Margo Caribe, Inc. and Subsidiaries

Consolidated Financial Statements
As of and for the Year Ended December 31, 2023

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Contents

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Independent Auditor's Report

Board of Directors
Margo Caribe, Inc. and Subsidiaries
Jacksonville, Florida

Opinion

We have audited the consolidated financial statements of Margo Caribe, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the 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 the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the 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 auditor's 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 the Company'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 the Company's ability to continue as a going concern for a reasonable period of time.

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.

BDO USA, P.C.

April 5, 2024

Margo Caribe, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2023		
Assets		
Current Assets		
Cash	$	4,430,489
Accounts receivable, net		4,495,388
Inventories, net		8,667,990
Notes receivable		310,073
Prepaid expenses and other current assets		1,389,322
Total Current Assets		19,293,262
Property and Equipment, Net		6,542,513
Right-of-Use Assets - Operating Leases		11,768,668
Total Assets	$	37,604,443
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$	1,110,823
Deferred tax liability		610,072
Income tax payable		162,998
Accrued expenses		244,635
Current portion of long-term debt		1,230,684
Current portion of note payable to related parties		1,000,000
Current portion of operating lease liabilities		3,195,127
Total Current Liabilities		7,554,339
Long-Term Debt, net of current portion		4,796
Note Payable to Related Parties, net of current portion		800,000
Operating Lease Liabilities, net of current portion		9,869,587
Total Liabilities		18,228,722
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common Stock, $0.001 par value; 10 million shares authorized, 4,888,475 issued and 4,828,607 outstanding		4,828
Preferred Stock, $0.01 par value; 250,000 authorized, none issued		-
Treasury stock, at cost, 59,868 shares		(176,820)
Additional paid-in capital		16,386,015
Retained earnings		3,161,698
Total Stockholders' Equity		19,375,721
Total Liabilities and Stockholders' Equity	$	37,604,443

See accompanying notes to consolidated financial statements.

Margo Caribe, Inc. and Subsidiaries

Consolidated Statement of Income

Year ended December 31, 2023		
Revenues		
Distribution and eCommerce, net	$	38,781,508
Manufacturing		4,647,646
		43,429,154
Cost of Sales, Warehousing, and Distribution		
Distribution and eCommerce		26,069,567
Manufacturing, including subcontracts		4,584,449
		30,654,016
Gross Profit		12,775,138
Selling, General, and Administrative Expenses		6,489,095
Income from Operations		6,286,043
Interest Expense, Net		(654,870)
Income, before income tax		5,631,173
Income Tax Provision		(1,934,093)
Net Income	$	3,697,080
Earnings Per Share	$	0.86
Weighted Average Common Shares Outstanding		4,280,863

See accompanying notes to consolidated financial statements.

Margo Caribe, Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity

	Common Stock		Treasury Stock				
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total Equity
Balance, January 1, 2023	4,001,373	$ 4,001	49,750	$ (96,288)	$ 9,688,022	$ (535,382)	$ 9,060,353
Stock repurchase	(10,118)	(10)	10,118	(80,532)	-	-	(80,542)
Debt to equity transaction	837,352	837	-	-	6,697,993	-	6,698,830
Net income	-	-	-	-	-	3,697,080	3,697,080
Balance, December 31, 2023	4,828,607	$ 4,828	59,868	$ (176,820)	$ 16,386,015	$ 3,161,698	$ 19,375,721

See accompanying notes to consolidated financial statements.

Margo Caribe, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Year ended December 31, 2023		
Cash Flows from Operating Activities		
Net income	$	3,697,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		1,171,440
Provision for credit losses		381,590
Provision for obsolete inventory		50,000
Amortization of right-of-use operating lease liabilities		2,345,099
Amortization of debt issuance costs		88,495
Deferred tax provision		144,355
Changes in operating assets and liabilities:		
Accounts receivable, net		(1,749,738)
Inventories, net		(2,863,639)
Prepaid expenses and other current assets		1,155,352
Income tax receivable and payable		942,574
Accounts payable		307,833
Accrued expenses		69,324
Operating lease liabilities		(2,510,497)
Net Cash Provided by Operating Activities		3,229,268
Cash Flows from Investing Activities		
Acquisition of property and equipment		(266,905)
Notes receivable issued		(141,107)
Payments received on notes receivable		7,361
Net Cash Used in Investing Activities		(400,651)
Cash Flows from Financing Activities		
Cash distributions from debt-to-equity exchange		(1,515,403)
Purchase of treasury stock		(80,532)
Repayment on long-term debt		(2,034,905)
Repayment on note payable to related parties		(200,000)
Net Cash Used in Financing Activities		(3,830,840)
Net Change in Cash		(1,002,223)
Cash, beginning of year		5,432,712
Cash, end of year	$	4,430,489
Supplemental Disclosure		
Cash paid for interest	$	330,841
Cash paid for taxes		766,500
Non-Cash Investing and Financing Activities		
Related party debt and accrued interest exchanged for equity	$	6,698,820
Right-of-use assets obtained in exchange for new operating lease liabilities		511,111

See accompanying notes to consolidated financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Margo Caribe, Inc. (the Company) was incorporated as Margo Nursery Farms, Inc. (Nursery Farms) in Florida on December 11, 1981. The Company completed an underwritten initial public offering of its common stock on January 27, 1987, registered under the Securities Act of 1933.

Originally, the Company engaged in growing and distributing a wide range of tropical and flowering plants from a nursery located in Miami-Dade County Florida, approximately 20 miles from Miami. On December 24, 1997, following the damage of its farms by Hurricane Andrew in 1992, Nursery Farms merged with and into Margo Transition Corp., a Puerto Rico company (Transition Corp.) formed for the purpose of merging with Nursery Farms, and simultaneously with the merger, Transition Corp. changed its name to Margo Nursery Farms, Inc. On June 5, 1998, the new Margo Nursery Farms changed its name to Margo Caribe, Inc.

The Company de-registered its common stock with the Securities Exchange Commission (SEC) on September 26, 2008. Currently, the Company is a non-registered, non-SEC reporting company with public shareholders. As of September 2021, OTC traded companies were required to comply with SEC rule 15c2-11 requiring companies to maintain certain “current information” within the OTC portal. The Company has complied with these reporting requirements and maintains a “Pink Current” designation listing with the OTC.

The Company is primarily engaged in the lawn and garden products business. This includes the selling of landscaping rocks and pebbles, mulch, glass, and other garden products. The Company produces mulch in a factory in Georgia, while all other products are purchased from suppliers, many of which are located in foreign markets. The Company’s customer base is predominantly big-box retailers; however, the Company also sells some of its products directly to consumers through its e-commerce marketplace.

On January 26, 2005, the Company formed Margo State Line, Inc. (State Line) as a Florida corporation and a wholly-owned subsidiary of the Company. On February 16, 2005, State Line completed the purchase of substantially all the assets (other than real property) of State-Line Bark & Mulch, Inc., a Georgia corporation dedicated to the production and distribution of mulch and related products in Folkston, Georgia.

Effective December 22, 2020 the State of Delaware issued a Certificate of Conversion under the name of Margo State Line, Inc. changing its name to Margo Outdoor Living, Inc., a Delaware corporation (Margo Outdoor).

Effective December 23, 2019, Margo Outdoor registered in Puerto Rico, Margo Newco, Inc., a subsidiary of Margo Outdoor Living, Inc. The purpose of this entity was to potentially effect a reverse triangular merger whereby Margo Outdoor would become the parent entity of Margo Caribe, Inc. through a merger with Margo Caribe, Inc. and Margo Newco, Inc. As of April 5, 2024, the date these financial statements were available to be issued, the Company’s Board of Directors has not initiated this planned transaction.

Effective January 7, 2021, the Florida Department of State issued Margo Outdoor Living, Inc., a Delaware corporation, a Certificate of Authority.

Effective September 23, 2021, the Company registered, with the state of Delaware, GF Trucking, Inc., a wholly-owned subsidiary of Margo Outdoor. The purpose of this entity is to hold the employees classified as drivers operating Margo Outdoor's leased trucking fleet. This entity had no activity as of December 31, 2023.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Margo Outdoor Living, Inc., Margo Newco, Inc. and GF Trucking, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowances for credit losses, provisions for obsolete and slow-moving inventories, valuation of deferred income taxes, tax contingencies, environmental matters, and valuation of long-lived assets. These estimates are based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less from date of purchase, to be cash equivalents. The Company did not have any cash equivalents as of December 31, 2023. Bank deposits at times exceed federally insured limits. However, management does not foresee significant credit risks on those deposits during the near term.

Accounts Receivable

Receivables are stated at their estimated collectible amounts and comprise amounts billed and currently due from customers. The Company extends credit to customers in the normal course of business. The Company Adopted Financial Accounting Standard Board (FASB), Accounting Standard Codification (ASC) Subtopic 326, *Credit Losses - Measurement of Credit Losses on Financial Instruments*, on January 1, 2023 (ASC 326). The impact of adopting ASC 326 was not material to the consolidated financial statements. The Company adopted ASC 326 using the modified retrospective method. Collections from customers are continuously monitored and an allowance for credit losses is maintained based on the historical loss-rate method. The Company also considers any specific customer collection issues. Since the Company's trade receivables are largely similar, the Company evaluates its allowance for credit losses as one portfolio segment. At origination, the Company evaluates credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit ratings, probabilities of default, industry trends, and other internal metrics. On a continuing basis, data for each major customer is regularly reviewed based on past-due status to evaluate the adequacy of the allowance for credit losses; actual write-offs are charged against the allowance. As of January 1, 2023, accounts receivable were $3,127,240.

The changes in the allowance for credit losses is as follows:

Balance of Allowance for Credit Losses, beginning of the year	$	180,744
Current period provision		381,590
Write-offs		(410,246)
Recoveries		41,142
Balance of Allowance for Credit Losses, end of year	$	193,230

Prepaid Expenses and Current Other Assets

Prepaid expenses include amounts for which payment has been made but the services have not yet been consumed. Prepaid expenses are amortized on a pro-rata basis to expense accounts as the services are consumed typically by the passage of time or as the service is used. The Company's other current assets balance consists primarily of payments for inventory shipped from overseas that has not yet been received by the Company's warehouse but is shipped free on board (FOB) shipping by the seller. When the inventory is received, the other current asset is reclassified to inventory.

Inventories

Inventories are stated at the lower of average cost (based on a moving average) or net realizable value and are primarily comprised of 1) raw materials consisting of the raw materials for mulch, unpackaged materials, and packing material; 2) work in process consisting of mulch production; and 3) finished goods consisting of packed finished goods and purchased products available for sale material.

Management periodically evaluates inventories for possible impairment, with any adjustments recognized as a loss in the consolidated statement of income for the current period. Such losses may be due to damage, physical deterioration, obsolescence, or other causes.

Property and Equipment

Owned property and equipment and leasehold assets are stated at cost, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are eliminated, and any gain or loss is included in operations. Depreciation of assets, and amortization of leasehold improvements and capital leases, is determined using the straight-line method over the estimated useful life or the related lease term (including renewals that are deemed to be reasonably assured), if shorter. Amortization of leasehold improvements is included in depreciation and amortization.

Asset useful lives for financial statement reporting of depreciation and amortization are as follows:

	Years
Machinery and equipment	3-39
Office furniture and equipment	3-10
Vehicles	7
Building and leasehold improvements	Shorter of 40 years or remaining life of lease

Leases

The Company has lease agreements for its office space and equipment which are accounted for under ASC 842, *Leases*. The Company has classified its leases as either operating or finance leases, with the classification affecting the pattern of recognition of lease costs. Operating leases are recognized as an operating expense on a straight-line basis over the lease term. Right-of-use (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 are calculated based on the lease liability adjusted for any lease payments paid to the lessor at or before the commencement date and initial direct costs incurred by the Company and exclude any lease incentives received from the lessor.

Lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As the Company's leases typically do not contain a readily determinable implicit rate, the Company determines the present value of the lease liability using its incremental borrowing rate at the lease commencement date based on the lease term.

Leases that have a term of 12 months or less upon commencement are considered short-term in nature. Short-term leases are not included on the consolidated balance sheet and are expensed on a straight-line basis over the lease term.

The Company's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees.

Impairment of Long-Lived Assets

The Company's long-lived assets, such as property and equipment, are reviewed for possible impairment whenever events or 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 the 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, the carrying amount of such asset is reduced to fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and would no longer be depreciated. As of December 31, 2023, the Company determined that no long-lived assets were impaired.

Debt Issuance Costs

The debt issuance costs related to the Company's note payable is presented in the consolidated balance sheet as a direct deduction from the carrying amount of that debt. The aggregate debt issuance costs are amortized over the term of the related debt, which approximates the effective interest rate method, and reported as interest expense.

Revenue Recognition

The Company considered several factors in determining that control transfers to the customer upon delivery of products or shipping depending on the terms of the contracts. These factors include that legal title transfers to the customer, have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of delivery or sale.

The Company generates revenue through the sale of lawn and garden products to retailers and individual customers. The Company determined there are two material revenue streams, Distribution and eCommerce, and Manufacturing, both of which are recognized in a consistent manner. The material revenue streams identified were evaluated and the Company has determined it has one performance obligation, which is the transfer of goods to the customer. Revenue is recognized at a point in time when the customer has assumed the risks and rewards of ownership. Revenue is recognized dependent on shipping terms per each agreement, FOB shipping point, or destination. The transaction price recognized is specified in each contract with the customer and includes all cash and variable forms of consideration such as trade and freight discounts.

The Company has made an accounting policy election to exclude from measurement of the transaction price all taxes that are both imposed on and concurrent with a specific revenue transaction and collected by the entity from a customer. The Company's sales do provide a right of return for products sold. The Company determined that an accrual for potential product returns was not considered necessary based on historical return rates. When a return is required, the Company records the return against sales revenue presented on the consolidated statement of income.

Shipping and Handling Costs

The Company elected to recognize shipping and handling costs as a fulfillment activity and does not recognize a separate performance obligation for these costs. Shipping and handling is recorded as revenue when included in the pricing to customers and as cost of revenue when incurred otherwise.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were approximately $114,000 for the year ended December 31, 2023.

Segment information

The Company reports results in a single reportable segment, the sale of lawn and garden products. The Company's chief operating decision maker, the Chief Executive Officer, allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Income Taxes

FASB ASC Topic 740, *Income Taxes,* provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. This codification also provides guidance on measurement, recognition, classification, and interest and penalties.

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, a valuation allowance is provided when the probability of realization of a deferred tax asset is less than 50%. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The 2020 through 2023 tax returns are open and may be subject to potential examination, as of the date of this report, the Company is not currently under any tax examinations.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in the active markets; quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If that asset or liability has a specified (contractual) term, the Level 2 inputs must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of December 31, 2023, the fair value of the Company's financial instruments including cash, accounts receivables, prepaid expenses, accounts payable, and accrued liabilities approximated book value due to the short maturity of these instruments.

The carrying value of the loans payable approximate fair value and are classified under level 2.

The Company has no other recurring or non-recurring Level 1, 2, or 3 financial assets or liabilities.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding, including participating securities.

2. Inventories

Inventories consisted of the following:

December 31, 2023		
Raw and packing materials	$	1,771,978
Work in process		27,540
Finished goods and purchased products for sale		6,918,472
Reserve for obsolete inventory		(50,000)
Inventory, Net	$	8,667,990

3. Property and Equipment

December 31, 2023		
Buildings and leasehold improvements	$	1,988,585
Machinery and equipment		9,858,568
Office furniture and equipment		934,757
Vehicles		121,359
		12,903,269
Less: accumulated depreciation and amortization		(6,360,756)
Property and Equipment, Net	$	6,542,513

For the year ended December 31, 2023, depreciation and amortization expense was approximately $1,171,000.

4. Revolving Line-of-Credit

On August 31, 2021, the Company changed its primary banking relationship and entered into a new asset-based lending agreement (the Agreement), consisting of a promissory note for $5,000,000 and a revolving line of credit, with a total maximum borrowing exposure of $15,000,000 contingent on a percent of qualifying accounts receivable and inventory. The revolving line of credit expires on August 30, 2024.

The revolving line of credit's borrowing base is calculated at 85% to 90% of eligible accounts based on the account's defined investment grade, 75% of eligible inventory as valued per the Agreement. The borrowing base is subject to an availability block of the greater of $1,000,000 and the aggregate principal and accrued unpaid interest on the stockholder note, 90 days before the stockholder note is due (see Note 7). On December 31, 2023, availability of the revolving line of credit totaled approximately $9.8 million, net of the outstanding line balance ($0) calculated on eligible accounts receivable, inventory balances, and respective advance rates. The Company had no amounts outstanding on the revolving line of credit as of December 31, 2023.

The revolving line of credit bears an annual interest rate equal to Credit Borrowing Floating Rate (CBFR) plus 1.50%, payable monthly (7.19% as of December 31, 2023) on the revolving line and CBFR plus 1.75% for the promissory note (7.44% as of December 31, 2023). The CBFR rate is the LIBOR administered by ICE Benchmark Administration for a one-month period, until such rate is no longer available at which point it will be the Prime Rate as published by the Wall Street Journal. The Company is also required to pay a commitment fee accruing 0.25% multiplied by the available revolving commitment amount on an annual basis payable beginning on each month. The Company paid commitment fees of $36,293 for the year ended December 31, 2023.

See Note 7 for disclosure of certain related party debt, which payments have been subordinated to the payment of the advances under the revolving line of credit.

5. Long-term Debt

December 31, 2023		
Two secured promissory notes, each $294,995, one dated December 7, 2018 and the other January 19, 2019; maturing in December 2024, secured by equipment with net book value of $143,646 and $146,596, respectively; bears interest at 5.49% and is payable in monthly installments of $7,638, including interest.	$	113,896
Promissory note to a bank, date August 31, 2021, and maturing on August 31, 2024; bears floating rate interest of SOFR + 1.5% (7.19% at December 31, 2023) and is payable in monthly principal and interest payments of $138,889.		1,111,111
Promissory note to bank $327,823, originated January 3, 2022, maturing on January 5, 2024 secured by equipment with a net book value of $630,862; bears fixed rate interest of 4.25%, and is payable in monthly principal payments of $14,272. The financing was used to exercise the early buy-out option of the Company's finance lease.		14,250
An equipment secured, with a net book value of $138,046 interest free promissory note to a captive financing company totaling $157,300, originated on February 7, 2022 with a 24 month term.		18,418
Other promissory notes		9,770
Deferred financing costs		(31,965)
Total Long-Term Debt		1,235,480
Less: current portion of long-term debt		(1,230,684)
Long-Term Debt, Net	$	4,796

The asset-based promissory note under the Agreement is secured by all of the Company's real and personal property assets. Under the Agreement (see Note 4), the Company is required to comply with a fixed charge coverage ratio, as defined in the Agreement, of no less than 1.25:1.00, and without the bank's prior consent, the Company shall not: 1) incur any additional indebtedness and liens; 2) significantly change its operations; 3) lend or advance money, invest in other ventures, or issue guaranties; and 4) enter into agreements in violation of the Agreement. As of December 31, 2023, the Company was in compliance with the financial covenants of the Agreement.

As of December 31, 2023, the annual aggregate maturities of long-term debt for the next five years and thereafter are as follows:

Year ending December 31,		
2024	$	1,230,684
2025		4,796
		1,235,480
Less: current portion		(1,230,684)
Total Long-Term Debt	$	4,796

6. Stockholders' Equity

As of December 31, 2023, the Company had 10,000,000 common stock shares authorized at a par value of $.001, 4,888,475 shares issued and 4,828,607 outstanding. Preferred stock of 250,000 shares at a par value of $.01 is authorized but no shares issued.

The entire voting power for the election of directors and for all other purposes shall be vested exclusively in the holders of the common stock. Holders of preferred stock would be entitled to dividends, payable in cash at a rate per annum set forth on the face hereof or as provided in the certificate of designation when issued. Each share of preferred stock has a right of conversion into a number of fully paid and non-assessable shares of common stock.

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, before any payment or distribution of the Company's assets (whether capital or surplus) shall be made to or set apart for the holders of common stock, holders of preferred stock shall be entitled to receive $250.00 per share of preferred stock plus an amount equal to all dividends, (whether or not earned or declared) accumulated and unpaid thereon to the date of final distribution to such holders; but such holders shall not be entitled to any further payment.

On August 31, 2023, the Company executed an exchange of related party debt for cash and common shares. Notes payable totaling $4.5 million and accrued interest totaling approximately $3.7 million were exchanged for $1,515,403 in cash and 837,352 shares of common stock at a stated value of $8.00 per share. The Company concluded this should be accounted for as a debt extinguishment. The Company obtained a third-party valuation which determined the value of the debt exchanged (approximately $7 million) and consideration provided, resulting in a share price fair value of $6.02 per share, resulting in a gain of approximately $2 million. The Company concluded that the guidance with ASC 470, *Debt*, provides a rebuttable assumption that gains as a result of debt extinguishment with a related party should be recognized as an equity contribution, rather than recorded as a component of current earnings.

As of December 31, 2023, the Company held 59,838 shares of treasury stock. The carry basis of treasury stock is cost. The total number of shares acquired during 2023 was 10,118. The treasury shares were acquired at the request of the shareholders. The Company has no outstanding commitments to repurchase capital stock. The treasury shares repurchased represent 0.21% of total shares outstanding.

7. Note Payable and Advances to Related Parties

The Company considers the Parent, companies under common ownership, the Chief Executive Officer and his wife, company employees, and certain entities controlled by them, to be related parties.

The following notes payable were due to related parties:

December 31, 2023		
Subordinated		
Unsecured notes payable with members of management, bearing interest between 5.00% to 6.00% annually; a $1,000,000 maturing October 31, 2024, and a $800,000 note is due on demand but not later than December 31, 2027	$	1,800,000
Less: current portion		(1,000,000)
Note Payable to Related Parties	$	800,000

The Company also has a non-interest-bearing receivable with the majority owner of $30,000 included in notes receivable on the accompanying balance sheet.

8. Leases

Operating Leases

The Company has three leases for warehouse and office space and nine leases for equipment which are accounted for as operating lease obligations in accordance with Topic 842. These leases expire on various dates ranging from December 2024 to April 2028. One of the Company's office leases has options to extend through April 2040, which are not reasonably expected to be exercised. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

All of the leases include fixed rental payments, and the office leases include variable rental payments for common area maintenance associated with the property. In addition, most leases contain lease payments that have pre-determined escalation clauses.

Main Facilities

The Company rents its principal office and warehouse facilities in Jacksonville, Florida, under an operating lease agreement signed on July 10, 2020. The basic lease agreement is for a period of 84 months that expires on July 10, 2027. Total rent payments for the year ended December 31, 2023 were $2,538,275.

The Company also leases an additional warehouse facility in Jacksonville, previously used as its principal office and warehouse facility signed on February 12, 2018 with a lease term of 126 months expiring on August 12, 2028. Total rent payments for this facility for the year ended December 31, 2023 were $618,502. Subleases on these facilities offset rent expense by $618,502 for 2023.

Related Party Leased Facilities

The Company leases two other manufacturing and warehouse facilities in Folkston, Georgia and Vega Alta, Puerto Rico, under operating lease agreements with a majority stockholder These leases are accounted for as operating lease obligations in accordance with Topic 842.

The Folkston, Georgia lease is for a period of five years that expires on August 1, 2025. Lease payments totaled $144,000 for 2023.

The Vega Alta, Puerto Rico lease expires on December 31, 2024, and provides for monthly rental payments of $9,500. Lease payments totaled $114,000 for 2023.

Truck Leases and Forklift Leases

The Company leases five trucks under three operating lease agreements, dated November 23, 2017, December 6, 2018, and July 22, 2020. The agreements provide for 72 monthly payments of $3,956, 84 monthly payments of $4,409 and 72 monthly payments of $2,009, respectively.

The Company leases 12 forklifts under six operating agreements dating between May of 2018 and November of 2020, with monthly payments ranging from $714 to $1,021 and expiring at various points from April of 2023 to November of 2025.

As of December 31, 2023, the weighted average remaining lease term for all of the above operating leases is approximately four years, and the weighted average discount rate used to calculate the operating lease obligations is 5.0%.

The Company's operating lease costs, included in selling, general, and administrative expenses in the accompanying consolidated statement of income, was comprised of the following:

Year ended December 31, 2023		
Operating lease costs	$	3,565,837
Variable operating lease costs		1,272,633
Short-term lease costs		524,499
Total Operating Lease Costs	$	5,362,969

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As of December 31, 2023, future payments due under operating lease obligations is as follows:

Year ending December 31,		
2024	$	3,760,960
2025		3,710,681
2026		3,460,068
2027		2,797,504
2028		637,494
Total Lease Payments		14,366,707
Less: imputed interest		(1,301,993)
Total Operating Lease Obligations		13,064,714
Less: current portion		(3,195,127)
Long-Term Operating Lease Obligations	$	9,869,587

Total minimum future rental payments have not been reduced by $3,787,430 of sublease rentals to be received in the future under a non-cancellable sublease.

9. Commitments and Contingencies

Contingent Obligations

In the ordinary course of business, the Company is involved in various legal proceedings. Based upon the Company's evaluation of the information presently available, management believes that the ultimate resolution of any such proceedings will not have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. Cash is exposed to credit risk since the Company periodically maintains balances in excess of federally insured limits. The Company does not believe it is exposed to any significant credit risk on these deposits.

Concentration of credit risk with respect to accounts receivable is limited due to the dispersion of consumers across many geographic areas.

Accounts Receivable

Two customers accounted for 89% of total accounts receivable as of December 31, 2023. Those same customers accounted for 93% of revenue for the year then ended, December 31, 2023.

Accounts Payable

The top five vendors accounted for 69% of total accounts payable as of December 31, 2023.

On October 4, 2011, the Company signed an exclusive Distribution Agreement with J. Stone Export RD, SRL, (J Stone) based in Boca Chica, Dominican Republic for extraction and processing of certain kinds of decorative pebble stones. The Distribution Agreement contains a minimum purchase commitment from J Stone of the 120 containers per calendar year. The Company purchased 194 containers from J Stone for the year ended December 31, 2023. The Company anticipates similar purchase order volumes into the foreseeable future. As of December 31, 2023, the Company has a note receivable of approximately $90,000 due from J. Stone which is included in notes receivable on the accompanying consolidated balance sheet. The note originated on December 1, 2023, for $100,000 with a maturity no later than May 31, 2024. The note receivable accrues interest at Prime Rate plus 5% or 13.50% as of December 31, 2023.

10. Major Foreign Suppliers

The Company purchases a substantial amount of pebbles and glass product from suppliers in China and the Dominican Republic, China sourced purchases are subject to import duties in the USA. Total purchases approximated $4.9 million for 2023 excluding freight and customs.

11. Retirement Plan

The Company has a 401(k) defined contribution plan that covers all Company employees who are 21 years of age with one year or more of service. The Company makes a matching contribution of 100% of employee contributions up to 3% of salary plus 50% of employee contributions up to the next 2% of salary. The Company's 401(k) contribution expense was $73,514 for the year ended December 31, 2023.

12. Income Taxes

The Components of the provision for income taxes are as follows:

Year ended December 31, 2023	
Current expense for income taxes:	
Foreign	$ 1,789,738
	1,789,738
Deferred income tax (benefit) expense:	
Foreign	144,355
Income Tax Expense	$ 1,934,093

The components of the Company's current and non-current deferred tax assets and liabilities consisted of the following:

December 31, 2023		
Deferred Tax Assets		
State depreciation	$	100,510
ROU asset/liability		285,300
Allowances for credit losses		120,242
Accrued bonuses		41,611
Inventory reserve		11,609
Total Deferred Tax Assets		559,272
Deferred Tax Liabilities		
Temporary differences in depreciation		(1,162,747)
Amortization		(70)
Loss on sales of fixed assets		(6,527)
Total Deferred Tax Liabilities		(1,169,344)
Deferred Tax Liabilities, Net	$	(610,072)

The Company has sustained losses on operations in Puerto Rico since inception. These losses have not been claimed on filed tax returns and are not included in this provision as net operating loss carryforwards. However, if losses were recorded, management does not believe the losses are more likely than not to be utilized and as such the losses would be offset by a valuation allowance.

The differences between income taxes expected at the Puerto Rico federal statutory income tax rate of 18.5% and the reported income tax expense are summarized as follows:

Year ended December 31, 2023		
Tax expense using federal statutory rate	$	1,271,252
U.S. tax rate differential		662,841
Income Tax Expense	$	1,934,093

13. Subsequent Events

Management has evaluated subsequent events and transactions through April 5, 2024, the date the financial statements were available to be issued.