

REGIONAL BRANDS INC.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30,	December 31,
	2020	2019
<i>(Unaudited)</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,531,679	\$ 6,314,326
Short-term investments	2,584,102	2,072,956
Accounts receivable	7,595,420	8,118,713
Inventories	1,568,099	1,578,423
Costs and estimated earnings in excess of billings on uncompleted contracts	2,714,358	2,890,419
Prepaid expenses and other current assets	291,585	526,106
Total current assets	18,285,243	21,500,942
Equipment, net	1,022,562	1,163,321
Right of use assets	897,975	1,112,747
Intangibles, net of accumulated amortization	1,600,000	2,200,000
Goodwill	3,045,481	3,045,481
Other assets	531,831	468,016
Deferred taxes	322,418	332,418
Total assets	\$ 25,705,510	\$ 29,822,925
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,754,860	\$ 3,083,217
Accrued expenses and other current liabilities	455,215	636,325
Line of credit	3,080,323	3,533,049
Current portion of senior subordinated note	-	33,460
Current portion of subordinated term note	250,000	250,000
Billings in excess of costs and estimated earnings on uncompleted contracts	315,270	871,973
Current portion of lease liability	435,156	435,156
Paycheck Protection Program loan/grant	452,630	-
Total current liabilities	6,743,454	8,843,179
Lease liability	462,819	677,590
Senior subordinated note	-	212,215
Subordinated term note	1,812,500	1,937,500
Total liabilities	9,018,773	11,670,484
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, \$.00001 par value, 50,000,000 shares authorized and 1,231,997 and 1,274,603 shares outstanding at June 30, 2020 and December 31, 2019, respectively	13	13
Additional paid-in capital	18,351,891	20,497,964
Accumulated deficit	(1,665,167)	(2,154,984)
Noncontrolling interest in consolidated subsidiary	-	(190,553)
Total stockholders' equity	16,686,737	18,152,441
Total liabilities and stockholders' equity	\$ 25,705,510	\$ 29,822,925

See the accompanying notes to the condensed consolidated financial statements.

REGIONAL BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	\$ 9,689,625	\$ 11,926,359	\$ 18,150,223	\$ 19,041,328
Cost of sales	7,561,394	8,521,692	13,472,044	13,580,734
Gross profit	2,128,231	3,404,667	4,678,179	5,460,594
Operating expenses:				
Selling	1,094,853	1,219,061	2,280,401	2,325,242
General and administrative	1,101,200	1,245,782	2,218,108	2,312,168
Amortization of intangible assets	300,000	300,000	600,000	600,000
Paycheck Protection Program-estimated forgiveness	(1,056,000)	-	(1,056,000)	-
Operating expenses	1,440,053	2,764,843	4,042,509	5,237,410
Operating income	688,178	639,824	635,670	223,184
Other income (expense):				
Other income (expense)	282,089	114,610	139,097	182,832
Interest (expense)	(53,490)	(71,130)	(126,199)	(131,007)
Interest income	-	6,345	6,345	12,690
Other income	228,599	49,825	19,243	64,515
Income before income taxes	916,776	689,649	654,912	287,699
Income tax expense	(234,719)	(174,878)	(176,000)	(69,754)
Net income	682,057	514,771	478,912	217,945
Income (loss) attributable to noncontrolling interest	-	29,792	(10,904)	7,950
Income attributable to common stockholders	\$ 682,057	\$ 484,979	\$ 489,817	\$ 209,995

See the accompanying notes to the condensed consolidated financial statements.

REGIONAL BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2020 and 2019

	Six Months Ended June 30,	
	2020	2019
	<i>(Unaudited)</i>	
Cash flows from (used) in operating activities		
Net income	\$ 478,912	\$ 217,945
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock based compensation	20,800	27,756
Unrealized loss (gain)	18,909	(31,542)
Depreciation and amortization	156,751	118,291
Change in inventory reserve	-	41,500
Amortization and write-off of debt discount	46,101	12,573
Amortization of intangibles	600,000	600,000
Deferred income taxes	130,000	(23,968)
<u>(Increase) decrease from:</u>		
Accounts receivable	523,293	(1,450,387)
Inventories	10,324	(517,731)
Costs and estimated earnings in excess of billings	176,061	(1,628,859)
Prepaid and other assets	170,705	(76,291)
Accounts payable	(1,328,357)	1,161,479
Accrued expenses and other liabilities	(181,110)	(100,760)
Billings in excess of costs and estimated earnings on uncompleted contracts	(556,703)	301,783
Paycheck Protection Program loan/grant	452,630	-
Net cash provided by (used in) operating activities	718,315	(1,348,211)
Cash used in investing activities		
(Purchase) sale of short-term investments, net	(530,055)	65,436
Purchases of equipment	(15,991)	(309,702)
Cash used in investing activities	(546,046)	(244,266)
Cash (used in) provided by financing activities		
Payments under Subordinated Term Note	(125,000)	(125,000)
Line of credit	(452,726)	1,836,897
Acquisition of Lorraine Parties's Membership interests in BRJ LLC	(1,350,462)	-
Acquisition of subordinated term note held by BRJ Acquisition Partners	(291,776)	-
Distributions to noncontrolling interests	-	(10,467)
Acquisition of common stock	(734,953)	-
Cash (used in) provided by financing activities	(2,954,917)	1,701,430
Net (decrease) increase in cash and cash equivalents	(2,782,647)	108,953
Cash and cash equivalents, beginning of year	6,314,326	5,207,517
Cash and cash equivalents, end of year	\$ 3,531,679	\$ 5,316,470

See the accompanying notes to the condensed consolidated financial statements.

REGIONAL BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2020 and 2019
(Unaudited)

	Common Stock		Additional	Accumulated	Noncontrolling	Stockholders'
	Shares	Amount	Paid-in Capital	Deficit	Interest	Equity
Balance at January 1, 2020	1,274,603	\$ 13	\$ 20,497,964	\$ (2,154,984)	\$ (190,553)	\$ 18,152,441
Stock based compensation			20,800			20,800
Net income for the period				489,817	(10,904)	478,912
Acquisition of Lorraine Parties's interests			(1,431,920)		201,457	(1,230,463)
Acquisition of common stock	(42,606)	-	(734,953)			(734,953)
Balance at June 30, 2020	1,231,997	\$ 13	\$ 18,351,891	\$ (1,665,167)	\$ -	\$ 16,686,737
	1,274,603	\$ 13	\$ 20,428,933	\$ (2,183,276)	\$ (173,359)	\$ 18,072,311
Stock based compensation			27,756			27,756
Net income for the period				209,995	7,950	217,945
Distributions to noncontrolling interests					(3,640)	(3,640)
Balance at June 30, 2019	1,274,603	\$ 13	\$ 20,456,689	\$ (1,973,281)	\$ (169,049)	\$ 18,314,372

See the accompanying notes to the condensed consolidated financial statements.

REGIONAL BRANDS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2020 and 2019
(Unaudited)

Regional Brands Inc. (“the Company”, “we” and “us”) is a holding company formed to acquire substantial ownership in regional companies with strong brand recognition, stable revenues and profitability. The Company has one wholly owned operating subsidiary, B.R. Johnson, LLC (“BRJ LLC”).

Basis of Presentation - In the opinion of management, the accompanying condensed consolidated balance sheets and related condensed consolidated statements of income, changes in stockholders’ equity and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation. The condensed consolidated financial statements do not include all of the information and footnotes required by U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). Therefore, these condensed consolidated financial statements are not prepared in accordance with U.S.GAAP.

Principles of Consolidation - The consolidated financial statements include the accounts of Regional Brands Inc. and its wholly owned subsidiary, BRJ LLC. All intercompany balances and transactions have been eliminated in consolidation. Prior to February 6, 2020, BRJ LLC had preferred and common membership interests that were not controlled by the company. Earnings and losses of BRJ LLC were attributed to the noncontrolling interest in accordance with the B.R. Johnson LLC Limited Liability Company Agreement. On February 6, 2020, the Company acquired the membership interests it previously did not control. See below.

February 2020 Transaction - On February 6, 2020, the Company purchased all of the outstanding membership interests in BRJ LLC that it did not previously own and the participation interest in the Senior subordinated note (the “February 2020 Transaction”) from Lorraine and BRJ Acquisition Partners, LLC (collectively, the “Lorraine Parties”) pursuant to a Membership and Participation Interests Purchase Agreement, dated as of February 6, 2020, by and between the Lorraine Parties, BRJ LLC and the Company. The Company paid the Lorraine Parties approximately \$1,649,000, including accrued distributions and interest, in cash in the February 2020 Transaction.

Debt - BRJ LLC has a Credit and Security Agreement with KeyBank, N.A., that includes revolving loans and letters of credit. The Credit Facility is payable upon demand of KeyBank, N.A., or the lenders, or upon acceleration as a result of an event of default. The aggregate borrowings outstanding under the Credit Facility at June 30, 2020 were approximately \$3.1 million (\$3.5 million at December 31, 2019). The Credit Facility is secured by substantially all of BRJ LLC’s assets. The Credit Facility contains customary financial and other covenant requirements, including, but not limited to, a covenant requiring BRJ LLC’s consolidated fixed charge coverage ratio to not be less than 1.15 to 1.00. We failed to comply with this restriction as of December 31, 2019, which provided the creditor under the Credit Facility the right to declare an event of default, accelerate the related debt and exercise its remedies under the Credit Facility. The creditor has not exercised its right to call the debt at this time. The Company is in the process of obtaining a waiver from the creditor for such noncompliance. Although at March 31, 2020, the Company was in compliance with this covenant requirement, at June 30, 2020, it was not.

COVID-19 - On January 20, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus have included restriction on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the financial effect will be to the Company, it has led to declining revenues in the second quarter of 2020 and depending on the duration of the impacts of the pandemic, the Company’s financial position and operating results in the future could be negatively impacted.

Paycheck Protection Program - In April 2020, BRJ LLC received proceeds of approximately \$1,509,000 from a commercial bank through the federal Paycheck Protection Program under the Cares Act. The proceeds received are eligible to be forgiven. Through June 30, 2020, BRJ LLC estimates that \$1,056,000 qualifies to be forgiven and will continue to analyze estimated amounts to be forgiven subsequently.