

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 29, 2024, JUNE 24, 2023,
AND JUNE 25, 2022



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DO IT BEST CORP. AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Do it Best Corp. and Subsidiaries (Do it Best Corp.) (an Indiana corporation), which comprise the consolidated balance sheets as of June 29, 2024 and June 24, 2023, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 29, 2024, June 24, 2023, and June 25, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Do it Best Corp. as of June 29, 2024 and June 24, 2023, and the results of its operations and its cash flows for each of the three years in the period ended June 29, 2024, June 24, 2023, and June 25, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Do it Best Corp. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2024 the Company changed its accounting policy for the treatment of shareholder refunds to members from treating them as a deduction from consolidated income to recording the refunds as an equity transaction in order to conform to the predominant industry practice for cooperatives. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Do it Best Corp.'s ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Do it Best Corp.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Do it Best Corp.'s ability to continue as a going concern for a reasonable period of time.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
August 23, 2024

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 29, 2024 AND JUNE 24, 2023
(IN THOUSANDS)

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash	\$ 29,042	\$ 54,395
Accounts and Notes Receivable, Less Allowance for Credit Losses of \$1,803 in 2024 (2023; \$758)	472,553	497,323
Merchandise Inventories	370,150	362,205
Prepaid Expenses	2,737	489
Total Current Assets	874,482	914,412
PROPERTY AND EQUIPMENT, Net	185,370	143,648
Right-of-Use Assets - Operating Leases	514	-
Right-of-Use Assets - Financing Leases	100,292	116,960
Accounts and Notes Receivable, Less Current Maturities	1,523	1,627
Deferred Income Taxes	10,613	10,527
Investment in Affiliates	53,522	41,539
Pension Asset	15,059	16,853
Other Assets	27,157	23,046
Total Assets	\$ 1,268,532	\$ 1,268,612
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable - Line of Credit	\$ 15,000	\$ 20,000
Accounts Payable	631,499	633,649
Income Tax Payable	303	1,270
Short-Term Lease Liability - Operating	234	-
Short-Term Lease Liability - Financing	16,597	16,543
Accrued Expenses	100,460	99,285
Other Liabilities	765	-
Total Current Liabilities	764,858	770,747
LONG-TERM LIABILITIES		
Long-Term Lease Liability - Financing, Net of Current Portion	93,433	105,624
Long-Term Lease Liability - Operating, Net of Current Portion	280	-
Long-Term Portion of Accrued Pension and Other Postretirement Liabilities	3,029	2,715
Other Liabilities, Net of Current Portion	14,533	-
Total Long-Term Liabilities	111,275	108,339
Total Liabilities	876,133	879,086
SHAREHOLDERS' EQUITY		
Common Stock, Voting	3,730	3,207
Common Stock, Nonvoting	689	656
Preference Stock	380,383	379,178
Accumulated Other Comprehensive Loss	(10,992)	(9,982)
Retained Earnings	18,589	16,467
Total Shareholders' Equity	392,399	389,526
Total Liabilities and Shareholders' Equity	\$ 1,268,532	\$ 1,268,612

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Gross Sales	\$ 4,597,565	\$ 4,773,160	\$ 5,540,343
Returns and Allowances	<u>124,739</u>	<u>134,837</u>	<u>125,819</u>
Net Sales	4,472,826	4,638,323	5,414,524
Cost of Sales	<u>4,172,182</u>	<u>4,334,378</u>	<u>5,171,435</u>
Gross Profit	300,644	303,945	243,089
Selling, General, and Administrative Expenses	<u>124,264</u>	<u>131,591</u>	<u>94,114</u>
Income Before Other Income, Profit Sharing, and Pension Costs, and Income Taxes	176,380	172,354	148,975
Other Income, Net	<u>7,653</u>	<u>3,914</u>	<u>5,552</u>
Income Before Profit Sharing and Pension Costs, and Income Taxes	184,033	176,268	154,527
Profit Sharing and Pension Costs	<u>21,062</u>	<u>21,311</u>	<u>16,078</u>
Income Before Income Taxes	162,971	154,957	138,449
Federal and State Income Taxes: Income Tax Provision	<u>1,685</u>	<u>584</u>	<u>2,283</u>
Net Income	<u>\$ 161,286</u>	<u>\$ 154,373</u>	<u>\$ 136,166</u>
Shareholders' Refund:			
Cash	\$ 115,561	\$ 106,294	\$ 86,734
Preference Stock	<u>43,603</u>	<u>45,749</u>	<u>42,476</u>
Total Shareholders' Refund:	<u>\$ 159,164</u>	<u>\$ 152,043</u>	<u>\$ 129,210</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
NET INCOME	\$ 161,286	\$ 154,373	\$ 136,166
Other Comprehensive Income (Loss):			
Change in Fair Value of Interest Rate Swaps, Net of Tax	(4)	127	-
Change in Defined Benefit Plans, Net of Tax	<u>(1,006)</u>	<u>1,465</u>	<u>(1,305)</u>
Total Other Comprehensive Income (Loss)	<u>(1,010)</u>	<u>1,592</u>	<u>(1,305)</u>
COMPREHENSIVE INCOME	<u>\$ 160,276</u>	<u>\$ 155,965</u>	<u>\$ 134,861</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS)

	Capital Shares			Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Preferred Shares	Common Shares Voting	Common Shares Non-Voting			
BALANCE - JUNE 26, 2021	\$ 363,891	\$ 3,049	\$ 645	\$ 8,694	\$ (10,269)	\$ 366,010
Net Income	-	-	-	136,166	-	136,166
Other Comprehensive Income	-	-	-	-	(1,305)	(1,305)
Shares Issued	-	257	-	-	-	257
Estimated Shareholder Refunds	42,476	-	-	(129,210)	-	(86,734)
Shares Repurchased	(36,150)	(165)	(4)	-	-	(36,319)
BALANCE - JUNE 25, 2022	370,217	3,141	641	15,650	(11,574)	378,075
Net Income	-	-	-	154,373	-	154,373
Other Comprehensive Income	-	-	-	-	1,592	1,592
Shares Issued	-	196	15	-	-	211
Cumulative Effect of ASC 842	-	-	-	(1,513)	-	(1,513)
Estimated Shareholder Refunds	45,749	-	-	(152,043)	-	(106,294)
Shares Repurchased	(36,788)	(130)	-	-	-	(36,918)
BALANCE - JUNE 24, 2023	379,178	3,207	656	16,467	(9,982)	389,526
Net Income	-	-	-	161,286	-	161,286
Other Comprehensive Income	-	-	-	-	(1,010)	(1,010)
Shares Issued	-	731	33	-	-	764
Estimated Shareholder Refunds	43,603	-	-	(159,164)	-	(115,561)
Shares Repurchased	(42,398)	(208)	-	-	-	(42,606)
BALANCE - JUNE 29, 2024	<u>\$ 380,383</u>	<u>\$ 3,730</u>	<u>\$ 689</u>	<u>\$ 18,589</u>	<u>\$ (10,992)</u>	<u>\$ 392,399</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS)

	2024	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 161,286	\$ 154,373	\$ 136,166
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	17,509	16,479	15,418
Deferred Income Taxes	(1,183)	(2,286)	1,820
Gain on Business Combination	(2,951)	-	-
Gain (Loss) on Investments	(2,026)	(1,525)	3,047
Amortization of Right-of-Use Asset	20,010	17,763	-
Provision for Credit Losses	(8)	(6)	(164)
Gain on Sale of Assets	(49)	(1,444)	(40)
Equity in Earnings of Unconsolidated Affiliates, Net of Distributions	(1,983)	164	(6,883)
Changes in Operating Assets and Liabilities (Net of Acquisitions):			
Accounts and Notes Receivable, Net	45,781	80,802	11,590
Income Tax Receivable	-	822	(822)
Merchandise Inventories	20,415	76,897	(93,372)
Prepaid Expenses, Pension, and Other Assets	208	(1,322)	4,610
Accounts Payable	(32,172)	(23,517)	(5,430)
Income Tax Payable	(967)	1,270	(815)
Accrued Expenses, Pension, and Other Postretirement Liabilities	(7,505)	11,190	(18,571)
Net Cash Provided by Operating Activities	<u>216,365</u>	<u>329,660</u>	<u>46,554</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	(4,680)	(6,431)	(3,496)
Proceeds from Redemption of Investments	3,447	5,515	4,877
Investment in Unconsolidated Affiliate	(10,000)	-	(11,500)
Cash Acquired in Business Combination	1,571	-	-
Proceeds from Sale of Property and Equipment	66	7,012	84
Capital Expenditures	(44,266)	(48,103)	(21,451)
Net Cash Used by Investing Activities	<u>(53,862)</u>	<u>(42,007)</u>	<u>(31,486)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Change in Notes Payable - Line of Credit	(23,764)	(98,500)	118,500
Payments on Financing Leases	(15,479)	(14,069)	-
Issuance of Common Shares	254	196	257
Purchase of Common Shares	(208)	(130)	(165)
Issuance of Nonvoting Common Shares	33	15	-
Purchase of Nonvoting Common Shares	-	-	(4)
Shareholder Refunds Paid	(106,294)	(86,734)	(98,881)
Purchase of Preference Shares	(42,398)	(36,788)	(36,150)
Net Cash Used by Financing Activities	<u>(187,856)</u>	<u>(236,010)</u>	<u>(16,443)</u>
NET INCREASE (DECREASE) IN CASH	<u>(25,353)</u>	<u>51,643</u>	<u>(1,375)</u>
Cash - Beginning of Year	<u>54,395</u>	<u>2,752</u>	<u>4,127</u>
CASH - END OF YEAR	<u>\$ 29,042</u>	<u>\$ 54,395</u>	<u>\$ 2,752</u>

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(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 2024, 2023, and 2022 relate to the fiscal years ended June 29, 2024, June 24, 2023, and June 25, 2022, 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). Transactions with unconsolidated affiliates that do not meet the consolidation criteria of the authoritative guidance for voting interest entities or variable interest entities are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Adoption of New Accounting Standards

The Company has adopted the current expected credit losses (CECL) methodology for estimating credit losses on financial assets, effective June 25, 2023, utilizing the modified retrospective transition method. The adoption of CECL resulted in changes to the Company's accounting policies, including the recognition of credit losses based on expected future credit losses rather than incurred credit losses. The Company also updated its accounting policies for determining the recoverability of trade receivables, loans, and other financial assets. The adoption of this Standard did not have a material impact on the Company's financial statements but did change how the allowance for credit losses is determined.

The Company changed its accounting policy for the treatment of shareholder refunds to members from treating them as a deduction from consolidated income to recording the refunds as an equity transaction in order to conform to the predominant industry practice for cooperatives. The change has been applied to the beginning of the earliest comparative period presented using a retrospective approach. As a result of the change in accounting, the Company recognized an increase in net income of \$152,043 and \$129,210, respectively, for the years ended June 24, 2023 and June 25, 2022. Additionally, the Company recognized an increase in operating cash flows and a reduction in cash flows from financing activities of \$106,294 and \$86,734, respectively, for the years ended June 24, 2023 and June 25, 2022. The change had no effect on the previously reported financial position for 2023 and 2022.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$115,600, \$106,300, and \$86,700 in 2024, 2023, and in 2022, respectively. These amounts are currently included in accounts payable. The Company also issued preference stock shareholder refunds of approximately \$43,600, \$45,700, and \$42,500 in 2024, 2023, and 2022, respectively. These amounts are included in equity.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 credit losses; and inventory valuation.

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 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, 2021.

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 29, 2024 or June 24, 2023.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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 credit losses on its accounts based on historic loss experience, current economic conditions, and certain forward-looking information. 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.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Revenue Recognition (Continued)

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.

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.

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 8 and 10 for further discussion.

DO IT BEST CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 29, 2024, JUNE 24, 2023, AND JUNE 25, 2022
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

The Company is a party to interest rate swap agreements. The Company uses the interest rate swaps for the purpose of hedging exposure to changes in interest rates. The Company has designated its interest rate swaps as cash flow hedges. The Company considers its interest rate swaps to be highly effective and accordingly, accounts for the agreements as cash flow hedges with the changes in fair value of the swap agreements recorded as a component of other comprehensive income.

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.

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 2024, 2023, and 2022 was \$10,531, \$10,834, and \$10,435, 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 2024 and 2023, the Company capitalized approximately \$13,806 and \$8,997, respectively, of software development costs which consisted of both internally developed and purchased software costs. Amortization expense for all capitalized software was \$6,978, \$5,645, and \$4,983 for 2024, 2023, and 2022, 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 2024, 2023, or 2022.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2024, 2023, and 2022 were \$11,073, \$10,956, and \$10,384, respectively.

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 \$25,577 and \$22,318 at June 29, 2024, and June 24, 2023, respectively. Changes in fair value are included in earnings. Net realized and unrealized gains and losses during 2024, 2023, and 2022 on equity and fixed income securities were \$4,065, \$2,119, and \$1,303, respectively. Net gains and losses on equity and fixed income securities recognized during 2024, 2023, and 2022 were \$669, \$(69), and \$622, respectively. Unrealized gains and losses recognized on equity and fixed income securities still held during 2024, 2023, and 2022 were \$3,396, \$2,188, and \$681, respectively.

Business Combinations

The Company accounts for business acquisitions using the acquisition method of accounting and records any identifiable definite-lived intangible assets separate from goodwill. Intangible assets are recorded at their fair value based on estimates as of the date of acquisition. Goodwill is recorded as the residual amount of the purchase price consideration less the fair value assigned to the individual identifiable assets acquired and liabilities assumed as of the date of acquisition. A bargain purchase is recorded as the excess of the fair value of net assets acquired less the total consideration. Contingent consideration, which represents an obligation of the Company to make additional payments or equity interests to the former owner as part of the purchase price if specified future events occur or conditions are met, is accounted for at the acquisition date fair value either as a liability or as equity depending on the terms of the acquisition agreement.

The Company has elected the accounting alternative provided in Accounting Standards Update (ASU) 2014-02, *Intangibles - Goodwill and Other* (Topic 350): Accounting for Goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years and analyzed for impairment at the reporting unit level if a triggering event occurs. The Company has also adopted Accounting Standards Update (ASU) 2014-18, *Business Combinations* (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination which permits the Company to no longer separately recognize certain customer-related intangible assets or noncompetition agreements acquired in business combinations. These amounts are included as a part of goodwill for all acquisitions.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, short-term operating lease liabilities, and long-term operating lease liabilities. Finance leases are included in finance lease ROU assets, short-term financing lease liabilities, and long-term financing lease liabilities on the consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated balance sheet.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In allocating consideration in the contract to the separate lease components and the nonlease components, the Company uses the standalone prices of the lease and nonlease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Company uses rates implicit in the lease, or if not readily available, the Company's incremental borrowing rate. The incremental borrowing rate used is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by Company assets. Determining a credit spread as secured by Company assets may require significant judgment.

Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure through August 23, 2024, the date the consolidated financial statements were available to be issued.

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NOTE 2 BUSINESS COMBINATION

On March 13, 2024, Do It Best Corp (DIB) entered into an agreement to merge with United Hardware Distributing Co. to be effective May 1, 2024 (*the "Merger Agreement"*), and as a result, Project Irwin, LLC (*"Merger Sub"*) merged with and into United Hardware Distributing Co. with United Hardware Distributing Co. continuing as the surviving entity. United Hardware Distributing Co. is a hardware buying cooperative based in Maple Grove, Minnesota. Members of United Hardware Co. received consideration in the form of DIB common stock shares and consideration to be earned through the achievement of annual purchase targets for remaining members paid in the form of a credit against any outstanding or future amounts the member owes to DIB. All activity of the consolidated subsidiary since the date of acquisition is included in the operating results presented for the year ended June 29, 2024.

The Company accounted for the acquisition using the acquisition method of accounting. The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the fair value of net assets acquired exceeding the consideration was recorded as a gain on acquisition.

The fair value of the consideration transferred is as follows:

Common Stock	\$	510
Contingent Consideration		15,298
Total		<u><u>15,808</u></u>

The following table summarizes the fair value of the assets acquired and liabilities assumed:

Cash and Cash Equivalents	\$	1,571
Trade Receivables		20,899
Inventories		28,360
Prepaid and Other Assets		1,110
Other Noncurrent Assets		410
Property, Plant, and Equipment		14,982
Right-of-Use Lease Assets		686
Accounts Payable and Accruals		(24,048)
Loan Payable		(18,764)
Loans Payable to Discontinued Members		(4,092)
Other Long-Term Obligations		(198)
Lease Liabilities		(686)
Deferred Income Tax Liability		(1,471)
Total Identifiable Net Assets		<u><u>18,759</u></u>
 Gain on Business Combination	 \$	 <u><u>2,951</u></u>

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NOTE 2 BUSINESS COMBINATION (CONTINUED)

The allocation of purchase price for the acquisition is preliminary determined by management based on various market and income analyses and recent asset appraisals. The tangible assets and liabilities were valued by management, except for the land and buildings which were valued by an independent third-party valuation specialist.

Primarily as a result of the remeasurement of the land and buildings, Do It Best Corp. recognized a gain of approximately \$2,900 on the business combination. The gain is included in other income in the consolidated income statement for the period ending June 29, 2024.

Transaction costs related to the acquisition amounted to \$1,130 and is included in other expense in the statement of operations for the year ended June 29, 2024.

The fair value of the assets acquired include trade receivables of \$20,899 that are not purchased financial assets with credit deterioration. The gross amount due is \$21,773 of which \$875 is expected to be uncollectible. The Company did not acquire any other class of receivables as a result of the acquisition.

In connection with the purchase the Company entered into a contingent consideration arrangement that required additional consideration to be paid by the Company to the sellers upon the selling members attaining certain volume targets annually over a 10-year period. The undiscounted amounts the Company could pay under the contingent consideration agreement totals up to \$15,800 based on the achievement of certain purchase volume targets over a ten-year period subsequent to the acquisition. The fair value of the contingent consideration recognized on the acquisition date of \$15,298 was estimated based upon a probability-weighted discounted cash flow valuation technique. The consideration is earned and payable over 10 years and is included in other liabilities on the consolidated balance sheet.

As of June 29, 2024, there were no changes in the recognized amounts or range of outcomes for the contingent consideration recognized as a result of the business combination.

NOTE 3 CREDIT AGREEMENT

The Company had an available revolving line of credit with a commercial bank in the base amount of \$250,000 from August 23, 2022, to June 13, 2023, at which time it decreased to \$225,000 until maturity on August 23, 2025, secured by all personal property. For the line, interest is payable monthly on outstanding balances at either Alternate Base Rate or SOFR plus an applicable margin.

There were total borrowings of \$15,000 and \$20,000 against the lines of credit at June 29, 2024, and June 24, 2023, respectively. There were no outstanding letters of credit at June 29, 2024, or June 24, 2023. The Company is subject to certain financial covenants.

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NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows at June 29, 2024, and June 24, 2023:

	2024	2023
Land, Building, and Site Improvements	\$ 164,477	\$ 140,339
Equipment and Fixtures	108,770	96,925
Capitalized Software	76,289	58,165
Software in Progress	14,727	7,437
Construction in Progress	31,927	19,331
Subtotal	396,190	322,197
Less: Accumulated Depreciation and Amortization	210,820	178,549
Property and Equipment, Net	\$ 185,370	\$ 143,648

NOTE 5 LEASES UNDER ASC 842

The Company leases office space, data processing equipment, office equipment, autos, and delivery equipment under finance leases expiring on various dates through 2052. Certain facility leases provide for increases in future minimum annual rental payments based on defined schedules. Various agreements are cancelable at the option of the Company upon fulfillment of certain conditions.

The following tables provide quantitative information concerning the Company's leases.

	2024	2023
Lease Cost:		
Finance Lease Costs:		
Amortization of ROU Assets	\$ 20,010	\$ 17,763
Interest on Lease Liabilities	8,408	7,320
Operating Lease Costs	38	-
Variable Lease Costs	7	-
Total Lease Costs	\$ 28,463	\$ 25,083

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NOTE 5 LEASES UNDER ASC 842 (CONTINUED)

Other Information:

Cash Paid for Amounts Included in the Measurement
of Lease Liabilities:

Operating Cash Flows from Finance Leases	\$ 8,408	\$ 7,320
Operating Cash Flows from Operating Leases	\$ 77	\$ -
Financing Cash Flows from Finance Leases	\$ 15,479	\$ 14,069
Right-of-Use Assets Obtained in Exchange for New:		
Financing Lease Liabilities	\$ 3,342	\$ 85,673
Weighted-Average Remaining Lease Term -		
Financing Leases	17.60 years	16.59 years
Weighted-Average Remaining Lease Term -		
Operating Leases	2.28 years	N/A
Weighted-Average Discount Rate - Finance Leases	6.47%	6.75%
Weighted-Average Discount Rate - Operating Leases	3.00%	N/A

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 29, 2024, is as follows:

<u>Year Ending June,</u>	<u>Operating</u>	<u>Finance</u>	<u>Totals</u>
2025	\$ 234	\$ 21,515	\$ 21,749
2026	227	18,799	19,026
2027	72	13,345	13,417
2028	-	7,257	7,257
2029	-	5,277	5,277
Thereafter	-	129,304	129,304
Total Lease Payments	533	195,497	196,030
Less: Imputed Interest	(19)	(85,467)	(85,486)
Total Present Value of Lease Liabilities	<u>\$ 514</u>	<u>\$ 110,030</u>	<u>\$ 110,544</u>
Short-Term Lease Liabilities	\$ (234)	\$ (16,597)	\$ (16,831)
Long-Term Lease Liabilities	(280)	(93,433)	(93,713)
Total	<u>\$ (514)</u>	<u>\$ (110,030)</u>	<u>\$ (110,544)</u>

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NOTE 6 CAPITAL SHARE DATA

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Common Stock, Voting \$50 Par Value, 990,000			
Shares Authorized:			
Shares Outstanding - Beginning of Year	64,120	62,820	60,980
Shares Issued	14,620	3,890	5,140
Shares Repurchased	<u>(4,130)</u>	<u>(2,590)</u>	<u>(3,300)</u>
Shares Outstanding - End of Year	<u><u>74,610</u></u>	<u><u>64,120</u></u>	<u><u>62,820</u></u>
Common Stock, Nonvoting \$50 Par Value, 100,000 Shares Authorized:			
Shares Outstanding - Beginning of Year	13,140	12,810	12,890
Shares Issued	660	330	-
Shares Repurchased	<u>-</u>	<u>-</u>	<u>(80)</u>
Shares Outstanding - End of Year	<u><u>13,800</u></u>	<u><u>13,140</u></u>	<u><u>12,810</u></u>
Preference Share, \$100 Par Value, 4,000,000			
Shares Authorized:			
Shares Outstanding - Beginning of Year	3,791,782	3,702,174	3,638,911
Shares Issued	436,031	457,487	424,760
Shares Repurchased	<u>(423,984)</u>	<u>(367,879)</u>	<u>(361,497)</u>
Shares Outstanding - End of Year	<u><u>3,803,829</u></u>	<u><u>3,791,782</u></u>	<u><u>3,702,174</u></u>

NOTE 7 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 2024, 2023, and 2022, Do it Best was charged \$141, \$44, and \$43, respectively, by the Alliance for administrative costs. Do it Best was paid \$29, \$27, and \$27, respectively, in 2024, 2023, and 2022 for management services rendered to the Alliance.

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NOTE 7 TRANSACTIONS WITH UNCONSOLIDATED AFFILIATES (CONTINUED)

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). Nation's Best is engaged in the acquisition and operations of hardware and lumber retail stores throughout the United States. The Company made an additional investment of \$10,000 during the year ended June 29, 2024. 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 29, 2024, and June 24, 2023, is as follows:

	2024	2023
Balance Sheets:		
Current Assets	\$ 108,828	\$ 105,380
Net Property and Equipment	34,943	29,137
ROU Assets - Operating	24,870	25,594
Other Assets	46,993	44,858
Current Liabilities	27,874	33,119
Long-Term Liabilities	114,295	111,136
Members' Equity	48,595	35,120
 Company's Share of Net Equity	 \$ 52,239	 \$ 40,320
Statements of Operations:		
Net Sales	\$ 388,435	\$ 384,338
Operating Expenses	376,562	371,104
Operating Income	11,873	13,234
Other (Income) Expense	4,298	226
Net Income	7,575	13,008
 Company's Share of Income	 \$ 1,983	 \$ 3,252

NOTE 8 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 \$600, \$1,400, and \$2,100 for 2024, 2023, and 2022, respectively. Benefits paid to employees related to this plan approximated \$7,600, \$8,300, and \$15,300 in 2024, 2023, and 2022, respectively. Cost related to the defined contribution profit sharing plan approximated \$20,500, \$19,900, and \$14,000 in 2024, 2023, and 2022, respectively.

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

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 \$-0- will be contributed to the defined benefit pension plan by the Company during the fiscal year-ending June 2025.

Expected benefit payments for the ensuing five years and in the aggregate related to the defined benefit pension plan approximate \$7,100, \$6,600, \$7,200, \$7,000, and \$6,900 in 2025, 2026, 2027, 2028, and 2029, respectively. Expected benefit payments from 2030 to 2034 approximate \$35,200, for an aggregate total of \$70,000.

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.

On May 1, 2024, the Company acquired the defined benefit plan of United Hardware through the merger discussed in Note 2. As of the merger date, the plan included a fair value of plan assets of \$10,008 and a projected benefit obligation of \$10,550. The plan had an underfunded status of \$542.

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 \$(61), \$360, and \$384 in 2024, 2023, and 2022, respectively. Participant contributions to the Plan aggregated \$-0- in 2024, 2023, and 2022. Benefits paid to employees related to the Plan aggregated \$237, \$236, and \$246 in 2024, 2023, and 2022, respectively.

Management estimates approximately \$237 will be contributed to the Plan by the Company during the fiscal year ending June 2025.

Expected benefit payments for the ensuing five years and in the aggregated related to the Plan approximate \$200, \$200, \$200, \$200, and \$100 in 2025, 2026, 2027, 2028, and 2029, respectively. Expected benefit payments from 2030 to 2034 approximate \$500, for an aggregate total of \$1,400.

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

Postretirement Medical Benefit Plan (Continued)

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 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	Retirement and Pension Plan			Postretirement Medical Plan		
	2024	2023	2022	2024	2023	2022
Change in Benefit Obligation:						
Beginning Balance	\$ 70,124	\$ 74,196	\$ 99,223	\$ 1,434	\$ 1,511	\$ 1,923
Acquisition of United Hardware	10,550	-	-	-	-	-
Service Cost	2,342	2,869	4,027	-	-	-
Interest Cost	3,618	3,491	3,336	86	71	60
Actuarial Gain (Loss)	(414)	(2,092)	(17,120)	(73)	88	(226)
Benefit Paid	(7,565)	(1,736)	(1,533)	(143)	(236)	(246)
Settlements	-	(6,604)	(13,737)	-	-	-
Ending Balance	<u>\$ 78,655</u>	<u>\$ 70,124</u>	<u>\$ 74,196</u>	<u>\$ 1,304</u>	<u>\$ 1,434</u>	<u>\$ 1,511</u>
Change in Plan Assets:						
Beginning Balance at Fair Value	\$ 85,418	\$ 88,370	\$ 116,629	\$ -	\$ -	\$ -
Acquisition of United Hardware	10,008	-	-	-	-	-
Actual Return on Plan Assets	3,710	3,578	(15,805)	-	-	-
Company Contributions	77	1,810	2,816	143	236	246
Benefits paid	(7,565)	(1,736)	(1,533)	(143)	(236)	(246)
Settlements	-	(6,604)	(13,737)	-	-	-
Ending Balance at Fair Value	<u>\$ 91,648</u>	<u>\$ 85,418</u>	<u>\$ 88,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Over (Under) Funded Status	<u>\$ 12,993</u>	<u>\$ 15,294</u>	<u>\$ 14,174</u>	<u>\$ (1,304)</u>	<u>\$ (1,434)</u>	<u>\$ (1,511)</u>
Amounts Recognized in Statement of Financial Position Consist of:						
Noncurrent Assets	\$ 15,059	\$ 16,853	\$ 15,808	\$ -	\$ -	\$ -
Current Liabilities	(94)	(32)	(49)	(247)	(246)	(293)
Noncurrent Liabilities	<u>(1,972)</u>	<u>(1,527)</u>	<u>(1,585)</u>	<u>(1,057)</u>	<u>(1,188)</u>	<u>(1,218)</u>
Net Assets (Liabilities) Recognized in Balance Sheet	<u>\$ 12,993</u>	<u>\$ 15,294</u>	<u>\$ 14,174</u>	<u>\$ (1,304)</u>	<u>\$ (1,434)</u>	<u>\$ (1,511)</u>
Reconciliation of Amounts Recognized in Accumulated Other Comprehensive Income (Loss):						
Prior Service Cost	\$ 4,225	\$ 5,718	\$ 7,210	\$ -	\$ 19	\$ 415
Net Actuarial Loss	<u>(19,664)</u>	<u>(19,717)</u>	<u>(23,733)</u>	<u>213</u>	<u>132</u>	<u>253</u>
Accumulated Other Comprehensive Income (Loss)	(15,439)	(13,999)	(16,523)	213	151	668
Accrued Benefits Cost	<u>28,432</u>	<u>29,293</u>	<u>30,697</u>	<u>(1,517)</u>	<u>(1,585)</u>	<u>(2,179)</u>
Net Asset (Liability) Recognized in Balance Sheet	<u>\$ 12,993</u>	<u>\$ 15,294</u>	<u>\$ 14,174</u>	<u>\$ (1,304)</u>	<u>\$ (1,434)</u>	<u>\$ (1,511)</u>
Change in Accumulated Other Comprehensive Income (Loss):						
Beginning of Year (No Tax Effect)	\$ (13,999)	\$ (16,523)	\$ (14,952)	\$ 151	\$ 668	\$ 885
Less Amounts Amortized During the Year:						
Prior Service Credit Arising During the Year	(1,493)	(1,493)	(1,493)	(19)	(396)	(396)
Net (Income) Loss Arising During the Year	1,187	1,881	1,413	8	(33)	(48)
Occurring During the Year:						
Plan Change	-	-	-	-	-	-
Amortization of Net Gain (Loss)	(1,134)	322	(5,766)	73	(88)	227
Settlement	-	1,814	4,275	-	-	-
End of Year	<u>\$ (15,439)</u>	<u>\$ (13,999)</u>	<u>\$ (16,523)</u>	<u>\$ 213</u>	<u>\$ 151</u>	<u>\$ 668</u>

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NOTE 8 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		
	2024	2023	2022	2024	2023	2022
Prior Service Credit Before Tax	\$ (1,493)	\$ (1,493)	\$ (1,493)	\$ (19)	\$ (396)	\$ (396)
Tax Benefit	(403)	(403)	(403)	(5)	(107)	(107)
Prior Service Credit Net of Tax	(1,090)	(1,090)	(1,090)	(14)	(289)	(289)
Net Loss Before Tax	1,187	1,881	1,413	8	(33)	(48)
Tax Expense	320	508	382	2	(9)	(13)
Net Loss Net of Tax	867	1,373	1,031	6	(24)	(35)
Amortization of Net Gain (Loss) Before Tax	(1,134)	322	(5,766)	73	(88)	227
Tax Expense (Benefit)	(306)	87	(1,557)	20	(24)	61
Amortization of Net Gain (Loss) Net of Tax	(828)	235	(4,209)	53	(64)	166
Settlement	-	1,814	4,275	-	-	-
Tax Expense	-	490	1,154	-	-	-
Settlement Net of Tax	-	1,324	3,121	-	-	-
Total	<u>\$ (1,051)</u>	<u>\$ 1,842</u>	<u>\$ (1,147)</u>	<u>\$ 45</u>	<u>\$ (377)</u>	<u>\$ (158)</u>

As of June 29, 2024, the defined benefit pension plans and the postretirement medical plan had accumulated benefit obligations of approximately \$79,000 and \$1,300, respectively. At June 24, 2023, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately \$70,000 and \$1,400, respectively. At June 25, 2022, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately \$74,000 and \$1,500, respectively.

The change in deferred taxes recognized in other comprehensive income (loss) approximated \$(100), \$(500), and \$600 during 2024, 2023, and 2022, respectively.

	and Pension Plan			Postretirement Medical Plan		
	2024	2023	2022	2024	2023	2022
Components of Net Periodic Benefit (Costs) Income:						
Service Cost	\$ (2,342)	\$ (2,869)	\$ (4,027)	\$ -	\$ -	\$ -
Interest Cost	(3,618)	(3,491)	(3,336)	(86)	(71)	(60)
Expected Return on Plan Assets	5,000	5,345	7,080	-	-	-
Amortization	194	(388)	80	11	431	444
Net Periodic Benefit (Costs) Income	<u>\$ (766)</u>	<u>\$ (1,403)</u>	<u>\$ (203)</u>	<u>\$ (75)</u>	<u>\$ 360</u>	<u>\$ 384</u>

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

Assumptions

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

	2024		2023		2022	
	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical
Discount Rate	5.40%	5.40%	5.25%	5.25%	4.75%	4.75%
Salary Increase	4.00%	N/A	4.00%	N/A	4.00%	N/A
Current Year Trend	N/A	7.00%	N/A	7.00%	N/A	6.25%
Ultimate Year Trend	N/A	5.00%	N/A	5.00%	N/A	4.50%
Year of Ultimate Trend Date	N/A	2032	N/A	2032	N/A	2029

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	5.40%	5.25%	4.75%	4.75%	4.75%	4.75%
Salary Increase	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Rate of Return on Assets	6.07%	N/A	6.25%	N/A	6.25%	N/A
Current Year Trend	N/A	7.00%	N/A	6.00%	N/A	6.25%
Ultimate Year Trend	N/A	5.00%	N/A	4.50%	N/A	4.50%
Year of Ultimate Trend Date	N/A	2032	N/A	2029	N/A	2029

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 8 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 29, 2024, and June 24, 2023:

	2024		2023	
	Target Allocation	Retirement and Pension Plan	Target Allocation	Retirement and Pension Plan
Equity Securities	25 %	25 %	25 %	24 %
Debt Securities	70	68	70	65
Other	5	7	5	11
Total	100 %	100 %	100 %	100 %

No assets were held by the postretirement medical benefit plan at June 29, 2024 or June 24, 2023.

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 29, 2024:

Defined Benefit Pension Plan	Total	in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Money Market	\$ 1,446	\$ 1,446	\$ -	\$ -
Domestic Equity	13,236	13,236	-	-
International Equity	9,478	9,478	-	-
Domestic Fixed	62,316	62,316	-	-
Alternative	5,172	-	5,172	-
Total	\$ 91,648	\$ 86,476	\$ 5,172	\$ -

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 24, 2023:

Defined Benefit Pension Plan	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Money Market	\$ 2,515	\$ 2,515	\$ -	\$ -
Domestic Equity	12,372	12,372	-	-
International Equity	7,709	7,709	-	-
Domestic Fixed	55,204	55,204	-	-
Alternative	7,618	-	7,618	-
Total	\$ 85,418	\$ 77,800	\$ 7,618	\$ -

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NOTE 9 INCOME TAXES

The provision for income taxes at June 29, 2024, June 24, 2023, and June 25, 2022, consisted of the following:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Federal Income Tax:			
Current	\$ 1,738	\$ 2,327	\$ 308
Deferred	(1,163)	(1,778)	1,416
State Income Tax:			
Current	1,130	543	155
Deferred	(20)	(508)	404
Total	<u>\$ 1,685</u>	<u>\$ 584</u>	<u>\$ 2,283</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 and deductible patronage dividends. 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.

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

	<u>2024</u>	<u>2023</u>
Assets:		
Accrued Assets	\$ 2,294	\$ 2,194
Deferred Compensation	6,310	4,436
Allowance for Credit Losses	464	205
Inventory Obsolescence	1,671	799
Postretirement Health Care Expense	323	427
Right-of-Use Lease Liability	27,315	32,985
Retirement and Pension Plan	3,906	3,779
Total Assets	<u>42,283</u>	<u>44,825</u>
Liabilities:		
Retirement Plan Expense	(809)	(1,825)
Fixed Assets	(2,621)	(182)
Prepays and Other	(1,419)	(129)
Investment in Nation's Best	(399)	(496)
Right-of-Use Lease Asset	(26,312)	(31,579)
Interest Rate Swaps	(44)	(47)
Postretirement Medical Plan	(66)	(40)
Total Liabilities	<u>(31,670)</u>	<u>(34,298)</u>
Net Deferred Tax Asset	<u>\$ 10,613</u>	<u>\$ 10,527</u>

DO IT BEST CORP. AND SUBSIDIARIES
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NOTE 9 INCOME TAXES (CONTINUED)

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Income Tax Expense at Statutory Rates	\$ 34,224	\$ 32,541	\$ 29,074
State Taxes, Net of Federal Benefit	877	138	437
Deductible Shareholder Refunds	(33,425)	(31,929)	(27,134)
Nondeductible Expenses	350	147	23
Other	(341)	(313)	(117)
Total	<u>\$ 1,685</u>	<u>\$ 584</u>	<u>\$ 2,283</u>

NOTE 10 FAIR VALUE MEASUREMENTS

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.

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

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).

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NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

Interest Rate Swaps: The fair value of the interest rate swap is estimated by a third-party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties (Level 2 inputs).

Commodity Derivatives: The commodity derivatives consist of lumber contracts on the Chicago Mercantile Exchange (CME) held in a brokerage account and are included in other current assets. The fair values are obtained from quoted market prices from the CME for identical contracts (Level 1 inputs).

Contingent Consideration: Contingent consideration relates to potential payments that the Company may be required to make associated with business combinations. The contingent consideration is recorded at fair value based on estimates future cash flows associated with the weighted average probability of achieving certain milestone volume targets. To the extent that the valuation of these liabilities is based on inputs that are less observable or not observable in the market, the determination of fair value requires more judgment. Accordingly, the fair value of contingent consideration is classified within Level 3 of the fair value hierarchy, under ASC 820. The change in fair value is re-measured at each reporting period with the change in fair value being recognized in accordance with ASC 805, *Business Combinations* (“ASC 805”).

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.

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NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

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 29, 2024			
	Total	Level 1	Level 2	Level 3
Assets:				
Other Assets:				
Interest Rate Swaps	\$ 168	\$ -	\$ 168	\$ -
Commodity Derivatives	83	83	-	-
Mutual Funds	25,577	25,577	-	-
Liabilities:				
Other Liabilities:				
Contingent Consideration	15,298	-	-	15,298
Total	<u>\$ 41,126</u>	<u>\$ 25,660</u>	<u>\$ 168</u>	<u>\$ 15,298</u>
	June 24, 2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Other Assets:				
Interest Rate Swaps	\$ 174	\$ -	\$ 174	\$ -
Commodity Derivatives	340	340	-	-
Mutual Funds	22,318	22,318	-	-
Total	<u>\$ 22,658</u>	<u>\$ 22,658</u>	<u>\$ -</u>	<u>\$ -</u>

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 consolidated balance sheet date.

As of June 29, 2024, there were no changes in the fair value of the contingent consideration recognized as a result of the business combination.

NOTE 11 DERIVATIVE INSTRUMENTS AND HEDGING

The Company recognizes all of its derivative instruments as either assets or liabilities in its consolidated balance sheet at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a reporting entity must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in foreign operations. The Company's interest rate swap has been designated as a hedging instrument, while the commodity derivatives have not been designated as a hedging instrument.

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NOTE 11 DERIVATIVE INSTRUMENTS AND HEDGING (CONTINUED)

The following table sets forth the fair value of derivatives instruments as of:

	Asset Derivatives			
	June 29, 2024		June 24, 2023	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Instruments Not Designated as Hedges:				
Commodity Contracts:				
Exchange Traded Futures				
Unrealized Gain	Other Assets	\$ 83	Other Assets	\$ 340
Instruments Designated as Hedges:				
Interest Rate Swaps	Other Assets	\$ 168	Other Assets	\$ 174

The following table summarizes the gains and losses on derivative instruments recognized in the consolidated statements of income for the years ended:

	Derivative Gain (Loss)			
	June 29, 2024		June 24, 2023	
	Statement of Operations Location	Gain	Statement of Operations Location	Loss
Commodity Contracts:				
Exchange Traded Futures	Cost of Sales	\$ 1,595	Cost of Sales	\$ 3,122

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NOTE 12 ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income show as a component of shareholders' equity is comprised of the following:

	Defined Benefit Pension	Postretirement Medical Plan	Cash Flow Hedges	Tax (Expense) Benefit	Total	Affected Line Item in Statement of Income
Balance - June 25, 2022	\$ (16,167)	\$ 312	\$ -	\$ 4,281	\$ (11,574)	
Other Comprehensive Income (Loss)						
Before Reclassifications	2,136	(88)	-	(553)	1,495	
Interest Rate Swap Agreements, Unrealized Gains	-	-	174	(47)	127	
Reclassification Adjustment for (Gains) Losses Included in Net Income (Loss):						
Amortization of Postretirement Medical Plan Items	-	(429)	-	116	(313)	Pension Costs
Amortization of Defined Benefit Pension Items	388	-	-	(105)	283	Pension Costs
Net Other Comprehensive Income (Loss) for Year	2,524	(517)	174	(589)	1,592	
Balance - June 24, 2023	(13,643)	(205)	174	3,692	(9,982)	
Other Comprehensive Income (Loss)						
Before Reclassifications	(1,134)	73	-	286	(775)	
Interest Rate Swap Agreements, Unrealized Gains	-	-	(6)	2	(4)	
Reclassification Adjustment for (Gains) Losses Included in Net Income (Loss):						
Amortization of Postretirement Medical Plan Items	-	(11)	-	3	(8)	Pension Costs
Amortization of Defined Benefit Pension Items	(306)	-	-	83	(223)	Pension Costs
Net Other Comprehensive Income (Loss) for Year	(1,440)	62	(6)	374	(1,010)	
Balance - June 29, 2024	<u>\$ (15,083)</u>	<u>\$ (143)</u>	<u>\$ 168</u>	<u>\$ 4,066</u>	<u>\$ (10,992)</u>	

NOTE 13 SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid during the year for:

	2024	2023	2022
Income Taxes	\$ 4,061	\$ 778	\$ 1,520
Interest	3,042	3,378	2,129

Schedule of noncash investing and financing activities:

	2024	2023	2022
Shareholder Refunds in Preference Shares	\$ 43,603	\$ 45,749	\$ 42,476
Accrued Shareholder Refund	115,561	106,294	86,734
Consideration Payable to Discontinued Members	4,092	-	-
Common Stock Issued in Business Combination	510	-	-

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NOTE 14 COMMITMENTS AND CONTINGENCIES

The Company was contingently liable at June 29, 2024, and June 24, 2023, under a loan guarantee program, which has a maximum borrowing capacity of \$20,000 at both June 29, 2024, and June 24, 2023, 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 29, 2024, and June 24, 2023, interest rates on the loans ranged from 8.00% to 8.50%.

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 29, 2024, and June 24, 2023, 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.



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