common Shares	(4)	(30)	(3)
Purchase of Preference Shares	(30,036)	(24,007)	(25,676)
Net Cash Used by Financing Activities	(30,019)	(24,039)	(25,663)
NET INCREASE (DECREASE) IN CASH	(82,487)	6,708	36,261
Cash - Beginning of Year	86,614	79,906	43,645
CASH - END OF YEAR	\$ 4,127	\$ 86,614	\$ 79,906
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash Paid for Income Taxes	\$ 200	\$ 400	\$ -
Cash Paid for Interest	\$ 103	\$ 2	\$ 90

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Do it Best Corp. is a member-owned wholesaler of hardware, lumber, builder supplies, and related products, operating as a wholesaler cooperative. Members are located principally in the United States, with some member locations abroad. Only dealers in hardware, lumber, builder supplies, and related products are eligible to hold shares in the Company. Nearly all of the Company's sales are to dealer-members, each of whom is required to purchase twenty voting common shares at \$50 per share on becoming a member and, in some cases, shares of nonvoting common stock.

Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks ending on the last Saturday in June. A 53rd week will be added every five or six years. All references to 2021, 2020, and 2019 relate to the fiscal years ended June 26, 2021, June 27, 2020, and June 29, 2019, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of Do it Best Corp. and its wholly owned subsidiaries (the Company or Do it Best). All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Changes

In 2021, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers (Topic 606)*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Company elected to utilize the modified retrospective approach upon adoption. There was no material impact on the Company's financial position and results of operations upon adoption of the new standard.

During 2020, the Company changed its definition of cash equivalents to include only bank deposits. The change did not affect the previously reported net assets or results of operations. The change was applied retrospectively, and the 2019 consolidated statements of cash flows were restated to conform to the change.

Capital Structure

The Company's capital is primarily derived from the issuance of voting common shares together with the preference shares issued in connection with the Company's annual shareholders' refund. The Articles of Incorporation require that each member shareholder accept preference shares in payment of refunds, under requirements of the formula set forth in the bylaws, and the payment of at least 20% in cash.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Structure (Continued)

Upon a member's termination of membership with the Company and demand for repurchase, the Company will repurchase the voting and/or nonvoting common shares held by such shareholder at the lesser of cost or book value. After a holder of voting or nonvoting common shares requests repurchase of those shares concurrently with termination of their relationship with the Company as a member-shareholder, the board of directors may also authorize repurchase of the preference shares held by such shareholder, subject to statutory and bylaw restrictions, in sequence of termination, at the discretion of the board of directors.

Upon request of a shareholder, the Company may redeem part of a shareholder's preference shares where such shareholder has experienced a substantial uninsured financial loss through catastrophe, or where the member presents a plan for a new retail business. Any request is subject to standards and limitations imposed by the board of directors or the Company.

Upon liquidation of the Company for any reason, the holders of the preference shares shall be entitled to receive out of the assets of the Company, the sum of \$100 per share before any distribution is made to the holders of voting and nonvoting common shares.

Shareholder Refund

At the end of each fiscal year, the Company is obligated to refund to its member-shareholders the gross profit on sales of merchandise to the member-shareholders, less all operating expenses. Refunds are required to be made to each member-shareholder in the proportion of the gross profit on purchases to the total gross profit on purchases made by all member shareholders, adjusted for participation in the Enhanced Rebate program. Total cash shareholder refunds to be paid approximated \$98,900, \$88,300, and \$87,600 in 2021, 2020, and in 2019, respectively. These amounts are currently included in accounts payable. The Company also issued preference stock shareholder refunds of approximately \$71,300, \$40,100, and \$26,300 in 2021, 2020, and 2019, respectively. These amounts are included in equity.

Use of Estimates

Preparation of the 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, making it reasonably possible that a change in certain of these estimates could occur in the near term. Certain significant estimates and assumptions used in the preparation of the Company's consolidated financial statements include those used for: pension and postretirement benefit plans; allowances for doubtful accounts; and inventory valuation.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes and Uncertain Tax Positions

The Company accounts for income taxes under the asset and liability method. The Company's taxable income is determined after deducting refunds to member-shareholders. Deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the estimated future tax consequences attributable to differences between consolidated financial statement reporting basis of existing assets and liabilities and their respective income tax basis. Deferred tax assets and liabilities are measured using enacted tax rates anticipated to be in effect for the year in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize, based on available evidence, the future tax benefits that will more-likely-than-not be realized.

The Company accounts for uncertainty in income taxes under the provisions of Accounting Standards Codification (ASC) 740. A tax position is recognized as a benefit only if it is "more-likely-than-not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more-likely-than-not" test, no tax benefit is recorded. Management is not aware of any uncertain tax positions. The Company is no longer subject to examination by taxing authorities for years before June 30, 2018.

The Company is subject to U.S. federal income tax, as well as various state income taxes. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at June 26, 2021 or June 27, 2020.

Inventory Valuation

Merchandise inventories are valued at the lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) basis. Do it Best Corp. enters into various purchase rebate programs with vendors, pursuant to binding arrangements. Where the rebate or incentive is probable and estimable, it is recognized as a reduction to cost of each underlying transaction. If a rebate is not probable or reasonably estimable, such rebates are recognized on their achievement.

Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive measurement of results, including items that are not recognized in the measurement of net income (loss). Other comprehensive income (loss) represents the change in the Company's defined benefit pension plans.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Revenue Recognition

Do it Best sells to members using credit terms customary in its industry. The Company determines delinquent accounts in accordance with sales terms. When an invoice becomes delinquent, it is generally subject to interest at 1.5% per month. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged against the reserve when management deems further collection efforts will not produce additional recoveries. Do it Best has the right to set off amounts owed by the Company to its members against indebtedness owed the Company by its members.

The Company recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company enters into contracts with members to sell merchandise, which is typically the only performance obligation. The pricing and payment terms for contracts are based on the Company's standard terms and conditions. In some instances, extended repayment terms may be offered; however, standard terms and conditions generally are due within five days of the statement date.

Revenues from the sale of warehouse merchandise to members are generally recognized when goods are shipped. Sales revenues for goods acquired and sold to members under drop-ship arrangements with vendors are generally recognized in accordance with vendor terms as to title and risk of loss passage. The Company recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the members, and assumes all the credit risk for the vendors with the members. Therefore, the Company concluded it is the principal for these transactions. The Company provides cooperative advertising, among other services, to its members. Revenues for such services are recognized when the services are rendered.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Revenue Recognition (Continued)

The transaction price includes estimates for reductions in revenue from discounts, rebates, returns, freight damage, prompt payment discounts, or co-operative advertising contributions. These amounts are estimated based upon the most likely amount of consideration to which the customer will be entitled. All estimates are based on historical experience, anticipated performance, and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates for variable consideration are reassessed periodically.

The Company has elected to account for shipping and handling costs as fulfillment costs and are included in costs of sales in the consolidated statements of income.

The Company has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the member's product needs.

Notes Receivable

Notes receivable are stated at unpaid principal balances. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Fair Value of Financial Instruments

The Company follows guidance in ASC 820 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This requirement establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. This fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The requirement describes three levels of inputs that may be used to measure fair value. See Notes 7 and 9 for further discussion.

Cash

The Company considers all demand deposit accounts to be cash. The Company places its cash with high credit quality financial institutions. The Company maintains its cash accounts at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Periodically throughout the year, the Company's cash balances may exceed this FDIC insurance coverage limit; however, management does not anticipate nonperformance by the institutions.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost. Upon retirement or sale of assets, the cost of the disposed assets and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income, respectively. Major additions and improvements are capitalized, while minor items, maintenance, and repairs are expensed currently. Depreciation and amortization are calculated using straight-line methods. Estimated useful lives range from 15 to 40 years for building and improvements, and from 3 to 10 years for equipment and fixtures. Depreciation expense for 2021, 2020, and 2019 was \$9,889, \$9,329, and \$8,499, respectively.

Included in property and equipment is the capitalized cost of internal-use software. The Company capitalizes costs incurred during the application development stage of internal-use software and amortizes these costs over its estimated useful life. Costs incurred related to design or maintenance of internal-use software are expensed as incurred. For 2021 and 2020, the Company capitalized approximately \$3,285 and \$3,502, respectively, of software development costs which consisted of both internally developed and purchased software costs. Amortization expense for all capitalized software was \$4,919, \$4,923, and \$4,692 for 2021, 2020, and 2019, respectively.

The Company evaluates long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. The Company has not incurred any impairment of long-lived assets during 2021, 2020, or 2019.

Advertising and Promotion Costs

Costs associated with advertising and promotions are charged to operations in the period incurred. The Company participates in cooperative advertising arrangements with its vendors. Reimbursements received under cooperative advertising arrangements with vendors are recognized as a reduction of associated advertising costs. Advertising and promotion costs, net, charged to operation in 2021, 2020, and 2019 were \$10,081, \$11,886, and \$14,027, respectively.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 26, 2021, JUNE 27, 2020, AND JUNE 29, 2019
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Company has certain long-term investments that consist primarily of mutual funds and are recorded at fair value in the accompanying consolidated balance sheets. These investments are included in Other Assets and amounted to \$24,305 and \$18,932 at June 26, 2021 and June 27, 2020, respectively. Changes in fair value are included in earnings. Net realized and unrealized gains and losses during 2021, 2020, and 2019 on equity and fixed income securities were \$5,364, \$1,589, and \$2,166, respectively. Net gains and losses on equity and fixed income securities recognized during 2021, 2020, and 2019 were \$752, \$740, and \$183, respectively. Unrealized gains and losses recognized on equity and fixed income securities still held during 2021, 2020, and 2019 were \$4,612, \$849, and \$1,983, respectively.

Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure through August 26, 2021, the date the consolidated financial statements were available to be issued.

Reclassification

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously report consolidated financial position or consolidated results of operations.

New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and corresponding lease liability for all operating and capital leases with lease terms greater than one year. The standard is effective for fiscal years beginning after December 15, 2021, and early adoption is permitted. The Company is evaluating the impact of the amended lease guidance on its consolidated financial statements.

In December 2019, the FASB issues Accounting Standards Update (ASU) No. 2019-12 *Income Taxes: Simplifying the Accounting for Income Taxes* intended to simplify the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside cost basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard is effective for annual periods beginning after December 15, 2022 and interim periods within, with early adoption permitted. Adoption of the standard requires certain changes to be made prospectively, with some changes to be made retrospectively. The Company is evaluating the impact of the standard on its consolidated financial statements.

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NOTE 2 CREDIT AGREEMENT

The Company has one available unsecured line of credit with a commercial bank in the base amount of \$45,000 from April 6, 2021 to September 30, 2021, at which time it increases to \$75,000 until March 31, 2022. For the line, interest is payable monthly on outstanding balances at either prime rate or LIBOR plus an applicable margin. There were no borrowings against the line of credit at June 26, 2021 or June 27, 2020. The line of credit agreement expires on August 31, 2022. Outstanding letters of credit approximated \$110 and \$61 at June 26, 2021 and June 27, 2020, respectively. The Company is subject to certain financial covenants. As of June 26, 2021, management believes the Company is in compliance with all required covenants.

The line of credit was amended by the Company on July 17, 2021 and the available balance increases to \$75,000 until maturity on August 31, 2022.

Subsequent to year-end, the Company further amended the credit agreement, which provides an additional line of credit in the base amount of \$40,000 through September 30, 2021, at which time it increases to \$100,000 and matures on April 30, 2022. Substantially all other terms remained unchanged.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows at June 26, 2021 and June 27, 2020:

	2021	2020
Land, Building, and Site Improvements	\$ 141,884	\$ 142,988
Equipment and Fixtures	85,024	82,054
Capitalized Software	34,360	42,191
Software in Progress	2,720	1,055
Construction in Progress	4,602	176
Subtotal	268,590	268,464
Less: Accumulated Depreciation and Amortization	156,987	156,472
Property and Equipment, Net	\$ 111,603	\$ 111,992

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NOTE 4 OPERATING LEASES

The Company leases office space, data processing equipment, software, office equipment, autos, and delivery equipment under operating leases expiring on various dates through 2025. Various agreements are cancelable at the option of the Company upon fulfillment of certain conditions. Future annual minimum lease payments under all noncancelable operating leases as of June 26, 2021 approximate \$11,391, \$6,468, \$6,446, \$5,049, \$2,498, and \$23,487 in 2022, 2023, 2024, 2025, 2026, and 2027 through 2032, respectively, for an aggregate total of \$55,339. Rents charged to operations under all operating leases, including weekly and monthly rents along with fuel and associated costs of transportation rentals during 2021, 2020, and 2019 were approximately \$59,800, \$55,200, and \$52,300, respectively.

NOTE 5 CAPITAL SHARE DATA

Share data relevant to amounts reported in the consolidated statements of changes in shareholders' equity is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Common Stock, Voting \$50 Par Value, 990,000			
Shares Authorized:			
Shares Outstanding - Beginning of Year	60,880	60,920	60,920
Shares Issued	3,120	2,440	2,620
Shares Repurchased	<u>(3,020)</u>	<u>(2,480)</u>	<u>(2,620)</u>
Shares Outstanding - End of Year	<u><u>60,980</u></u>	<u><u>60,880</u></u>	<u><u>60,920</u></u>
Common Stock, Nonvoting \$50 Par Value, 100,000 Shares Authorized:			
Shares Outstanding - Beginning of Year	12,650	13,270	13,000
Shares Issued	310	-	320
Shares Repurchased	<u>(70)</u>	<u>(620)</u>	<u>(50)</u>
Shares Outstanding - End of Year	<u><u>12,890</u></u>	<u><u>12,650</u></u>	<u><u>13,270</u></u>
Preference Share, \$100 Par Value, 4,000,000			
Shares Authorized:			
Shares Outstanding - Beginning of Year	3,226,590	3,065,445	3,059,506
Shares Issued	712,675	401,209	262,699
Shares Repurchased	<u>(300,354)</u>	<u>(240,064)</u>	<u>(256,760)</u>
Shares Outstanding - End of Year	<u><u>3,638,911</u></u>	<u><u>3,226,590</u></u>	<u><u>3,065,445</u></u>

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NOTE 6 TRANSACTIONS WITH UNCONSOLIDATED AFFILIATES

Do it Best is a 50% stakeholder in Alliance International, LLC (the Alliance), a hardware and related products purchasing consortium consisting of Do it Best and an unrelated party engaged in the distribution and sale of hardware and related products. The Alliance procures vendor purchase contracts to enable vendor pricing on a larger scale than that which would be available to the individual companies. Virtually all purchases made by Do it Best are transacted through the Alliance.

Do it Best provides certain management services, including accounting assistance to the Alliance, for which the Alliance reimburses Do it Best in accordance with the management services arrangement. The parties share equally in the expenses of the Alliance. During 2021, 2020, and 2019, Do it Best was charged \$144, \$170, and \$165, respectively, by the Alliance for administrative costs. Do it Best was paid \$47, \$52, and \$51, respectively, in 2021, 2020, and 2019 for management services rendered to the Alliance.

The Company formed a wholly-owned subsidiary (DIB Enterprises, LLC) to hold an investment in a joint venture formed as a limited liability company. The Company has a 25% interest in the earnings of the joint venture with Nation's Best, LLC (Nation's Best). The investment is being accounted for on the equity method. Nation's Best is engaged in the acquisition and operations of hardware and lumber retail stores throughout the United States. The Company has also agreed to make advances to Nation's Best and has guaranteed certain debt of Nation's Best of which approximately \$8 million remains outstanding at June 26, 2021. The difference between the company's investment and their share of the underlying net assets of the affiliate is attributable to preferred interests and other future distribution preferences.

Condensed financial information for Nation's Best at June 26, 2021 and June 27, 2020 is as follows:

	2021	2020
Balance Sheets:		
Current Assets	\$ 43,637	\$ 20,014
Net Property and Equipment	5,864	2,855
Other Assets	17,381	14,833
Current Liabilities	15,865	7,042
Long-Term Liabilities	22,242	11,221
Members' Equity	28,775	19,439
Company's Share of Net Equity	\$ 22,100	\$ 19,181
Statements of Operations:		
Net Sales	\$ 145,217	\$ 37,938
Operating Expenses	130,699	36,630
Operating Income	14,518	1,308
Other Expense	2,718	986
Net Income	11,800	322
Company's Share of Income	\$ 3,356	\$ 81

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NOTE 7 EMPLOYEE BENEFIT PLANS

Retirement Plans

The Company has a defined benefit pension plan and a defined contribution profit sharing plan (the Plans), both covering substantially all employees. Benefits are based on years of service and the employee's compensation during the last five years of employment.

The Company makes various defined and discretionary contributions to the Plans. Retirement plan costs related to the pension plan approximated \$3,800, \$4,200, and \$4,000 for 2021, 2020, and 2019, respectively. Benefits paid to employees related to this plan approximated \$13,500, \$12,200, and \$9,000 in 2021, 2020, and 2019, respectively. Cost related to the defined contribution profit sharing plan approximated \$18,700, \$13,100, and \$10,100 in 2021, 2020, and 2019, respectively.

The Company has a defined benefit supplemental retirement plan (defined benefit pension plan) with its executives, designed to provide benefits that would have been received under the retirement plan were it not for maximum limitations imposed by ERISA and the Internal Revenue Code. Expense is incorporated into retirement plan cost noted above. Management estimates approximately \$2,700 will be contributed to the defined benefit pension plan by the Company during the fiscal year-ending June 2022.

Expected benefit payments for the ensuing five years and in the aggregate related to the defined benefit pension plan approximate \$7,200, \$8,200, \$8,300, \$8,000, and \$8,100 in 2022, 2023, 2024, 2025, and 2026, respectively. Expected benefit payments from 2027 to 2031 approximate \$39,200, for an aggregate total of \$79,000.

Effective January 1, 2016, the defined benefit pension plan was closed such that no participants hired subsequent to December 31, 2015 are allowed in the plan. Further, participants' monthly and average monthly earnings as defined by the plan and used in the determination of benefits under the plan were frozen effective June 30, 2016.

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

Postretirement Medical Benefit Plan

The Company has a postretirement medical benefit plan (the Plan). The Plan covers retired employees who are less than 65 years of age and have greater than 10 years of service with the Company. Employees over 65 years of age are not covered beyond benefits provided by Medicare. Income related to the Plan approximated \$350, \$288, and \$206 in 2021, 2020, and 2019, respectively. Participant contributions to the Plan aggregated \$-0- in 2021, 2020, and 2019. Benefits paid to employees related to the Plan aggregated \$355, \$506, and \$477 in 2021, 2020, and 2019, respectively.

Management estimates approximately \$363 will be contributed to the Plan by the Company during the fiscal year ending June 2022.

Expected benefit payments for the ensuing five years and in the aggregated related to the Plan approximate \$400, \$300, \$200, \$200, and \$200 in 2022, 2023, 2024, 2025, and 2026, respectively. Expected benefit payments from 2027 to 2031 approximate \$600, for an aggregate total of \$1,900.

Effective April 1, 2011, the Plan was frozen such that any participants who were not retired as of that date, ceased participation in the Plan. As a result of this change, the Plan was re-measured as of March 31, 2011, a negative prior service cost base was established equal to the reduction in Accumulated Postretirement Benefit Obligation for those individuals who ceased participation, and a curtailment charge was recognized equal to the change in the Plan's funded status due to the accelerated retirement.

The Plan contains an assumption about the annual rates of change in the cost of health care benefits currently provided by the Plan, due to factors other than changes in the composition of the Plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The health care cost trend rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the Plan participants. Differing types of services, such as hospital care and dental care, may have different trend rates.

The following schedule shows changes in the benefit obligation, Plan assets, and funded status of the Plans. Benefit obligation balances presented below reflect the projected benefit obligation for the Company's retirement and pension plans, and accumulated postretirement benefit obligations for the postretirement medical plan.

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

The measurement date used to determine the benefit obligations were as follows:

	Retirement and Pension Plan			Postretirement Medical Plan		
	2021	2020	2019	2021	2020	2019
Change in Benefit Obligation:						
Beginning Balance	\$ 102,255	\$ 103,536	\$ 98,117	\$ 2,459	\$ 3,157	\$ 3,765
Service Cost	4,293	4,394	4,306	-	-	-
Interest Cost	3,500	3,775	4,059	76	104	141
Actuarial Gain (Loss)	2,686	2,780	6,102	(257)	(296)	(272)
Benefit Paid	(2,011)	(1,913)	(9,048)	(355)	(506)	(477)
Settlements	(11,500)	(10,317)	-	-	-	-
Ending Balance	<u>\$ 99,223</u>	<u>\$ 102,255</u>	<u>\$ 103,536</u>	<u>\$ 1,923</u>	<u>\$ 2,459</u>	<u>\$ 3,157</u>
Change in Plan Assets:						
Beginning Balance at Fair Value	\$ 88,920	\$ 74,809	\$ 74,997	\$ -	\$ -	\$ -
Actual Return on Plan Assets	20,691	4,460	3,536	-	-	-
Company Contributions	20,529	21,880	5,324	355	506	477
Benefits paid	(2,011)	(1,913)	(9,048)	(355)	(506)	(477)
Settlements	(11,500)	(10,316)	-	-	-	-
Ending Balance at Fair Value	<u>\$ 116,629</u>	<u>\$ 88,920</u>	<u>\$ 74,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Over (Under) Funded Status	<u>\$ 17,406</u>	<u>\$ (13,335)</u>	<u>\$ (28,727)</u>	<u>\$ (1,923)</u>	<u>\$ (2,459)</u>	<u>\$ (3,157)</u>
Amounts Recognized in Statement of Financial Position Consist of:						
Noncurrent Assets	\$ 19,338	\$ -	\$ -	\$ -	\$ -	\$ -
Current Liabilities	(112)	(687)	(652)	(357)	(445)	(539)
Noncurrent Liabilities	(1,820)	(12,648)	(28,075)	(1,566)	(2,014)	(2,618)
Net Assets (Liabilities) Recognized in Balance Sheet	<u>\$ 17,406</u>	<u>\$ (13,335)</u>	<u>\$ (28,727)</u>	<u>\$ (1,923)</u>	<u>\$ (2,459)</u>	<u>\$ (3,157)</u>
Reconciliation of Amounts Recognized in Accumulated Other Comprehensive Income (Loss)						
Prior Service Cost	\$ 8,703	\$ 10,196	\$ 11,688	\$ 812	\$ 1,208	\$ 1,604
Net Actuarial Loss	(23,654)	(41,743)	(45,035)	74	(154)	(453)
Accumulated Other Comprehensive Income (Loss)	(14,951)	(31,547)	(33,347)	886	1,054	1,151
Accrued Benefits Cost	32,357	18,212	4,620	(2,809)	(3,513)	(4,308)
Net Asset (Liability) Recognized in Balance Sheet	<u>\$ 17,406</u>	<u>\$ (13,335)</u>	<u>\$ (28,727)</u>	<u>\$ (1,923)</u>	<u>\$ (2,459)</u>	<u>\$ (3,157)</u>
Change in Accumulated Other Comprehensive Income (Loss)						
Beginning of Year (No Tax Effect)	\$ (31,547)	\$ (33,347)	\$ (26,442)	\$ 1,054	\$ 1,151	\$ 1,226
Less Amounts Amortized During the Year:						
Prior Service Credit Arising During the Year	(1,493)	(1,493)	(1,493)	(396)	(396)	(396)
Net (Income) Loss Arising During the Year	3,148	3,160	2,689	(30)	3	49
Occurring During the Year:						
Plan Change	-	-	-	-	-	-
Amortization of Net Gain (Loss)	12,349	(3,985)	(8,101)	257	296	272
Settlement	2,591	4,118	-	-	-	-
End of Year	<u>(14,952)</u>	<u>(31,547)</u>	<u>(33,347)</u>	<u>885</u>	<u>1,054</u>	<u>1,151</u>
Deferred Income Taxes	4,037	8,518	9,004	(239)	(285)	(311)
Accumulated Other Comprehensive Income (Loss), Net of Tax	<u>\$ (10,915)</u>	<u>\$ (23,029)</u>	<u>\$ (24,343)</u>	<u>\$ 646</u>	<u>\$ 769</u>	<u>\$ 840</u>
Estimated Amounts to be Amortized from Accumulated Other Comprehensive Income Over the Next Fiscal Year:						
Prior Service Credit (Cost)	\$ 1,493	\$ 1,493	\$ 1,493	\$ 396	\$ 396	\$ 396
Net Actuarial Loss	(1,206)	(3,052)	(3,377)	(133)	(151)	(134)
Total	<u>\$ 287</u>	<u>\$ (1,559)</u>	<u>\$ (1,884)</u>	<u>\$ 263</u>	<u>\$ 245</u>	<u>\$ 262</u>

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

The allocation of income tax benefit (expense) for each component of other comprehensive income (loss) were as follows:

	Retirement and Pension Plan			Postretirement Medical Plan		
	2021	2020	2019	2021	2020	2019
Prior Service Credit Before Tax	\$ (1,493)	\$ (1,493)	\$ (1,493)	\$ (396)	\$ (396)	\$ (396)
Tax Benefit	(403)	(403)	(403)	(107)	(107)	(107)
Prior Service Credit Net of Tax	(1,090)	(1,090)	(1,090)	(289)	(289)	(289)
Net Loss Before Tax	3,148	3,160	2,689	(30)	3	49
Tax Expense	850	853	726	(8)	1	13
Net Loss Net of Tax	2,298	2,307	1,963	(22)	2	36
Amortization of Net Gain (Loss) Before Tax	12,349	(3,985)	(8,101)	257	296	272
Tax Expense (Benefit)	3,334	(1,076)	(2,187)	69	80	73
Amortization of Net Gain (Loss) Net of Tax	9,015	(2,909)	(5,914)	188	216	199
Settlement	2,591	4,118	-	-	-	-
Tax Expense	700	1,112	-	-	-	-
Settlement Net of Tax	1,891	3,006	-	-	-	-
Total	<u>\$ 12,114</u>	<u>\$ 1,314</u>	<u>\$ (5,041)</u>	<u>\$ (123)</u>	<u>\$ (71)</u>	<u>\$ (54)</u>

As of June 26, 2021, the defined benefit pension plans and the postretirement medical plan had accumulated benefit obligations of approximately \$99,000 and \$1,900, respectively. At June 27, 2020, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately \$102,000 and \$2,500, respectively. At June 29, 2019, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately \$104,000 and \$3,200, respectively.

The change in deferred taxes recognized in other comprehensive income (loss) approximated (\$4,300), (\$500), and \$1,900 during 2021, 2020, and 2019, respectively.

	Retirement and Pension Plan			Postretirement Medical Plan		
	2021	2020	2019	2021	2020	2019
Components of Net Periodic Benefit (Costs) Income:						
Service Cost	\$ (4,293)	\$ (4,394)	\$ (4,306)	\$ -	\$ -	\$ -
Interest Cost	(3,500)	(3,775)	(4,059)	(76)	(104)	(141)
Expected Return on Plan Assets	5,657	5,667	5,535	-	-	-
Amortization	(1,655)	(1,667)	(1,196)	426	393	347
Net Periodic Benefit (Costs) Income	<u>\$ (3,791)</u>	<u>\$ (4,169)</u>	<u>\$ (4,026)</u>	<u>\$ 350</u>	<u>\$ 289</u>	<u>\$ 206</u>

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

Assumptions

Weighted average actuarial assumptions used to determine pension and other postretirement obligations as of year-end are as follows:

	2021 Retirement and Pension Plan	2021 Postretirement Medical	2020 Retirement and Pension Plan	2020 Postretirement Medical	2019 Retirement and Pension Plan	2019 Postretirement Medical
Discount Rate	3.50%	3.50%	3.65%	3.65%	3.95%	3.95%
Salary Increase	4.00%	N/A	4.00%	N/A	4.00%	N/A
Current Year Trend	N/A	6.50%	N/A	6.50%	N/A	6.75%
Ultimate Year Trend	N/A	4.50%	N/A	5.00%	N/A	5.00%
Year of Ultimate Trend Date	N/A	2029	N/A	2026	N/A	2026

Weighted average assumptions used to determine net periodic pension cost:

	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical
Discount Rate	3.50%	3.50%	3.65%	3.65%	4.35%	4.35%
Salary Increase	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Rate of Return on Assets	6.25%	N/A	7.25%	N/A	7.50%	N/A
Current Year Trend	N/A	6.50%	N/A	6.50%	N/A	6.75%
Ultimate Year Trend	N/A	4.50%	N/A	5.00%	N/A	5.00%
Year of Ultimate Trend Date	N/A	2029	N/A	2026	N/A	2026

Defined Benefit Plan Assets

The investment policy and strategy is to invest plan assets in order to provide income and capital growth consistent with reasonable risk tolerance. In determining pension expense, the Company, as fiduciary of the plan, utilizes an expected long-term rate of return that, over time, should approximate the actual long-term rate of return earned on plan assets, based upon historical returns of plan assets and similar asset classes. The assumed rate for the long-term rates of return on plan assets was determined based upon target asset allocations and expected long-term rates of return by asset class. Plan fiduciaries set investment policies and strategies for the trust.

Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets, and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range.

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

Defined Benefit Plan Assets (Continued)

The defined benefit plan's assets are composed primarily of corporate equity and debt securities and U.S. government securities and are directed by the employer. The defined benefit pension plan assets held consisted of the following at June 26, 2021 and June 27, 2020:

	2021		2020	
	Target Allocation:	Retirement and Pension Plan	Target Allocation:	Retirement and Pension Plan
Equity Securities	52 %	51 %	52 %	55 %
Debt Securities	33	29	33	35
Other	15	20	15	10
Total	100 %	100 %	100 %	100 %

No assets were held by the postretirement medical benefit plan at June 26, 2021 or June 27, 2020.

Financial Accounting Standards Board (FASB) ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a framework and provides guidance on measuring the fair value of assets in a pension plan and how an employer should disclose the same. The framework establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value.

The three levels of fair value hierarchy are described as follows:

Level 1 - Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In some cases, a valuation technique used to measure fair value may include inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

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NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)

Defined Benefit Plan Assets (Continued)

The following descriptions of the valuation methods and assumptions used by the Plan to estimate the fair values of investments apply to investments held directly by the Plan.

Equity, Debt, and Inflation-Indexed Securities: Fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis in accordance with ASC 820-10 as of June 26, 2021:

<u>Defined Benefit Pension Plan</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Mutual Funds:				
Money Market	\$ 13,128	\$ 13,128	\$ -	\$ -
Domestic Equity	35,568	35,568	-	-
International Equity	24,505	24,505	-	-
Domestic Fixed	33,732	33,732	-	-
Alternative	9,696	-	9,696	-
Total	<u>\$ 116,629</u>	<u>\$ 106,933</u>	<u>\$ 9,696</u>	<u>\$ -</u>

The following table summarized the Company's financial assets measured at fair value on a recurring basis in accordance with ASC 820-10 as of June 27, 2020:

<u>Defined Benefit Pension Plan</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Mutual Funds:				
Money Market	\$ 472	\$ 472	\$ -	\$ -
Domestic Equity	26,741	26,741	-	-
International Equity	22,344	22,344	-	-
Domestic Fixed	31,216	31,216	-	-
Alternative	8,147	-	8,147	-
Total	<u>\$ 88,920</u>	<u>\$ 80,773</u>	<u>\$ 8,147</u>	<u>\$ -</u>

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NOTE 8 INCOME TAXES

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). Corporate taxpayers may carryback net operating losses (NOLs) originating during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019, and 2020.

In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income, and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The enactment of the CARES Act did not result in any material adjustments to our income provision for the fiscal year ended June 27, 2020.

On December 28, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA included the COVID-related Tax Relief Act of 2020 (COVID TRA), which expanded, extended, and clarified selected CARES Act provisions, specifically on the Paycheck Protection Program (PPP) Loan and Employee Retention Tax Credit, 100% deductibility of business meals purchased from restaurants as well as other tax extenders. The CAA did not have a material impact on the Company's income tax provision.

On March 11, 2021, the American Rescue Plan (ARP) was signed into law. The ARP extended the Employee Retention Credit through December 31, 2021 with certain changes, extended certain paid sick and family leave credits, among other changes to existing tax law. The ARP did not have a material impact on the Company's income tax provision.

The provision for income taxes at June 26, 2021, June 27, 2020, and June 29, 2019, consisted of the following:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Federal Income Tax:			
Current	\$ 1,097	\$ 390	\$ 331
Deferred	(348)	179	186
State Income Tax:			
Current	398	143	114
Deferred	(99)	51	53
Total	<u>\$ 1,048</u>	<u>\$ 763</u>	<u>\$ 684</u>

Deferred income taxes are provided to recognize the effects of temporary differences between financial reporting and income tax reporting. The more significant temporary differences arise from various accrued liabilities, which exceed currently deductible amounts. Management believes it is more-likely-than-not that deferred income tax assets will be realized in full. Accordingly, no valuation allowance has been provided.

DO IT BEST CORP. AND SUBSIDIARIES
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NOTE 8 INCOME TAXES (CONTINUED)

The Company's deferred tax assets and deferred tax liabilities are as follows:

	<u>2021</u>	<u>2020</u>
Assets:		
Accrued Assets	\$ 2,836	\$ 2,516
Deferred Compensation	4,595	4,077
Allowance for Doubtful Accounts	251	199
Inventory Obsolescence	769	574
Post Retirement Health Care Expense	758	948
Retirement and Pension Plan	<u>4,037</u>	<u>8,518</u>
Total Assets	13,246	16,832
Liabilities:		
Retirement Plan Expense	(2,255)	(2,358)
Prepays and Other	(47)	(34)
Investment in Nation's Best	(538)	-
Postretirement Medical Plan	<u>(239)</u>	<u>(285)</u>
Total Liabilities	<u>(3,079)</u>	<u>(2,677)</u>
Net Deferred Tax Asset	<u>\$ 10,167</u>	<u>\$ 14,155</u>

The income tax provision differs from that calculated at the statutory rates for the following reasons:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Income Tax Expense at Statutory Rates	\$ 1,086	\$ 482	\$ 462
State Taxes, Net of Federal Benefit	245	111	104
Nondeductible Expenses	(49)	188	123
Other	<u>(234)</u>	<u>(18)</u>	<u>(5)</u>
Total	<u>\$ 1,048</u>	<u>\$ 763</u>	<u>\$ 684</u>

DO IT BEST CORP. AND SUBSIDIARIES
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NOTE 9 FAIR VALUE

The following table summarizes the Company's financial assets measured at fair value on a recurring basis in accordance with the ASC 820-10 as of:

		June 26, 2021			
		Total	Level 1	Level 2	Level 3
Assets:					
	Other Assets:				
	Mutual Funds	\$ 24,305	\$ 24,305	\$ -	\$ -
		June 27, 2020			
		Total	Level 1	Level 2	Level 3
Assets:					
	Other Assets:				
	Mutual Funds	\$ 18,932	\$ 18,932	\$ -	\$ -

The Companies' mutual fund investments consist of money market funds, fixed income funds, and equity funds, and fair value was determined using quoted market prices based on the closing price (Level 1 inputs) as of the balance sheet date.

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Company was contingently liable at June 26, 2021 and June 27, 2020, under a loan guarantee program, which has a maximum borrowing capacity of \$14,000 at both June 26, 2021 and June 27, 2020, with two commercial banks. Under the terms of the loan agreement, in order to participate, the borrowers must be both members of and approved by the Company in order to participate in the program.

Under the terms of the program, the bank will provide a member loan in the form of a term loan to be paid and members can elect to amortize over a period of 12 to 120 months in equal installments with any unpaid balance due at maturity or paid in seven equal annual principal installments on a straight-line basis plus interest due monthly.

Interest on the loans will be payable at a fixed rate to be determined by the banks at the time of funding. At June 26, 2021, interest rates on the loans ranged from 2.25% to 5.86%. At June 27, 2020, interest rates on the loans ranged from 2.25% to 5.86%.

The risk of loss under these agreements is spread over many members and is the estimated fair value of the loans considering both the contingent loss due to default and the value of the Company's guarantee. The Company believes that any potential loss under the agreements in effect at June 26, 2021 and June 27, 2020, will not be material to its financial position or results of operations.

The Company, in the ordinary course of business, is the subject of or party to various pending or threatened litigation. While it is not possible to predict with certainty the outcome of these matters, management of the Company does not believe that they will materially affect the financial position, or operating results or cash flows of the Company.