THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re:	)	Chapter 11
GROEB FARMS, INC.	)	Case No. 13-58200
Debtor.	)	Honorable Walter Shapero

NOTICE OF FILING ADDITIONAL EXHIBITS TO THE DISCLOSURE STATEMENT

The Debtor, by and through its attorneys, Foley & Lardner LLP, hereby submits the attached additional exhibits pursuant to Debtor's Disclosure Statement filed on October 1, 2013 [Dkt No. 23].

Dated: October 7, 2013
Detroit, Michigan

FOLEY & LARDNER LLP

/s/ Judy A. O'Neill
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Proposed Counsel for the Debtor and Debtor in Possession

Exhibit E to Disclosure Statement (2010 and 2011 Financial Information)



FINANCIAL REPORT

DECEMBER 31, 2011

Groeb Farms, Inc.

Financial Report
December 31, 2011

Groeb Farms, Inc.

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Independent Auditor's Report

To the Board of Directors
Groeb Farms, Inc.

We have audited the accompanying balance sheet of Groeb Farms, Inc. (the "Company") as of December 31, 2011 and 2010 and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Groeb Farms, Inc. at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 16, 2012

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Groeb Farms, Inc.

Balance Sheet

	December 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash	$ 228,773	$ 66,307
Accounts receivable - Net	9,176,552	10,393,750
Inventory (Note 3)	17,570,753	19,266,753
Prepaid expenses and other current assets:		
Prepaid expenses	446,395	380,310
Refundable taxes	1,054,194	432,208
Deferred tax recovery (Note 8)	136,687	110,739
Total current assets	28,613,354	30,650,067
Property and Equipment - Net (Note 4)	5,465,167	4,853,234
Goodwill (Note 5)	8,350,593	8,350,593
Intangible Assets - Net (Note 5)	12,098,474	13,076,786
Debt Issuance Costs	81,170	152,498
Related Party Note Receivable (Note 11)	191,475	-
Total assets	**$ 54,800,233**	**$ 57,083,178**
Liabilities and Stockholders' Equity		
Current Liabilities		
Checks issued in excess of bank balance	$ -	$ 601,635
Trade accounts payable	14,037,693	9,563,090
Related party payable under product financing arrangement (Note 11)	2,935,833	-
Current portion of long-term debt (Note 6)	13,328,001	12,833,642
Disputed trade accounts payable (Note 12)	4,472,979	3,750,095
Accrued and other current liabilities:		
Accrued compensation	103,099	326,761
Accrued interest	239,274	95,119
Other accrued liabilities	399,219	428,531
Total current liabilities	35,516,098	27,598,873
Long-term Debt - Net of current portion (Note 6)	8,818,712	9,589,848
Deferred Tax Liabilities (Note 8)	853,816	3,562,727
Stockholders' Equity (Note 7)	9,611,607	16,331,730
Total liabilities and stockholders' equity	**$ 54,800,233**	**$ 57,083,178**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Operations

	Year Ended December 31, 2011	Year Ended December 31, 2010
Net Sales	$ 145,297,383	$ 124,033,831
Cost of Sales	143,067,895	112,366,960
Gross Profit	2,229,488	11,666,871
Operating Expenses	11,529,600	9,076,517
Operating (Loss) Income	(9,300,112)	2,590,354
Nonoperating Income (Expenses)		
Interest income	13,817	4,727
Other income	1,038,914	541,523
Interest expense	(1,900,123)	(1,438,554)
Transaction costs relating to Miller's American Honey acquisition (Note 2)	(585,126)	(751,405)
Total nonoperating expenses	(1,432,518)	(1,643,709)
(Loss) Income - Before income taxes	(10,732,630)	946,645
Income Tax (Recovery) Expense (Note 8)	(4,008,075)	253,418
Net (Loss) Income	**$ (6,724,555)**	**$ 693,227**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Stockholders' Equity

	Common Stock	Preferred Stock	Additional Paid-in Capital	Common Stock Purchase Warrants	Stock Subscription Receivable	Retained Earnings	Total
Balance - January 1, 2010	$ 34,335	$ 7,850,000	$ 444,760	$ 10,507	$ (117,420)	$ 3,366,462	$ 11,588,644
Net income	-	-	-	-	-	693,227	693,227
Issuance - Common voting	2,364	-	212,760	-	-	-	215,124
Issuance - Warrants	-	-	-	285,000	-	-	285,000
Issuance - Preferred voting	-	3,545,240	-	-	-	-	3,545,240
Stock subscription receivable payments	-	-	-	-	4,495	-	4,495
Balance - December 31, 2010	36,699	11,395,240	657,520	295,507	(112,925)	4,059,689	16,331,730
Net loss	-	-	-	-	-	(6,724,555)	(6,724,555)
Stock subscription receivable payments	-	-	-	-	4,432	-	4,432
Balance - December 31, 2011	**$ 36,699**	**$ 11,395,240**	**$ 657,520**	**$ 295,507**	**$ (108,493)**	**$ (2,664,866)**	**$ 9,611,607**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Cash Flows

	Year Ended December 31, 2011	Year Ended December 31, 2010
Cash Flows from Operating Activities		
Net (loss) income	$ (6,724,555)	$ 693,227
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation	637,536	446,855
Loss on disposal of property and equipment	21,022	19,705
Bad debt expense	50,000	-
Amortization of debt discount related to warrants	71,464	62,622
Amortization	1,049,640	932,443
Deferred income taxes - Net	(2,734,859)	(273,826)
Changes in operating assets and liabilities which (used) provided cash, net of effects of business acquisitions:		
Accounts receivable	1,167,198	(2,595,026)
Inventory	1,696,000	1,354,412
Prepaid expenses and other assets	(879,546)	(593,796)
Accounts payable	8,136,377	465,752
Accrued and other current liabilities	(111,876)	(316,615)
Net cash provided by operating activities	2,378,401	195,753
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,275,300)	(1,688,665)
Proceeds from disposition of property and equipment	4,809	39,717
Cash paid for business acquisition - Net of cash acquired	-	(13,365,598)
Net cash used in investing activities	(1,270,491)	(15,014,546)
Cash Flows from Financing Activities		
Net change in checks issued in excess of bank balance	(601,635)	601,635
Net borrowings from line of credit	573,073	8,064,481
Payments on debt	(921,314)	(1,071,831)
Proceeds from long-term debt	-	3,500,000
Payments of debt issuance costs	-	(152,049)
Proceeds from issuance of equity interests	-	3,760,364
Payments received on stock subscriptions	4,432	4,495
Net cash (used in) provided by financing activities	(945,444)	14,707,095
Net Increase (Decrease) in Cash	162,466	(111,698)
Cash - Beginning of year	66,307	178,005
Cash - End of year	**$ 228,773**	**$ 66,307**
Supplemental Cash Flow Information - Cash paid for		
Interest expense	$ 1,759,025	$ 1,370,354
Income taxes	14,908	1,030,000

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Groeb Farms, Inc. (the "Company") is a processor of honey and molasses, and a distributor of peanut butter, agave, and honey powder. The Company's products are used as ingredients in food manufacturers' products, the food service industry, and the retail industry throughout the United States. The Company's headquarters is located in Onsted, Michigan. It has manufacturing facilities in Onsted, Michigan, Belleview, Florida, and Colton, California.

Trade Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The Company's allowance for doubtful accounts was $150,000 and $100,000 as of December 31, 2011 and 2010, respectively. The Company has an additional allowance for approved customer deductions not yet taken as of December 31, 2011 and 2010 of approximately $361,000 and $504,000, respectively.

Inventory - Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method. The Company's inventory valuation allowance at December 31, 2011 and 2010 was $115,000 and $35,000, respectively.

Property and Equipment - Property and equipment are recorded at cost. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Goodwill - The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment.

No impairment charge was recognized during the years ended December 31, 2011 and 2010.

Intangible Assets - Intangible assets consist of customer relationships, trade names, and noncompete agreements. The Groeb Farms, Inc. and Miller American Honey, Inc. customer relationships are amortized on the straight-line basis over their estimated useful lives of 15 years and 10 years, respectively. The trade names have indefinite lives. The noncompete agreement will be amortized on the straight-line basis over the estimated useful life of seven years. Assets that are not subject to amortization are tested for impairment at least annually. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Debt Issuance Costs - Debt issuance costs were incurred by the Company in connection with obtaining the debt to complete the stock purchases. These costs are amortized over the term of the related debt. The gross carrying value was approximately $260,000 at December 31, 2011 and 2010. Amortization expense was approximately $72,000 and $58,000 for the years ended December 31, 2011 and 2010, respectively. The related accumulated amortization at December 31, 2011 and 2010 was approximately $180,000 and $108,000, respectively.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

Checks Issued in Excess of Bank Balance - By arrangement with its financial institution, collected funds are adjusted daily between the Company's checking account and the available line of credit. As a result, the recorded book balance of the Company's checking account may reflect a negative cash balance although the bank balance remains positive.

Discounts and Rebates - The cost of discounts and rebates is recognized at the later of the date at which the related sale is recognized or the date at which the incentive is offered. The cost of these incentives is estimated using a number of factors including historical utilization and redemption rates. Substantially all cash incentives of this type are included in the determination of net sales. Incentives offered in the form of free product are included in the determination of cost of sales.

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Major Suppliers - Five vendors in 2011 and 2010 accounted for approximately 59 percent and 53 percent of raw honey purchases, respectively. These vendors also accounted for approximately 58 and 45 percent of accounts payable at December 31, 2011 and 2010, respectively.

Reclassification - Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including February 16, 2012, which is the date the financial statements were available to be issued.

Note 2 - Business Combination

On March 31, 2010, the Company purchased the stock of Miller's American Honey, Inc., a California corporation. The primary reasons for the acquisition were to expand the Company's product offering through an integration of the retail product line and expansion to the west coast region. Groeb Farms, Inc. contracted a third-party consultant to assist management in assigning values to the goodwill and intangible assets purchased. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Miller's American Honey, Inc. The agreed-upon purchase price was $16,389,154. An escrow account with a balance of $2,000,000 of the proceeds was held and subjected to final adjustments to be agreed upon by October 1, 2011. Prior to October 1, 2011, the Company filed a notice of claims under the purchase agreement. Currently, the claims, as well as a counter claim by the seller, are in negotiation. If a resolution is unable to be agreed upon, the claims will proceed to arbitration. As of December 31, 2011, approximately $460,000 of the original proceeds were being held in escrow and the remaining amount was disbursed in October 2011. Any adjustments will be recorded when finalized.

The transaction was financed through the issuance of debt and equity and assumption of a note payable. The balance of the proceeds was derived from the Company's line of credit.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

Cash	$ 3,023,556
Accounts receivable	1,935,962
Inventory	6,521,516
Prepaid expenses and other current assets	34,355
Property and equipment	1,461,305
Goodwill	1,710,422
Intangibles	4,387,000
Total assets	19,074,116
Accounts payable	(1,706,752)
Accrued liabilities	(246,590)
Long-term debt	(731,620)
Total net assets acquired	$ 16,389,154

Note 2 - Business Combination (Continued)

Of the total amount of goodwill and intangibles recognized, approximately $6,027,000 is expected to be deductible for tax purposes.

Note 3 - Inventory

Inventory at December 31, 2011 and 2010 consists of the following:

	2011	2010
Raw materials	$ 10,464,555	$ 14,791,706
Finished goods	4,247,433	4,475,047
Inventory related to product financing arrangement (Note 11)	2,858,765	-
Total inventory	$ 17,570,753	$ 19,266,753

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2011	2010	Depreciable Life - Years
Leasehold improvements	$ 2,638,473	$ 1,975,783	10-15
Machinery and equipment	3,663,599	1,950,562	2-10
Transportation equipment	773,097	773,097	5-10
Construction in progress	31,247	1,159,944	-
Total cost	7,106,416	5,859,386	
Accumulated depreciation	1,641,249	1,006,152	
Net property and equipment	$ 5,465,167	$ 4,853,234	

Depreciation expense was $637,536 and $446,855 for the years ended December 31, 2011 and 2010, respectively.

Note 5 - Acquired Intangible Assets and Goodwill

Intangible assets of the Company at December 31, 2011 and 2010 are summarized as follows:

	2011		2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Groeb Farms, Inc. customer relationships	$ 8,441,000	$ 2,698,267	$ 8,441,000	$ 2,135,527
Miller American Honey, Inc. customer relationships	2,860,000	714,976	2,860,000	306,400
Miller American Honey, Inc. noncompete agreement	70,000	12,283	70,000	5,287
Total	$ 11,371,000	$ 3,425,526	$ 11,371,000	$ 2,447,214

	2011		2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Gross Carrying Amount
Unamortized intangible assets:				
Groeb Farms, Inc. trade name	$ 2,696,000	$ -	$ 2,696,000	$ -
Miller American Honey, Inc. trade name	1,457,000	-	1,457,000	-
Goodwill	8,350,593	-	8,350,593	-
Total	$ 12,503,593	$ -	$ 12,503,593	$ -

Amortization expense for intangible assets totaled approximately $978,000 and $875,000 for the years ended December 31, 2011 and 2010, respectively.

Estimated amortization expense for the years ending December 31 are as follows:

2012	$ 978,312
2013	978,312
2014	978,312
2015	978,312
2016	978,312
Thereafter	3,053,914
Total	$ 7,945,474

Note 6 - Debt

As of December 31, 2011 and 2010, the Company had a line of credit agreement with Comerica Bank, whereby the Company could borrow, subject to the outstanding indebtedness, up to $20,000,000 based upon qualifying inventory and accounts receivable. Interest was payable monthly at a rate of 4.50 and 3.25 percent above the London Interbank Offered Rate (LIBOR) (an effective rate of 5.50 and 3.50 percent) at December 31, 2011 and 2010, respectively. The line of credit is collateralized by all property and assets of the Company. At December 31, 2011 and 2010, $12,485,778 and $11,912,705, respectively, had been drawn on the line of credit.

The terms of the line of credit require the Company to, among other things, meet certain financial ratios and limit restricted payments. The Company was in compliance with these financial covenants as of December 31, 2010. At December 31, 2011, the Company was in violation of certain financial covenants and was under a forbearance agreement with Comerica Bank through January 31, 2012.

Subsequent to year end, on January 30, 2012, the Company refinanced its bank debt by entering into a revolving credit facility with Wells Fargo Bank, N.A. The revolving credit agreement is in the amount of $25,000,000, bearing interest at LIBOR plus 2.25 percent. The interest rate may adjust quarterly beginning on April 1, 2012, based on the Company's average availability as defined in the loan agreement. Payments of interest only are due monthly, with the balance due at maturity on January 31, 2017. Borrowings are limited to formulas based on the Company's eligible accounts receivable and inventory, as defined in the agreement.

The revolving credit agreement is subject to the terms and conditions of an inter-credit agreement between and among the Company, the bank, and holders of the subordinated debt, and require the Company to maintain compliance with certain financial and other covenants. The bank debt is collateralized by substantially all of the assets of the Company, in addition to the assignments of all leases and subleases.

The terms of the senior subordinated debt and junior subordinated debt to stockholders were restructured as part of the refinancing agreement. Principal payments were extended from a two-year period to a four-year period. Principal payments will begin June 30, 2013 and will be made quarterly until the final payment is made at maturity on March 31, 2017. The interest rates and collateral on the subordinated debt remained consistent with existing agreements.

As part of the refinancing, the Company also acquired a term note in the amount of $1,120,000, bearing interest at LIBOR plus 2.50 percent. The note is subject to substantially the same terms and conditions as the revolving credit facility. Payments of principal and interest are due monthly, with the balance due at maturity on January 31, 2017.

Note 6 - Debt (Continued)

Classification of the outstanding bank debt as of December 31, 2010, as follows, reflects the terms that were in place prior to receiving subsequent financing. Classification of the outstanding debt as of December 31, 2011, as follows, reflects subsequent financing terms for bank debt as described above.

	2011	2010
Senior secured term notes to Comerica Bank, with monthly principal installments of $83,333 effective through May 2011, $62,500 through May 2012 and $41,667 thereafter, plus interest at 4.00 percent and 2.75 percent above LIBOR (an effective interest rate of 5.00 and 3.00 percent at December 31, 2011 and 2010, respectively). The note was collateralized by all property and assets of the Company. Subsequent to December 31, 2011, this note was repaid in full. The future maturities on this note reflect subsequent financing terms as described above	$ 749,998	$ 1,583,330
Senior subordinated debt to stockholders, principal payments of $218,750 to commence on June 30, 2013 and at the end of each three months thereafter with final payment due on March 31, 2017, with monthly interest-only payments at 12 percent. The debt is recorded net of an unamortized discount of $9,952 at December 31, 2011 and 2010 with an effective rate of approximately 1 percent. The note is collateralized by all property and assets of the Company. The future maturities on this note reflect subsequent financing terms as described above	3,490,048	3,490,048

Note 6 - Debt (Continued)

	2011	2010
Senior subordinated debt to stockholders, principal payments of $218,750 to commence on June 30, 2013 and at the end of three months thereafter with final payment due on March 31, 2017, with monthly interest-only payments at 12 percent. The debt is recorded net of an unamortized discount of $159,938 and $231,402 at December 31, 2011 and 2010, respectively, with an effective rate of approximately 8 percent. The note is collateralized by all property and assets of the Company. The future maturities on this note reflect subsequent financing terms as described above	$ 3,340,062	$ 3,268,598
Junior subordinated debt to stockholders, principal payments of $93,750 to commence on June 30, 2013 and at the end of each three months thereafter with final payment due on March 31, 2017, with monthly interest-only payments at 8 percent. The note is unsecured. The future maturities on this note reflect subsequent financing terms as described above	1,500,000	1,500,000
Unsecured debt assumed with the acquisition of Miller's American Honey, Inc. Monthly principal and interest payments of $10,000 at 5.2 percent maturing on July 1, 2017	580,827	668,809
Borrowings under the revolving line of credit agreement denoted above, reflecting subsequent refinancing terms	12,485,778	11,912,705
Total	22,146,713	22,423,490
Less current portion	13,328,001	12,833,642
Long-term portion	$ 8,818,712	$ 9,589,848

Note 6 - Debt (Continued)

The balance of the above debt matures as follows:

2012	$ 13,328,001
2013	1,690,838
2014	2,227,208
2015	2,232,598
2016	2,306,708
Thereafter	531,250
Less unamortized debt discount	(169,890)
Total	$ 22,146,713

Interest expense for the years ended December 31, 2011 and 2010 was approximately $1,900,000 and $1,439,000, respectively. For the years ended December 31, 2011 and 2010, there is approximately $71,000 and $63,000, respectively, of amortization on the warrants included in interest expense.

Note 7 - Stockholders' Equity

Capital stock at December 31, 2011 and 2010 is as follows:

	2011	2010
Common stock:		
Series D, voting, common stock, $1 par value, 10,864 shares authorized, 10,864 shares issued and outstanding at December 31, 2011 and 2010	$ 10,864	$ 10,864
Series E, voting, common stock, $1 par value, 13,134 shares authorized, 13,134 shares issued and outstanding at December 31, 2011 and 2010	13,134	13,134
Series F, voting, common stock, $1 par value, 24,201 shares authorized, 12,701 shares issued and outstanding at December 31, 2011 and 2010	12,701	12,701
Series G, voting, common stock, $1 par value, 35,947 shares authorized, 0 issued and outstanding at December 31, 2011 and 2010	-	-

Note 7 - Stockholders' Equity (Continued)

	2011	2010
Preferred stock:		
Series A, voting, 6 percent convertible preferred stock, $100 par value, 69,110 shares authorized, 69,110 shares issued and outstanding at December 31, 2011 and 2010	$ 6,911,000	$ 6,911,000
Series B, voting, convertible preferred stock, $100 par value, 9,390 shares authorized, 9,390 shares issued and outstanding at December 31, 2011 and 2010	939,000	939,000
Series C, voting, 6 percent convertible preferred stock, $130 par value, 27,271 shares authorized, 27,271 shares issued and outstanding at December 31, 2011 and 2010	3,545,240	3,545,240
Common stock purchase warrants	295,507	295,507
Stock subscription receivable	(108,493)	(112,925)
Additional paid-in capital	657,520	657,520
(Accumulated deficit) retained earnings	(2,664,866)	4,059,689
Total	$ 9,611,607	$ 16,331,730

The convertible preferred stock ranks senior to the common stock with respect to payment of dividends and distribution of assets upon liquidation. The Series C preferred stock is senior to the Series A preferred stock which is senior to the Series B preferred stock with respect to payment of dividends and distribution of assets upon liquidation.

The holders of Series A 6 percent convertible preferred stock are entitled to receive, if declared by the board of directors of the Company at its sole discretion, cumulative dividends at the rate of $6.00 per annum on each share of convertible preferred stock payable quarterly of each year commencing on March 16, 2007. As of December 2011 and 2010, total dividends of approximately $1,987,000 and $1,572,000, respectively, were in arrears.

The holders of the Series B convertible preferred stock are not entitled to receive dividends.

Note 7 - Stockholders' Equity (Continued)

The holders of Series C 6 percent convertible preferred stock are entitled to receive, if declared by the board of directors of the Company at its sole discretion, cumulative dividends at the rate of $6.00 per annum on each share of convertible preferred stock payable quarterly of each year commencing on March 31, 2010. As of December 31, 2011 and 2010, total dividends of approximately $371,000 and $158,000, respectively, were in arrears.

The common stock ranks junior to the convertible preferred stock with respect to the payment of dividends and the distribution of assets upon liquidation. The Series D, E, and F common stock ranks on parity with respect to payment of dividends. The Series D, E, and F common stock ranks in order with respect to distribution of assets upon liquidation.

In connection with the senior subordinated notes in Note 6, the Company issued 10,507 warrants to purchase shares of Series C common stock to certain stockholders. These warrants can be exercised at any time prior to the expiration date of March 16, 2019 at an exercise price of $1.00 per share. The warrants, valued at $10,507, are reflected in the stockholders' equity section of the balance sheet with a corresponding reduction recorded against debt. As of December 31, 2011 and 2010, none of the warrants have been exercised.

On March 31, 2010, 35,947 shares of $1.00 par value Series G common stock were authorized. In connection with the senior subordinated notes in Note 6, the Company issued 9,024 warrants to purchase shares of Series G common stock to certain stockholders. These warrants can be exercised at any time prior to the expiration date of March 31, 2022 at an exercise price of $1.00 per share. The warrants, valued at $285,000, are reflected in the stockholders' equity section of the balance sheet with a corresponding reduction recorded against debt. As of December 31, 2011 and 2010, none of the warrants have been exercised.

During 2010, 27,271 shares of Series C preferred stock and 2,364 shares of Series D common stock were issued.

Note 8 - Income Taxes

The provision for income taxes for the years ended December 31, 2011 and 2010 consists of the following:

	2011	2010
Current income tax (recovery) expense	$ (1,273,216)	$ 527,244
Deferred tax benefit	(2,734,859)	(273,826)
Total income tax (recovery) expense	$ (4,008,075)	$ 253,418

Note 8 - Income Taxes (Continued)

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	2011	2010
Income tax (recovery) expense, computed at 34 percent of pretax (loss) income	$ (3,650,000)	$ 340,000
Effect of permanent differences - Net	11,788	(36,909)
Effect of adjustments of prior year estimates and other	(369,863)	(49,673)
Total income tax (recovery) expense	$ (4,008,075)	$ 253,418

The details of the deferred tax liability are as follows:

	2011	2010
Total deferred tax liabilities	$ (4,197,221)	$ (3,755,140)
Total deferred tax assets	3,480,092	303,152
Net deferred tax liability	$ (717,129)	$ (3,451,988)

Deferred tax liabilities result principally from accelerated methods of depreciation and amortization. Deferred tax assets result from recognition of expenses for financial reporting purposes that are not deductible for tax purposes until paid.

The Company has approximately $8,900,000 of net operating loss carryforwards available to reduce future income taxes, expiring in 2031.

As of December 31, 2011 and 2010, the Company's unrecognized tax liabilities were not significant. There were no significant penalties or interest recognized during the year or accrued at year end. The Company files income tax returns in U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2007.

Note 9 - Operating Leases

The Company is obligated under related party operating leases for rent of the Michigan and Florida locations, as well as operating leases for the rent of the California and Texas buildings, expiring at various dates through September 30, 2013 with renewal options. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was approximately $443,000 and $325,000 for the years ended December 31, 2011 and 2010, respectively.

The Company has several other operating leases relating to office equipment, freightliners, and vehicles. Total rent expense under these leases was approximately $393,000 and $334,000 for the years ended December 31, 2011 and 2010, respectively.

Note 9 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Related Party	Other	Total
2012	$ 36,270	$ 521,130	$ 557,400
2013	-	234,067	234,067
2014	-	63,663	63,663
2015	-	31,818	31,818
2016	-	17,431	17,431
Total	$ 36,270	$ 868,109	$ 904,379

Note 10 - Retirement Plan

The Company maintains a retirement plan for substantially all full-time employees established pursuant to Internal Revenue Code Section 401(k). The plan does not provide for a matching contribution.

Note 11 - Related Party Transactions

The following is a description of transactions between the Company and related parties:

Notes Receivable - The Company and certain stockholders entered into a note receivable in April 2011. Interest is payable at 3.5 percent. Total interest income for 2011 is $6,475. The note stipulates that the principal plus accrued interest shall be paid in full when substantially all of the assets or equities of the Company are sold. The balance of the note receivable was $191,475 as of December 31, 2011.

Payable Under Product Financing Arrangement - During 2011, the Company sold excess inventory to a related entity controlled by certain stockholders of the Company for $2,935,833, which includes approximately $77,000 of inventory used in production in 2011. Interest is payable at 10 percent and total interest incurred as of December 31, 2011 was approximately $123,000 and is included in accrued interest on the balance sheet.

Notes Payable - The terms and balances of the notes payable to stockholders are described in Note 6. Total related party interest expense relating to the stockholder notes payable for the years ended December 31, 2011 and 2010 was approximately $975,000 and $869,500, respectively.

Management Fee Expense - For the years ended December 31, 2011 and 2010, the Company incurred expenses relating to management fees to a stockholder of $102,500.

Note 12 - Contingencies

The Company has various contracts with suppliers for the purchase and delivery of honey. During the last quarter of 2010, the Company had delinquent/late raw honey deliveries in excess of 8 million pounds. During 2011, the Company had two suppliers default on contracts in excess of 12 million pounds of honey deliveries.

As of December 31, 2011 and 2010, the Company had payables of approximately $4,500,000 and $3,700,000, respectively, to these vendors. The Company is currently in the process of pursuing legal action against both suppliers discussed above. Based upon the Company's counsel, a suit against these suppliers for nonperformance may result in settlement or an award by the court in favor of the Company; however, no benefit was recognized as of December 31, 2011 and 2010.

Exhibit F to Disclosure Statement (2012 Financial Information)

Groeb Farms, Inc.

Financial Report
December 31, 2012

Groeb Farms, Inc.

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Independent Auditor's Report

To the Board of Directors
Groeb Farms, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Groeb Farms, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2012 and 2011 and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Groeb Farms, Inc. as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 30, 2013

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Groeb Farms, Inc.

Balance Sheet

	December 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash	$ 559,457	$ 228,773
Accounts receivable - Net	7,070,183	9,176,552
Inventory (Notes 2 and 12)	21,508,026	17,570,753
Prepaid expenses and other current assets:		
Prepaid expenses	423,231	446,395
Refundable taxes	52,764	1,054,194
Deferred tax recovery (Note 7)	1,068,890	136,687
Total current assets	30,682,551	28,613,354
Property and Equipment - Net (Note 3)	4,892,903	5,465,167
Goodwill (Note 4)	8,350,593	8,350,593
Intangible Assets - Net (Note 4)	11,120,162	12,098,474
Deferred Tax Recovery (Note 7)	475,557	-
Debt Issuance Costs	379,744	81,170
Related Party Note Receivable (Note 10)	198,177	191,475
Total assets	**$ 56,099,687**	**$ 54,800,233**
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	$ 15,652,000	$ 14,037,693
Related party payable under product financing arrangement (Note 10)	-	2,935,833
Current portion of long-term debt (Note 5)	19,371,114	13,328,001
Disputed trade accounts payable (Notes 11 and 12)	6,865,360	4,472,979
Accrued and other current liabilities:		
Accrued compensation	647,738	103,099
Accrued interest	101,778	239,274
Other accrued liabilities	216,457	399,219
Total current liabilities	42,854,447	35,516,098
Long-term Debt - Net of current portion (Note 5)	9,575,725	8,818,712
Deferred Tax Liabilities (Note 7)	-	853,816
Stockholders' Equity (Note 6)	3,669,515	9,611,607
Total liabilities and stockholders' equity	**$ 56,099,687**	**$ 54,800,233**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Operations

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net Sales	$ 137,852,596	$ 145,297,383
Cost of Sales	128,218,391	143,067,895
Gross Profit	9,634,205	2,229,488
Operating Expenses	17,695,158	11,529,600
Operating Loss	(8,060,953)	(9,300,112)
Nonoperating Income (Expenses)		
Interest income	12,311	13,817
Other income	1,233,569	1,038,914
Interest expense	(1,616,392)	(1,900,123)
Transaction income (costs) relating to Miller's American Honey 2010 acquisition	309,495	(585,126)
Total nonoperating expenses	(61,017)	(1,432,518)
Loss - Before income taxes	(8,121,970)	(10,732,630)
Income Tax Recovery (Note 7)	(2,190,829)	(4,008,075)
Net Loss	**$ (5,931,141)**	**$ (6,724,555)**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Stockholders' Equity

	Common Stock	Preferred Stock	Additional Paid-in Capital	Common Stock Purchase Warrants	Stock Subscription Receivable	Retained Earnings	Total
Balance - January 1, 2011	$ 36,699	$ 11,395,240	$ 657,520	$ 295,507	$ (112,925)	$ 4,059,689	$ 16,331,730
Net loss	-	-	-	-	-	(6,724,555)	(6,724,555)
Stock subscription receivable payments	-	-	-	-	4,432	-	4,432
Balance - December 31, 2011	36,699	11,395,240	657,520	295,507	(108,493)	(2,664,866)	9,611,607
Net loss	-	-	-	-	-	(5,931,141)	(5,931,141)
Stock subscription receivable payments	-	-	-	-	4,498	-	4,498
Redemption of common stock	(15,449)	-	-	-	-	-	(15,449)
Balance - December 31, 2012	**$ 21,250**	**$ 11,395,240**	**$ 657,520**	**$ 295,507**	**$ (103,995)**	**$ (8,596,007)**	**$ 3,669,515**

See Notes to Financial Statements.

Groeb Farms, Inc.

Statement of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash Flows from Operating Activities		
Net loss	$ (5,931,141)	$ (6,724,555)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	806,027	637,536
Loss on disposal of property and equipment	1,090,606	21,022
Bad debt expense	121,144	50,000
Amortization of debt discount related to warrants	71,464	71,464
Amortization	1,114,031	1,049,640
Deferred income tax recovery	(2,261,576)	(2,734,859)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	1,985,225	1,167,198
Inventory	(3,937,273)	1,696,000
Prepaid expenses and other assets	1,017,892	(879,546)
Accounts payable	1,070,855	8,136,377
Accrued and other current liabilities	224,381	(111,876)
Net cash (used in) provided by operating activities	(4,628,365)	2,378,401
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,426,069)	(1,275,300)
Proceeds from disposition of property and equipment	101,700	4,809
Net cash used in investing activities	(1,324,369)	(1,270,491)
Cash Flows from Financing Activities		
Net change in checks issued in excess of bank balance	-	(601,635)
Net borrowings from line of credit	6,475,820	573,073
Payments on debt	(1,044,023)	(921,314)
Proceeds from long-term debt	1,296,865	-
Payments of debt issuance costs	(434,293)	-
Redemption of common stock	(15,449)	-
Payments received on stock subscriptions	4,498	4,432
Net cash provided by (used in) financing activities	6,283,418	(945,444)
Net Increase in Cash	330,684	162,466
Cash - Beginning of year	228,773	66,307
Cash - End of year	**$ 559,457**	**$ 228,773**
Supplemental Cash Flow Information - Cash paid (received) for		
Interest expense	$ 1,753,888	$ 1,759,025
Income taxes	(980,682)	1,030,000

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Groeb Farms, Inc. (the "Company") is a processor of honey and molasses, and a distributor of peanut butter, agave, and honey powder. The Company's products are used as ingredients in food manufacturers' products, the food service industry, and the retail industry throughout the United States. The Company's headquarters is located in Onsted, Michigan. It has manufacturing facilities in Onsted, Michigan, Belleview, Florida, and San Bernardino, California.

Trade Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The Company's allowance for doubtful accounts was $250,000 and $150,000 as of December 31, 2012 and 2011, respectively. The Company has an additional allowance for approved customer deductions not yet taken as of December 31, 2012 and 2011 of approximately $350,000 and $361,000, respectively.

Inventory - Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method. The Company's inventory valuation allowance at December 31, 2012 and 2011 was $1,412,000 and $115,000, respectively. The valuation allowance increased in 2012 due to the Deferred Prosecution Agreement (DPA) described in Note 12.

Property and Equipment - Property and equipment are recorded at cost. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Goodwill - The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment.

No impairment charge was recognized during the years ended December 31, 2012 and 2011.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Intangible Assets - Intangible assets consist of customer relationships, trade names, and a noncompete agreement. Groeb Farms, Inc. and Miller American Honey, Inc. customer relationships are amortized on the straight-line basis over their estimated useful lives of 15 years and 10 years, respectively. The trade names have indefinite lives. The noncompete agreement will be amortized on the straight-line basis over the estimated useful life of seven years. Assets that are not subject to amortization are tested for impairment at least annually. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

Debt Issuance Costs - Debt issuance costs were incurred by the Company in connection with obtaining the debt to complete the stock purchases. These costs are amortized over the term of the related debt. During 2012, additional debt issuance costs were incurred by the Company in conjunction with transferring its financing requirement to the Company's new lender (see Note 5). Previous debt issuance costs from the prior lender are included in amortization expense and were written off during 2012. The gross carrying value was approximately $515,000 and $260,000 at December 31, 2012 and 2011, respectively. Amortization expense was approximately $136,000 and $72,000 for the years ended December 31, 2012 and 2011, respectively. The related accumulated amortization at December 31, 2012 and 2011 was approximately $135,000 and $180,000.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

Transaction Income (Costs) - On March 31, 2010, the Company purchased the stock of Miller's American Honey, Inc., a California corporation. An escrow account with a balance of $2,000,000 of the proceeds was held and subjected to final adjustments to be agreed upon by October 1, 2011. Prior to October 1, 2011, the Company filed a notice of claims under the purchase agreement. The claims, as well as a counter claim by the seller, were in negotiation. As of December 31, 2011, the Company recorded their expected final purchase adjustments. A resolution was unable to be agreed upon by both parties, so the claims proceeded to arbitration. During 2012, arbitration was settled and the Company received a favorable outcome resulting in approximately $309,000 of income recorded for the year ended December 31, 2012.

Revenue Recognition - Revenue is recognized by the Company upon shipment to customers when the customer takes ownership and assumes the risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sale price is fixed and determinable.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Discounts and Rebates - The cost of discounts and rebates is recognized at the later of the date at which the related sale is recognized or the date at which the incentive is offered. The cost of these incentives is estimated using a number of factors including historical utilization and redemption rates. Substantially all cash incentives of this type are included in the determination of net sales.

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Major Suppliers - Five vendors in 2012 and 2011 accounted for approximately 54 percent and 59 percent of raw honey purchases, respectively. These vendors also accounted for approximately 21 and 58 percent of accounts payable at December 31, 2012 and 2011, respectively.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 30, 2013, which is the date the financial statements were available to be issued.

Note 2 - Inventory

Inventory at December 31, 2012 and 2011 consists of the following:

	2012	2011
Raw materials	$ 15,969,872	$ 10,464,555
Finished goods	5,538,154	4,247,433
Inventory related to product financing arrangement (Note 10)	-	2,858,765
Total inventory	$ 21,508,026	$ 17,570,753

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2012	2011	Depreciable Life - Years
Leasehold improvements	$ 1,400,646	$ 2,638,473	5-15
Machinery and equipment	3,616,248	3,663,599	2-10
Transportation equipment	732,620	773,097	5-10
Construction in progress	1,209,899	31,247	-
Total cost	6,959,413	7,106,416	
Accumulated depreciation	2,066,510	1,641,249	
Net property and equipment	$ 4,892,903	$ 5,465,167	

Depreciation expense was $806,027 and $637,536 for the years ended December 31, 2012 and 2011, respectively.

Note 4 - Acquired Intangible Assets and Goodwill

Intangible assets of the Company at December 31, 2012 and 2011 are summarized as follows:

	2012		2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Groeb Farms, Inc. customer relationships	$ 8,441,000	$ 3,261,007	$ 8,441,000	$ 2,698,267
Miller American Honey, Inc. customer relationships	2,860,000	1,123,552	2,860,000	714,976
Miller American Honey, Inc. noncompete agreement	70,000	19,279	70,000	12,283
Total	$ 11,371,000	$ 4,403,838	$ 11,371,000	$ 3,425,526

Note 4 - Acquired Intangible Assets and Goodwill (Continued)

	2012		2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortized intangible assets:				
Groeb Farms, Inc. trade name	$ 2,696,000	$ -	$ 2,696,000	$ -
Miller American Honey, Inc. trade name	1,457,000	-	1,457,000	-
Goodwill	8,350,593	-	8,350,593	-
Total	$ 12,503,593	$ -	$ 12,503,593	$ -

Amortization expense for intangible assets totaled approximately $978,000 for the years ended December 31, 2012 and 2011.

Estimated amortization expense for the years ending December 31 are as follows:

2013	$ 978,312
2014	978,312
2015	978,312
2016	978,312
2017	978,312
Thereafter	2,075,602
Total	$ 6,967,162

Note 5 - Debt

As of December 31, 2011, the Company had a line of credit agreement with Comerica Bank, whereby the Company could borrow, subject to the outstanding indebtedness, up to $20,000,000 based upon qualifying inventory and accounts receivable. Interest was payable monthly at a rate of 4.50 percent above the London Interbank Offered Rate (LIBOR) (an effective rate of 5.50 percent) at December 31, 2011. The line of credit was collateralized by all property and assets of the Company. At December 31, 2011, $12,485,778 had been drawn on the line of credit.

Note 5 - Debt (Continued)

On January 30, 2012, the Company refinanced its bank debt by entering into a revolving credit facility with Wells Fargo Bank, N.A. The revolving credit agreement allows borrowings up to $25,000,000 based upon qualifying inventory and accounts receivable. Interest is payable monthly at a rate of 2.50 percent above LIBOR (an effective rate of 3.00 at December 31, 2012). The interest rate may adjust quarterly beginning on April 1, 2012, based on the Company's average availability as defined in the loan agreement. The line of credit is collateralized by all property and assets of the Company. At December 31, 2012, $18,961,598 had been drawn on the line of credit. In March 2013, the line of credit availability was increased by $2,000,000 and guaranteed by a bank deposit of $2,000,000 made by certain stockholders of the Company until the end of the compliance period (see Note 12). In April 2013, the line of credit availability was increased by approximately $1,000,000 and guaranteed by an additional bank deposit of approximately $1,000,000 made by certain stockholders of the Company until certain criteria are met after September 30, 2013.

The revolving credit agreement is subject to the terms and conditions of an inter-credit agreement between and among the Company, the bank, and holders of the subordinated debt, and require the Company to maintain compliance with certain financial and other covenants. The bank debt is collateralized by substantially all of the assets of the Company, in addition to the assignments of all leases and subleases.

The terms of the line of credit require the Company to, among other things, meet certain financial ratios and limit restricted payments. At December 31, 2012, the Company was in violation of certain financial covenants and obtained a waiver from Wells Fargo Bank upon entering into an amended agreement. This amendment (Amendment II) changed the maturity date of the revolving line of credit to April 30, 2015, established additional financial covenants, and deferred repayment of subordinated debt principal until the end of the compliance period (see Note 12). Principal payments are further limited in aggregate to $437,500 per quarter thereafter.

The terms of the senior subordinated debt and junior subordinated debt to stockholders were restructured as part of the debt amendment noted above. Principal payments will begin March 31, 2015 and will be made quarterly until the final payment is made at maturity on March 31, 2017. The interest rates and collateral on the subordinated debt remained consistent with existing agreements.

As part of the 2012 refinancing, the Company also acquired a term note in the amount of $1,120,000, bearing interest at LIBOR plus 2.50 percent. The note is subject to substantially the same terms and conditions as the revolving credit facility. Payments of principal and interest are due monthly, with the balance due at maturity on April 30, 2015.

Note 5 - Debt (Continued)

During 2012, the Company amended its agreement with Wells Fargo (Amendment I) to include an equipment facility, whereby the Company can draw loans collateralized by eligible equipment placed in service by the Company, up to $1,000,000. The Company entered into one equipment note during 2012. The note is subject to substantially the same terms and conditions as the revolving credit facility. Payments of principal and interest are due monthly.

Classification of the outstanding debt as of December 31, 2012 and 2011, as follows, reflects the subsequent amendments to the bank debt as described above.

	2012	2011
Senior secured term notes to Comerica Bank, with monthly principal installments of $83,333 effective through May 2011, $62,500 through May 2012 and $41,667 thereafter, plus interest at 4.00 percent and 2.75 percent above LIBOR (an effective interest rate of 5.00 percent at December 31, 2011). The note was collateralized by all property and assets of the Company. During 2012, this note was repaid in full	$ -	$ 749,998
Senior secured term notes to Wells Fargo Bank, with monthly principal installments of $18,667 effective through January 2017, plus interest at 2.50 percent above LIBOR (an effective interest rate of 3.00 percent at December 31, 2012). The note is collateralized by all property and assets of the Company	933,333	-
Senior secured equipment note to Wells Fargo Bank, with monthly principal installments of $7,369 plus interest at 2.50 percent above LIBOR (an effective interest rate of 3.00 percent at December 31, 2012). The note is collateralized by eligible equipment placed in service by the Company	162,127	-

Note 5 - Debt (Continued)

	2012	2011
Senior subordinated debt to stockholders, principal payments of $218,750 to commence on March 31, 2015 and at the end of each three months thereafter with final payment due on March 31, 2017, with monthly interest-only payments at 12 percent. The debt is recorded net of an unamortized discount of $9,952 at December 31, 2012 and 2011 with an effective rate of approximately 12.1 percent. The note is collateralized by all property and assets of the Company	$ 3,490,048	$ 3,490,048
Senior subordinated debt to stockholders, principal payments of $218,750 to commence on March 31, 2015 and at the end of three months thereafter with final payment due on March 31, 2017, with monthly interest-only payments at 12 percent. The debt is recorded net of an unamortized discount of $88,474 and $159,938 at December 31, 2012 and 2011, respectively, with an effective rate of approximately 13.14 percent. The note is collateralized by all property and assets of the Company	3,411,526	3,340,062
Junior subordinated debt to stockholders, principal payments of $93,750 to commence no earlier than March 31, 2015 and at the end of each three months thereafter with final payment due on March 31, 2017, subject to the aggregate principal repayment limitations as part of subsequent financing terms, described above. Interest-only payments are due monthly at 8 percent. The note is unsecured	1,500,000	1,500,000
Unsecured debt assumed with the acquisition of Miller's American Honey, Inc. Monthly principal and interest payments of $10,000 at 5.2 percent maturing on July 1, 2017	488,207	580,827

Note 5 - Debt (Continued)

	2012	2011
Borrowings under the revolving line of credit agreement denoted above, reflecting subsequent refinancing terms	$ 18,961,598	$ 12,485,778
Total	28,946,839	22,146,713
Less current portion	19,371,114	13,328,001
Long-term portion	$ 9,575,725	$ 8,818,712

The balance of the above debt matures as follows:

2013	$ 19,371,114
2014	399,907
2015	342,930
2016	1,863,272
2017	5,068,042
Less unamortized debt discount	(98,426)
Total	$ 26,946,839

Interest expense for the years ended December 31, 2012 and 2011 was approximately $1,616,000 and $1,900,000, respectively. For the years ended December 31, 2012 and 2011, there is approximately $71,000 each year of amortization on the warrants included in interest expense.

Note 6 - Stockholders' Equity

Capital stock at December 31, 2012 and 2011 is as follows:

	2012	2011
Common stock:		
Series D, voting, common stock, $1 par value, 10,864 shares authorized, 5,266 and 10,864 shares issued and outstanding at December 31, 2012 and 2011, respectively	$ 5,266	$ 10,864
Series E, voting, common stock, $1 par value, 13,134 shares authorized, 13,134 shares issued and outstanding at December 31, 2012 and 2011	13,134	13,134
Series F, voting, common stock, $1 par value, 24,201 shares authorized, 2,850 and 12,701 shares issued and outstanding at December 31, 2012 and 2011, respectively	2,850	12,701
Series G, voting, common stock, $1 par value, 35,947 shares authorized, 0 issued and outstanding at December 31, 2012 and 2011	-	-
Preferred stock:		
Series A, voting, 6 percent convertible preferred stock, $100 par value, 69,110 shares authorized, 69,110 shares issued and outstanding at December 31, 2012 and 2011	6,911,000	6,911,000
Series B, voting, convertible preferred stock, $100 par value, 9,390 shares authorized, 9,390 shares issued and outstanding at December 31, 2012 and 2011	939,000	939,000
Series C, voting, 6 percent convertible preferred stock, $130 par value, 27,271 shares authorized, 27,271 shares issued and outstanding at December 31, 2012 and 2011	3,545,240	3,545,240
Common stock purchase warrants	295,507	295,507
Stock subscription receivable	(103,995)	(108,493)
Additional paid-in capital	657,520	657,520
Accumulated deficit	(8,596,007)	(2,664,866)
Total	$ 3,669,515	$ 9,611,607

Note 6 - Stockholders' Equity (Continued)

The convertible preferred stock ranks senior to the common stock with respect to payment of dividends and distribution of assets upon liquidation. The Series C preferred stock is senior to the Series A preferred stock which is senior to the Series B preferred stock with respect to payment of dividends and distribution of assets upon liquidation.

The holders of Series A 6 percent convertible preferred stock are entitled to receive, if declared by the board of directors of the Company at its sole discretion, cumulative dividends at the rate of 6 percent per annum on each share of convertible preferred stock payable quarterly of each year commencing on March 16, 2007. As of December 2012 and 2011, total dividends of approximately $2,402,000 and $1,987,000, respectively, were in arrears.

The holders of the Series B convertible preferred stock are not entitled to receive dividends.

The holders of Series C 6 percent convertible preferred stock are entitled to receive, if declared by the board of directors of the Company at its sole discretion, cumulative dividends at the rate of 6 percent per annum on each share of convertible preferred stock payable quarterly of each year commencing on March 31, 2010. As of December 31, 2012 and 2011, total dividends of approximately $583,000 and $371,000, respectively, were in arrears.

The common stock ranks junior to the convertible preferred stock with respect to the payment of dividends and the distribution of assets upon liquidation. The Series D, E, and F common stock ranks on parity with respect to payment of dividends. The Series D, E, and F common stock ranks in order with respect to distribution of assets upon liquidation.

In connection with the senior subordinated notes in Note 5, the Company issued 10,507 warrants to purchase shares of Series C common stock to certain stockholders. These warrants can be exercised at any time prior to the expiration date of March 16, 2019 at an exercise price of $1.00 per share. The warrants, valued at $10,507, are reflected in the stockholders' equity section of the balance sheet with a corresponding reduction recorded against debt. As of December 31, 2012 and 2011, none of the warrants have been exercised.

On March 31, 2010, 35,947 shares of $1.00 par value Series G common stock were authorized. In connection with the senior subordinated notes in Note 5, the Company issued 9,024 warrants to purchase shares of Series G common stock to certain stockholders. These warrants can be exercised at any time prior to the expiration date of March 31, 2022 at an exercise price of $1.00 per share. The warrants, valued at $285,000, are reflected in the stockholders' equity section of the balance sheet with a corresponding reduction recorded against debt. As of December 31, 2012 and 2011, none of the warrants have been exercised.

Note 7 - Income Taxes

The provision for income taxes for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Current income tax expense (recovery)	$ 70,747	$ (1,273,216)
Deferred income tax recovery	(2,261,576)	(2,734,859)
Total income tax recovery	$ (2,190,829)	$ (4,008,075)

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	2012	2011
Income tax recovery, computed at 34 percent of pretax loss	$ (2,762,000)	$ (3,650,000)
Effect of permanent differences - Net	29,265	11,788
Effect of Department of Justice penalty (Note 12)	680,000	-
Effect of adjustments of prior year estimates and other	(138,094)	(369,863)
Total income tax recovery	$ (2,190,829)	$ (4,008,075)

The details of the deferred tax asset (liability) are as follows:

	2012	2011
Total deferred tax liabilities	$ (3,685,492)	$ (4,197,221)
Total deferred tax assets	5,229,939	3,480,092
Net deferred tax asset (liability)	$ 1,544,447	$ (717,129)

Deferred tax liabilities result principally from accelerated methods of depreciation and amortization. Deferred tax assets result primarily from net operating loss carryforwards and from recognition of expenses for financial reporting purposes that are not deductible for tax purposes until paid.

The Company has approximately $10,965,000 of net operating loss carryforwards available to reduce future income taxes, expiring in 2032.

As of December 31, 2012 and 2011, the Company's unrecognized tax liabilities were not significant. There were no significant penalties or interest recognized during the year or accrued at year end. The Company files income tax returns in U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2008.

Note 7 - Income Taxes (Continued)

The Company's 2010 tax return is currently under examination by the Internal Revenue Service. Management does not anticipate any substantial adjustments.

Note 8 - Operating Leases

The Company is obligated under related party operating leases for rent of the Michigan and Florida locations, as well as operating leases for the rent of the California and Texas buildings, expiring at various dates through November 30, 2017 with renewal options. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was approximately $446,000 and $443,000 for the years ended December 31, 2012 and 2011, respectively.

The Company has several other operating leases relating to office equipment, freightliners, and vehicles. Total rent expense under these leases was approximately $390,000 and $393,000 for the years ended December 31, 2012 and 2011, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Related Party	Other	Total
2013	$ 144,953	$ 709,952	$ 854,905
2014	144,953	612,711	757,664
2015	144,953	596,614	741,567
2016	144,953	494,885	639,838
2017	-	423,467	423,467
Total	$ 579,812	$ 2,837,629	$ 3,417,441

Note 9 - Retirement Plan

The Company maintains a retirement plan for substantially all full-time employees established pursuant to Internal Revenue Code Section 401(k). The plan does not provide for a matching contribution.

Note 10 - Related Party Transactions

The following is a description of transactions between the Company and related parties:

Notes Receivable - The Company and certain stockholders entered into a note receivable in April 2011. Interest is payable at 3.5 percent. Total interest income is $6,702 and $6,475 for the years ended December 31, 2012 and 2011, respectively. The note stipulates that the principal plus accrued interest shall be paid in full when substantially all of the assets or equities of the Company are sold. The balance of the note receivable was $198,177 and $191,475 as of December 31, 2012 and 2011, respectively.

Note 10 - Related Party Transactions (Continued)

Payable Under Product Financing Arrangement - During 2011, the Company sold excess inventory to a related entity controlled by certain stockholders of the Company for $2,935,833, which included approximately $77,000 of inventory used in production in 2011. Interest was payable at 10 percent and total interest incurred for the years ended December 31, 2012 and 2011 was approximately $188,000 and $123,000, respectively. During 2012, the Company used the inventory in production and paid the liability in full. There was no such arrangement at December 31, 2012.

Notes Payable - The terms and balances of the notes payable to stockholders are described in Note 5. Total related party interest expense relating to the stockholder notes payable for the years ended December 31, 2012 and 2011 was approximately $976,000 and $975,000, respectively.

Consulting Fee Expense - For the years ended December 31, 2012 and 2011, the Company incurred expenses relating to consulting fees to a stockholder of $109,580 and $102,500, respectively.

Note 11 - Disputed Trade Accounts Payable (Honey Contracts)

The Company had various contracts with suppliers for the purchase and delivery of honey. During the last quarter of 2010, the Company had delinquent/late raw honey deliveries in excess of 8 million pounds. During 2011, the Company had two suppliers default on contracts in excess of 12 million pounds of honey deliveries.

As of December 31, 2012 and 2011, the Company had payables of approximately $4,500,000 to these vendors. The Company is currently in the process of pursuing legal action against both suppliers discussed above. Based upon the Company's counsel, a suit against these suppliers for nonperformance may result in settlement or an award by the court in favor of the Company; however, no benefit was recognized as of December 31, 2012 and 2011.

The Company was the plaintiff in a lawsuit against a supplier for alleged breach of contract and fraud in failing to deliver raw honey. The suit asked for damages from the supplier in the amount of $4,000,000. The defendant filed a counterclaim requesting payment of $1,600,000 for materials previously delivered to the Company. In April 2013, the Company entered into a confidential settlement and general release with a vendor that defaulted on certain contracts as described above. The execution of the document will result in the Company eliminating the disputed payables in 2013.

Note 11 - Disputed Trade Accounts Payable (Honey Contracts) (Continued)

The Company is the defendant in an arbitration proceeding brought by a supplier for alleged breach of contract in failing to pay for delivered raw honey in the amount of $2,900,000. The Company has filed a counter-demand alleging damages, due to nondelivery, in the amount of $3,200,000. The Company has disputed accounts payable of approximately $2,900,000 recorded at December 31, 2012 and 2011 as described above. The arbitration is scheduled for 2013 and the Company believes it will be successful.

Note 12 - Litigation

The Company is a party to several legal proceedings as described below:

In February 2013, the Company entered into a Deferred Prosecution Agreement (DPA) with the Department of Justice to resolve claims by the government alleging the Company purchased illegal honey from China and purchased honey declared as a product other than honey. The Company agreed to pay a fine of $2,000,000, which is accrued for in accounts payable at December 31, 2012. In light of remedial and compliance measures taken by the Company, the government will not pursue prosecution for a period of two years. At that time, if the Company is in compliance with the DPA, the matter will be dismissed in its entirety. As part of this agreement, the Company agreed to dispose of any illegally-entered Chinese-origin honey in its possession. This product, valued at $1,362,000, was fully reserved in 2012 (see Note 1) and associated disposal costs of $50,000 were accrued as of December 31, 2012. The Company anticipates the disposal of these products will be completed in 2013 with no additional expense incurred.

In March 2013, the Company entered into a Confidential Settlement and General Release with a vendor related to disputes regarding honey delivered to the Company. The execution of this document will result in the Company eliminating the disputed payable of approximately $2,400,000 included in disputed trade accounts payable at December 31, 2012. The Company will recognize this amount in income during 2013 as a result of this settlement.

In April 2013, the Company, along with certain former executives and another entity, was named as a defendant in two lawsuits alleging past practices had caused damages to the domestic honey industry. The Company intends to defend itself vigorously against these claims.

Note 13 - Management's Plans

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company. The Company has sustained substantial operating losses in recent years as a result of supply chain disruptions, abnormally high attorney expenses dealing with ongoing legal issues related to the Department of Justice, and costs associated with implementing significant management changes.

Management believes the following actions presently being taken to revise the Company's operating performance provide the opportunity for the Company to continue as a going concern:

- Entered into a Deferred Prosecution Agreement with the Department of Justice, which will significantly reduce future legal expenditures on this matter going forward (Note 12)
- Amended line of credit agreement, including financial covenants (Note 5)
- Re-focusing the Company's priorities toward retail business, which is the Company's highest margin product group. This effort entails leveraging the West Coast-based Miller's brand to create incremental sales and profit. The Miller's brand with its full product range of consumer-based honey products will build new distribution sales points with both existing and new customers via category leadership and a national broker network.
- Established an "innovation pipeline" for new products. First results will be bringing Smokey the Bear® products into retail distribution in 2013, with gross sales projected at $4,000,000. A health and wellness product line is also planned for market introduction late in 2013.
- Creation of a new position of Vice President of Supply Chain and Operations, filled with a food industry leader with a significant record of success at a top 25 food manufacturer
- Implemented a cost reduction plan in the third quarter of 2012, including workforce reductions to enhance operational productivity. This resulted in a 20 percent decrease to payroll expense, and approximately $1,000,000 in annualized savings.
- In the fourth quarter of 2012, the Company relocated its California production to a new facility with significantly larger and more cost-effective production capacity. This strategic move enables the Company to reduce production labor costs, improve line efficiencies approximately 10 percent, and effectively doubles production capacity. This enables the Company to cost-effectively source and service new customers and develop new products for the retail sector.

Note 13 - Management's Plans (Continued)

- Implemented continuous improvement programs in the areas of quality and operational efficiency. The Company has evaluated opportunities to improve and streamline manufacturing processes, logistics, and strategic procurement to improve its competitive position and secure volume and margin growth.
- Undergoing an evaluation of current production facilities and their utilization requirements to ensure they are contributing an adequate financial return. It is anticipated that the Company will be able to effectively reduce fixed manufacturing costs.
- Modification of purchasing sourcing strategy to minimize future disruptions and business risks. This effort also entails tightening incoming product specification tolerances and heightened diligence on adherence to inbound product quality standards.
- Initiated study of production efficiencies through review of various products for profitability and process improvements
- Commenced product consolidation and SKU rationalization review to focus business on core product codes and enable production efficiencies
- Developing an overall logistics strategy
- Developed minimum material margin criteria to ensure adequate profitability
- Implemented credit limits for all new customers and initiated a review of existing customer limits. The Company's largest industrial customer has already agreed to revised terms allowing improved cash flow.
- Strengthen customers' adherence to payment terms and develop a "days outstanding" level