



J.G. Boswell Company
Consolidated Financial Statements
and Supplementary Information[©]

Years Ended June 30, 2023 and 2022
With Report of Independent Certified Public Accountants

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and Supplementary Information
Years Ended June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
J.G. Boswell Company

Opinion

We have audited the consolidated financial statements of J.G. Boswell Company (a California corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, 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.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 audits. 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 for one year after the date the financial statements are 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 US 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 US 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 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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidated Schedules – Non-US GAAP Presentation for the years ended June 30, 2023, and 2022, is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Los Angeles, California
October 11, 2023

J.G. Boswell Company
Consolidated Balance Sheets

	June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 92	\$ 16,261
Short-term investments	–	64,459
Trade receivables, net	52,290	81,912
Inventories	205,934	118,287
Growing crops	110,831	146,689
Prepaid expenses and other	21,594	17,593
Total current assets	390,741	445,201
Other assets:		
Right-of-use assets – operating leases	2,751	1,526
Other assets	9,738	9,333
Total other assets	12,489	10,859
Property, plant and equipment, at cost:		
Buildings and improvements	230,899	219,216
Machinery and equipment	472,307	457,069
Orchards	248,973	205,556
Less accumulated depreciation and amortization	(556,498)	(528,197)
	395,681	353,644
Land and related water investments	106,048	106,048
Net property, plant and equipment	501,729	459,692
Total assets	\$ 904,959	\$ 915,752

	June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Liabilities and stockholders' equity		
Current liabilities:		
Note payable	\$ 5,000	\$ –
Accounts payable trade	38,358	44,809
Accrued liabilities	37,267	42,457
Total current liabilities	<u>80,625</u>	<u>87,266</u>
Noncurrent liabilities:		
Accrued employee benefits and other	16,881	26,186
Lease liabilities – operating leases	1,522	1,012
Deferred tax liability – net	22,217	17,553
Total noncurrent liabilities	<u>40,620</u>	<u>44,751</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, without par value:		
Authorized shares – 2,500,000		
Issued and outstanding shares – 977,410 (977,778 in 2022)	93,581	89,168
Retained earnings	689,979	701,373
Accumulated other comprehensive income (loss)	154	(6,806)
Total stockholders' equity	<u>783,714</u>	<u>783,735</u>
Total liabilities and stockholders' equity	<u>\$ 904,959</u>	<u>\$ 915,752</u>

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Income

	Year Ended June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Sales	\$ 382,156	\$ 475,585
Cost of sales	342,523	353,421
General and administrative	26,520	40,296
Operating income	<u>13,113</u>	<u>81,868</u>
Other income (expense):		
Net interest expense	(504)	(988)
Net gain on sale of assets	1,913	1,521
Other	166	(749)
	<hr/>	
Income from continuing operations before taxes	14,688	81,652
Income tax expense from continuing operations	3,763	15,394
Net income from continuing operations	<u>10,925</u>	<u>66,258</u>
Discontinued operations:		
Gain on sale of Auscott, net of tax	–	16,983
Discontinued operations, net of tax	–	16,983
Net income	<u>\$ 10,925</u>	<u>\$ 83,241</u>
	<hr/> <hr/>	
Basic earnings per share from continuing operations	\$ 11.16	\$ 67.70
Basic earnings per share from discontinued operations	–	17.35
Basic earnings per share	<u>\$ 11.16</u>	<u>\$ 85.05</u>
	<hr/> <hr/>	
Diluted earnings per share from continuing operations	\$ 11.10	\$ 66.97
Diluted earnings per share from discontinued operations	–	17.16
Diluted earnings per share	<u>\$ 11.10</u>	<u>\$ 84.13</u>
	<hr/> <hr/>	
Weighted-average shares outstanding – basic	978,587	978,630
Weighted-average shares outstanding – diluted	984,341	989,410

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Comprehensive Income

	Year Ended June 30	
	2023	2022
	<i>(In Thousands)</i>	
Net income	\$ 10,925	\$ 83,241
Other comprehensive income, net of tax:		
Minimum pension and postretirement health care liability adjustment, net of \$2,042 tax expense (\$5,919 tax expense in 2022)	6,960	16,525
Other comprehensive income, net of tax	6,960	16,525
Comprehensive income	<u>\$ 17,885</u>	<u>\$ 99,766</u>

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Stockholders' Equity

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount		Income (Loss)	
	<i>(In Thousands, Except Share Information)</i>				
Stockholders' equity at June 30, 2021	979,091	\$ 52,454	\$ 641,775	\$ (23,331)	\$ 670,898
Net income	–	–	83,241	–	83,241
Other comprehensive income	–	–	–	16,525	16,525
Dividends paid (\$18.00 per share)	–	–	(17,627)	–	(17,627)
Modification of common stock	403	32,581	–	–	32,581
Modification of restricted common stock	5,824	5,295	–	–	5,295
Retirement of common stock	(7,540)	(1,162)	(6,016)	–	(7,178)
Stockholders' equity at June 30, 2022	977,778	89,168	701,373	(6,806)	783,735
Net income	–	–	10,925	–	10,925
Other comprehensive income	–	–	–	6,960	6,960
Dividends paid (\$20.00 per share)	–	–	(19,579)	–	(19,579)
Modification of common stock	–	1,398	–	–	1,398
Modification of restricted common stock	3,375	3,743	–	–	3,743
Stock-based compensation	1,247	1,740	–	–	1,740
Retirement of common stock	(3,690)	(1,012)	(2,740)	–	(3,752)
Retirement of modified restricted common stock	(1,300)	(1,456)	–	–	(1,456)
Stockholders' equity at June 30, 2023	977,410	\$ 93,581	\$ 689,979	\$ 154	\$ 783,714

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2023	2022
<i>(In Thousands)</i>		
Operating activities		
Net income from continuing operations	\$ 10,925	\$ 66,258
Income from discontinued operations	–	16,983
Net income	<u>10,925</u>	<u>83,241</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realizable value adjustment	–	49
Depreciation expense	34,229	30,427
Provision for bad debt	175	–
Provision for inventory spoilage	1,075	967
Deferred income taxes	2,622	(1,021)
Stock-based compensation expense	4,838	7,243
Modification of shares of common stock	1,398	32,581
Modification of shares of restricted common stock	3,743	5,295
(Gain) loss on sale of assets	(1,913)	(1,521)
Loss on extinguishment of debt	–	1,139
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	29,447	(41,987)
(Increase) decrease in inventories	(88,722)	22,669
Decrease (increase) in growing crops	35,858	(37,617)
Increase in prepaid expenses and other	(4,001)	(7,981)
Increase in other assets	(1,630)	(4,926)
Decrease in accounts payable and accrued liabilities	(7,913)	(55,030)
Increase (decrease) in accrued employee benefits and other noncurrent liabilities	207	(1,573)
Net cash provided by operating activities – continuing operations	<u>20,338</u>	14,972
Net cash provided by operating activities – discontinued operations	–	–
Net cash provided by operating activities	<u>20,338</u>	<u>14,972</u>

	Year Ended June 30	
	2023	2022
	<i>(In Thousands)</i>	
Investing activities		
Proceeds from sale of property, plant and equipment	3,042	4,148
Purchase of property, plant and equipment	(77,395)	(51,915)
Decrease (increase) in short-term investments	64,459	(64,459)
Net cash used in investing activities – continuing operations	(9,894)	(112,226)
Net cash used in investing activities – discontinued operations	–	–
Net cash used in investing activities	(9,894)	(112,226)
Financing activities		
Proceeds from note payable	5,000	–
Dividends paid	(19,579)	(17,627)
Redemption of stock units	(8,561)	(1,719)
Exercise of stock options	1,735	2,098
Repurchase of common stock	(5,208)	(7,178)
Net cash used in financing activities – continuing operations	(26,613)	(24,426)
Net cash used in financing activities – discontinued operations	–	–
Net cash used in financing activities	(26,613)	(24,426)
Net decrease in cash and cash equivalents	(16,169)	(121,680)
Cash and cash equivalents at beginning of year	16,261	137,941
Cash and cash equivalents at end of year	92	16,261
Less cash and equivalents of discontinued operations, end of year	–	–
Cash and cash equivalents at end of year	\$ 92	\$ 16,261

See accompanying notes.

J.G. Boswell Company

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

1. Lines of Business

J.G. Boswell Company's (the Company) principal business is the production, processing and marketing of agricultural commodities, primarily cotton, cotton seed products, tomatoes, small grains and orchards. Agricultural operations are in California. The Company owns full or fractional subsurface oil, gas and mineral interests in the land it owns, and land owned by others in both California and Oregon. The Company's wholly owned Australian subsidiary (Auscott), a discontinued operation, was sold during the year ended June 30, 2021. Auscott operated in the agricultural sector and was primarily involved in the growing, processing, marketing, shipping and warehousing of cotton and grains, in the state of New South Wales.

2. Summary of Significant Accounting Policies

Flood Expense

During the year ended June 30, 2023, the Company experienced rainfall surpassing historical records. This resulted in a charge to cost of sales of \$40,803,000 to manage flood flows and expense land preparation costs that were incurred prior to the rain events on land that subsequently flooded and was not farmed.

Discontinued Operations

A disposal group is classified as a discontinued operation when the following criteria are met: (1) the disposal group is a component of an entity; (2) the component of the entity meets the held-for-sale criteria in accordance with the policy described above and (3) the component of the entity represents a strategic shift in the entity's operating and financial results. Alternatively, if a business meets the criteria for held for sale on the acquisition date, the business is accounted for as a discontinued operation.

The results of Auscott operations have been presented as a discontinued operation, in accordance with Accounting Standards Codification (ASC) 205-20 – *Presentation of Financial Statements*.

Basis of Consolidation

The Company's consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Receivables are stated at the carrying values, net of a reserve for doubtful accounts. The Company records specific provisions for the individual accounts when the Company becomes aware of a customer's inability to meet its financial obligations. The provision for doubtful accounts was \$175,000 and \$0 for the years ended June 30, 2023 and 2022, respectively.

Concentrations of Credit Risk

Concentrations of credit risk consist primarily of trade receivables and accounts payable. For the years ended June 30, 2023 and 2022, the Company had one customer that comprised greater than 10% of trade receivables and revenues and one supplier that comprised greater than 10% of accounts payable.

Inventories and Growing Crops

Agricultural products and growing crops are stated at the lower of cost or market and net realizable value (LCNRV) with cost, determined by the first-in, first-out (FIFO) method.

There was no reserve for LCNRV for the year ended June 30, 2023. The reserve for LCNRV was \$49,000 and was recorded to cost of sales for the year ended June 30, 2022.

The Company records an inventory reserve for the anticipated loss associated with tomato paste spoilage. This reserve is based on management's current knowledge with respect to inventory levels, sales trends and historical experience. The inventory reserve was \$1,075,000 and \$967,000 for the years ended June 30, 2023 and 2022, respectively.

Prevented Planting Insurance Recoveries

The Company may file Prevented Planting claims on certain crops when those crops are prevented from being planted due to adverse weather conditions. Insurance recoveries from such claims are recorded to revenue in the period in which the proceeds are received. The Company received recoveries net of insurance premiums related to the 2022 Pima crop of \$22,237,000 and the 2021 Pima crop of \$25,344,000 for the years ended June 30, 2023, and 2022, respectively.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are carried at cost and depreciated primarily on the double-declining balance method over the following estimated useful lives: buildings and improvements, 3–40 years, and machinery and equipment, 3–25 years. Building leasehold improvements are amortized over the related term of the lease.

Costs of planting and developing orchards are capitalized until the orchards become commercially productive. At such time, the Company ceases the capitalization of costs and commences depreciation. Subsequent orchard maintenance costs are accounted for as production costs.

The table below summarizes capital expenditures for the years ended June 30.

	<u>2023</u>	<u>2022</u>
	<i>(In Thousands)</i>	
<u>Capital expenditures:</u>		
Segment capital expenditures	\$ 77,057	\$ 50,156
Corporate capital expenditures	338	761
Total capital expenditures	<u>\$ 77,395</u>	<u>\$ 50,917</u>

Earnings per Share

Basic earnings per share information is based upon the weighted-average number of shares of common stock outstanding during each year. Diluted earnings per share is based on the weighted-average number of shares of common stock outstanding plus incentive stock option equivalents of 5,754 and 10,780 for the years ended June 30, 2023 and 2022, respectively. Diluted shares outstanding include the dilutive effect of incentive stock option equivalents. Share repurchases are recorded as treasury stock at cost under the constructive retirement method and are retired during the same fiscal year.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for the Company's current financial instruments approximate fair value due to the short-term nature of these instruments.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Statements of Cash Flows

Cash and cash equivalents include cash on hand and in banks, and short-term highly liquid investments with original maturities of 90 days or less. The Company places its cash with major financial institutions where one such balance at June 30, 2022 was in excess of federally insured limits. Management does not believe that this exposes the Company to unreasonable risks. The Company paid interest of \$601,000 and income taxes of \$2,574,000 for the year ended June 30, 2023. The Company paid interest of \$194,000 and income taxes of \$30,200,000 for the year ended June 30, 2022. The Company capitalized interest of \$103,000 and \$0 for the years ended June 30, 2023 and 2022, respectively.

Short-term Investments

The Company's short-term investments were \$0 and \$64,459,000 as of June 30, 2023 and 2022, respectively. The investments are classified as trading securities and are invested in equity securities. Trading securities are reported at fair value with the realized and unrealized gains or losses resulting from changes in fair value recognized in other income (expense) in the accompanying consolidated statements of income. The investments are categorized as Level 1 assets in the fair value hierarchy (see Note 7).

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Critical accounting estimates are those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation or uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the Company. Significant estimates inherent in the preparation of the Company's consolidated financial statements include, but are not limited to, accounting for postretirement benefit plans, income taxes including deferred income taxes, workers' compensation plan, stock valuation, inventory reserves, land and related water investments, fair value measurements and contingencies.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Reclassification

Certain 2022 balances have been reclassified to be consistent with the 2023 presentation. Such reclassifications did not impact the Company's consolidated financial position or results of operations.

3. Discontinued Operations

The Company realized a tax benefit of \$16,983,000 during the year ended June 30, 2022 as a result of the sale of its wholly owned subsidiary, Auscott on June 1, 2021.

4. Revenue Recognition

The Company accounts for its revenues in accordance with Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* (Topic 606). Under this ASU, companies must apply a five-step model to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Through the identification of the Company's chief operating decision maker and an analysis of the management approach as prescribed by ASC 280 – *Segment Reporting*, the Company operates in one reportable operating segment, which generates revenues from agricultural products and agricultural processing services. Agricultural products primarily include revenues generated from the sale of cotton, cotton seed, tomatoes, small grains and orchard products. Agricultural processing services include revenues generated from services rendered to third parties for oil milling services whereby these products are converted into sellable cottonseed oil and other byproducts.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

4. Revenue Recognition (continued)

Revenues for agricultural products are recognized when the risks and rewards of ownership have substantively transferred to customers. This condition normally is met when the product has been delivered. Amounts related to shipping and handling billed to customers in a sales transaction are recorded as sales and related costs are recorded within cost of sales.

Revenues for agricultural processing services are generated via processing that is short-term in nature. The Company recognizes revenues for such services in a manner which depicts the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

Performance Obligations – Revenues are recognized when control of the promised goods is transferred to the customer or delivery of services is rendered, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each shipment represents a separate performance obligation. The Company’s selling price is directly observable as it is the price at which the Company sells its products separately to the customer. The Company recognizes revenue based on the point in time criteria based on the definition of control, which is generally upon shipment terms for products or as services are rendered.

Disaggregated Revenue – The Company disaggregates revenue by sales of goods or services (agricultural products or agricultural processing services). This disaggregation represents how the Company evaluates its financial performance, as well as how the Company communicates its financial performance to other users of its consolidated financial statements. The following table provides disaggregation of revenues by revenue stream for the years ended June 30:

	2023	2022
	<i>(In Thousands)</i>	
Revenue stream:		
Agricultural products	\$ 372,593	\$ 464,310
Agricultural services	9,563	11,275
Total sales	<u>\$ 382,156</u>	<u>\$ 475,585</u>

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

5. Note Payable

Note payable consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
	<i>(In Thousands)</i>	
Current note payable:		
\$50 million line of credit		
Interest is payable at the bank's quoted cost of funds rates ranging from 6.23% to 6.73% for 2023.	\$ 5,000	\$ –
Total current note payable	<u>\$ 5,000</u>	<u>\$ –</u>

During the year ended June 30, 2023, the Company amended its credit facility by replacing the secured line of credit with an unsecured line of credit expiring January 2026. Certain financial covenants within this credit facility were modified. Such modification was not considered to be substantial under U.S. GAAP.

During the year ended June 30, 2022, the Company refinanced its credit facility by replacing the secured revolving credit facility with a secured line of credit. The facility permits for standby letters of credit up to \$20,000,000.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

6. Leases

ASC Topic 842, *Leases*, requires lessees to recognize assets and liabilities for most leases. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (i.e., an identified asset) for a period of time in exchange for consideration. The Company determines if an arrangement is a lease at contract inception. The Company's contracts that are determined to be leases include explicitly or implicitly identified assets where the Company has the right to substantially all of the economic benefits of the assets and has the ability to direct how and for what purposes the assets are used during the lease term.

The Company has leases for land, office facilities and equipment, which are classified and accounted for as operating leases. Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term from one to five years or more. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option.

The Company made an accounting policy election not to recognize right-of-use (ROU) assets and lease liabilities for leases with a term of twelve months or less. Furthermore, the Company has elected not to separate the accounting for lease components and non-lease components, for all classes of leased assets. ROU assets and lease liabilities are recognized based on the present value of the fixed lease payments over the lease term at the commencement date. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by lease incentives. The Company uses its incremental borrowing rate as the discount rate to determine the present value of the lease payments for leases that do not have a readily determinable implicit discount rate. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term and amount in a similar economic environment.

Operating lease cost is recognized on a straight-line basis over the lease term. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Certain vendors have the right to declare the Company in default of its agreements if any such vendor, including the lessors under its vehicle leases, determines that a change in the Company's financial condition poses a substantially increased credit risk. The Company's lease agreements do not contain any significant residual value guarantees or material restrictive covenants. The Company's sublease income is immaterial to the consolidated financial statements.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

6. Leases (continued)

The components of lease expense are as follows for the years ended June 30:

	2023	2022
	<i>(In Thousands)</i>	
Operating lease cost	\$ 1,018	\$ 906
Short-term lease cost	5,740	3,588
Total lease cost	\$ 6,758	\$ 4,494

Supplemental cash flow information related to leases is as follows for the years ended June 30:

	2023	2022
	<i>(In Thousands)</i>	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	\$ 1,040	\$ 896
ROU assets obtained in exchange for new lease obligations:		
Operating leases	\$ 1,881	\$ 104

Rental expense was approximately \$6,758,000 and \$4,494,000 for the years ended June 30, 2023 and 2022, respectively.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

6. Leases (continued)

Supplemental balance sheet information related to leases is as follows at June 30:

	<u>2023</u>	<u>2022</u>
	<i>(In Thousands)</i>	
Operating leases:		
Right-of-use assets – operating leases	<u>\$ 2,751</u>	<u>\$ 1,526</u>
Accrued liabilities	\$ 1,229	\$ 547
Operating lease liabilities	<u>1,522</u>	<u>1,012</u>
Total operating lease liabilities	<u>\$ 2,751</u>	<u>\$ 1,559</u>
	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term:		
Operating leases	2.38 years	2.86 years
Weighted-average discount rate:		
Operating leases	3.60 %	3.60 %

The following represents the Company's future undiscounted cash flows of its operating leases for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the consolidated balance sheet at June 30, 2023:

	<u>2023</u>
	<i>(In Thousands)</i>
2024	\$ 1,303
2025	1,012
2026	552
2027	3
Thereafter	—
Total lease payments	<u>\$ 2,870</u>
Less imputed interest	<u>(119)</u>
Present value of lease liabilities	<u>\$ 2,751</u>

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans

The Company has a defined benefit retirement plan for all eligible employees, which is funded on a current basis as required by applicable regulations. The plan is frozen and no additional benefits accrue to participants. The Company also has retirement plans that cover certain key employees, which are funded only to meet current obligations.

In addition to the Company's defined benefit retirement plan, the Company sponsors a defined benefit health care plan that offers postretirement health care benefits to all eligible employees. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance. The Company's policy is to fund the cost of benefits as they are incurred.

The principal actuarial assumptions used are as follows at June 30:

	<u>2023</u>	<u>2022</u>
<u>Retirement plans</u>		
Discount rate	5.30%	4.70%
Expected long-term rate of return on assets	6.50%	5.90%
 <u>Postretirement health care plan</u>		
Discount rate	5.20%	4.60%
Health care cost trend rate	7.50%	7.00%

The primary investment objectives of the retirement plans are to achieve optimal rates of return with prudent levels of risk and liquidity, minimize risk of loss associated with the investments, and to provide adequate liquidity for benefit payments and plan management.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans (continued)

The following tables set forth the status of the plans for the years ended June 30:

	Retirement Plans		Postretirement Health Care Plan	
	2023	2022	2023	2022
	<i>(In Thousands)</i>			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 95,515	\$ 124,649	\$ 1,483	\$ 2,262
Service cost	1,000	1,100	24	39
Interest cost	4,205	2,926	65	52
Actuarial gain	(5,532)	(24,177)	(215)	(777)
Benefit payments	(10,524)	(8,983)	(58)	(93)
Benefit obligation at end of year	84,664	95,515	1,299	1,483
Change in plan assets:				
Fair value of plan assets at beginning of year	70,812	78,353	—	—
Actual return	6,389	(657)	—	—
Company contributions	2,405	2,099	59	93
Benefit payments	(10,524)	(8,983)	(59)	(93)
Fair value of plan assets at end of year	69,082	70,812	—	—
Funded status at end of year and amounts recognized	\$ (15,582)	\$ (24,703)	\$ (1,299)	\$ (1,483)
Amounts recognized in accumulated other comprehensive income (loss):				
Net actuarial loss (gain)	\$ 3,189	\$ 10,848	\$ (2,267)	\$ (2,270)

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans (continued)

Net periodic benefit costs include the following components for the years ended June 30:

	Retirement Plans		Postretirement Health Care Plan	
	2023	2022	2023	2022
<i>(In Thousands)</i>				
Components of net periodic benefit cost:				
Interest costs on projected benefit obligation	\$ 4,205	\$ 2,926	\$ 65	\$ 52
Service cost	1,000	1,100	24	39
Expected return on plan assets	(4,173)	(3,788)	–	–
Amortization of actuarial loss (gain)	227	2,022	(217)	(150)
Settlements	213	663	–	–
Net periodic benefit cost	<u>\$ 1,472</u>	<u>\$ 2,923</u>	<u>\$ (128)</u>	<u>\$ (59)</u>

The estimated net periodic benefit cost for the plans for the year ending June 30, 2024 is \$531,000. Components of the estimated net periodic benefit cost are as follows: interest costs on projected benefit obligation – \$4,254,000; service cost – \$969,000; expected return on plan assets – \$(4,436,000); and amortization of actuarial gain – \$(256,000).

In order to maintain 80% funded status of the plans, estimated cash contributions of \$3,534,000 would be required to be made during the year ending June 30, 2024.

Estimated future benefit payments expected to be paid out in the next ten years are as follows: 2024 – \$11,360,000; 2025 – \$7,546,000; 2026 – \$7,841,000; 2027 – \$8,988,000; 2028 – \$7,386,000 and \$32,083,000 for the next five years thereafter.

Under ASU 2018-14, significant gain and loss items were identified during the years ended June 30, 2023 and 2022. Gains and losses were due to changes in the discount rate. Postretirement medical gains and losses were due to the discount rate and claims cost being lower than expected.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans (continued)

Retirement plan assets consist of equity, debt and money market securities. At June 30, 2023, the investment mix was approximately 75% equity, 24% debt and 1% money market securities. At June 30, 2022, the investment mix was approximately 71% equity, 27% debt and 2% money market securities.

The asset allocation strategy is determined through a detailed analysis of assets and liabilities which defines the overall risk that is acceptable with regard to the expected level and variability of portfolio returns, contributions and plan expenses.

The long-term asset allocation policy was established by considering a variety of factors including, but not limited to, the duration of the liabilities, and the expected payout ratio.

ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that categorizes assets into levels based on the inputs to valuation techniques used to measure the assets' fair values. The hierarchy defines the highest category (Level 1) as that with the most observable inputs and the lowest category (Level 3) as that with the least observable inputs. The three levels are described below.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets.

Level 2 – Quoted prices in markets that are not considered to be active or assets for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include management's own assumptions.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans (continued)

Retirement plan assets' level within the fair value hierarchy is based on the lowest level of any input that is significant to the assets' fair value measurement. The fair value of the plan's assets, by level, is as follows at June 30:

	2023			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Plan assets at fair value:				
Mutual funds	\$ 8,972	\$ –	\$ –	\$ 8,972
Collective investment funds	–	25,454	–	25,454
Company common stock	–	–	33,673	33,673
Money market securities	–	983	–	983
Total plan assets at fair value	<u>\$ 8,972</u>	<u>\$ 26,437</u>	<u>\$ 33,673</u>	<u>\$ 69,082</u>

	2022			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Plan assets at fair value:				
Mutual funds	\$ 3,867	\$ –	\$ –	\$ 3,867
Collective investment funds	–	34,623	–	34,623
Company common stock	–	–	30,967	30,967
Money market securities	–	1,355	–	1,355
Total plan assets at fair value	<u>\$ 3,867</u>	<u>\$ 35,978</u>	<u>\$ 30,967</u>	<u>\$ 70,812</u>

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

7. Retirement Benefit Plans (continued)

The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for the years ended June 30:

	<u>2023</u>	<u>2022</u>
	<i>(In Thousands)</i>	
<u>Company common stock</u>		
Balance at beginning of year	\$ 30,967	\$ 24,954
Unrealized gain	2,706	6,013
Balance at end of year	<u>\$ 33,673</u>	<u>\$ 30,967</u>

The Company common stock fair value has been determined using standard valuation techniques, including discounted cash flow, capital market, business transaction and asset accumulation methods. The significant inputs for the valuation models include financial statement forecasts derived from Company data, weighted-average cost of capital, real estate appraisals, and comparable industry and market data. The inputs into determination of fair value require significant judgement and estimation. Due to uncertainties in the estimation process, it is possible that actual results could differ from those estimates.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

8. Defined Contribution Retirement Plans

The Company has active and frozen defined contribution retirement plans covering all eligible employees.

The active defined contribution plans include a qualified 401(k) plan and non-qualified deferred compensation plans. Under these plans, the Company matching contributions are up to 4% of qualified earnings with an additional 4% annual contribution regardless of employee contributions. Employees classified as highly compensated under the Internal Revenue Code (IRC) may choose to participate in the deferred compensation plan in full or in addition to the 401(k) plan. Contributions under both plans are invested, at the employees' direction, among a variety of investment alternatives. Participants are immediately vested in their matching contributions while the 4% annual contributions vest after three years of employment. The 401(k) plan is fully funded. The deferred compensation plan is partially funded. Company contributions to the plans are \$2,784,000 and \$2,693,000 for the years ended June 30, 2023 and 2022, respectively.

The frozen defined contribution plans include a qualified profit sharing plan and non-qualified profit sharing plans.

Net accrued liabilities related to the plans are \$12,163,000 and \$11,564,000 at June 30, 2023 and 2022, respectively.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

9. Stock Incentive Plans

The Company maintains stock-based incentive plans for key management. The plans allow for stock-based compensation awards, including awards of common equity shares, restricted equity shares, stock options and stock appreciation rights.

The Company awarded 3,929 common equity shares with immediate vesting during the year ended June 30, 2023.

The Company awarded 2,740 restricted equity shares with immediate vesting during the year ended June 30, 2022. Under the terms of the agreements, the Company may at any time repurchase some or all of the holders' shares. The holders may, at designated times during the year, require the Company to repurchase some or all of the holders' shares. The purchase price for any shares repurchased by the Company shall be the most recent semiannually prepared fair value. This valuation requires unobservable inputs classifying it in Level 3 of the fair value hierarchy (see Note 7). The Company recognizes stock-based compensation expense at the date of grant using the fair value method.

On December 10, 2021, the Company modified its restricted stock awards held over one year. The modified awards are equity classified.

The expense associated with the awards and restriction removal is included in total stock-based compensation expense. Stock-based compensation expense was \$10,454,000 and \$28,103,000 for the years ended June 30, 2023 and 2022, respectively.

In prior years, the Company awarded incentive stock options (ISOs) that allow for stock appreciation rights (SARs). These options have fully vested. The holders may exercise the vested portion of the units. Similar to the restricted common stock awards, shares resulting from this exercise may be repurchased by the Company, and the holders of those same shares may require the Company to repurchase some or all of the shares. The Company recognizes stock-based compensation expense for the appreciation of the exercisable and outstanding options and rights using the intrinsic value measurement method based on the fair value of the Company's common stock.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

9. Stock Incentive Plans (continued)

Information regarding the units under the ISO and SAR stock-based compensation plans is as follows:

	<u>2023</u>	<u>2022</u>
Units outstanding at beginning of year	22,188	29,838
Exercised	(11,038)	(7,650)
Units outstanding at end of year	11,150	22,188
Units exercisable at end of year	11,150	22,188

Units and exercise price per unit by year of grant under the ISO and SAR-based compensation plans are as follows:

	<u>Units</u>	<u>Exercise Price Per Unit</u>
2013 Grant	1,100	\$ 550
2014 Grant	2,025	\$ 570
2015 Grant	2,235	\$ 500
2016 Grant	2,740	\$ 530
2017 Grant	3,050	\$ 580
Units outstanding at June 30, 2023	11,150	

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

10. Income Taxes

The components of income tax expense from continuing operations are as follows for the years ended June 30:

	Current	2023 Deferred	Total
	<i>(In Thousands)</i>		
Federal	\$ 995	\$ 2,647	\$ 3,642
State	146	(25)	121
	<u>\$ 1,141</u>	<u>\$ 2,622</u>	<u>\$ 3,763</u>
	Current	2022 Deferred	Total
	<i>(In Thousands)</i>		
Federal	\$ 14,552	\$ (2,450)	\$ 12,102
State	1,863	1,429	3,292
	<u>\$ 16,415</u>	<u>\$ (1,021)</u>	<u>\$ 15,394</u>

Intraperiod tax allocation rules require the Company to allocate the provision for income taxes between continuing operations and other categories of earnings, such as discontinued operations. As a result, the Company recorded a tax benefit of approximately \$16,983,000 in discontinued operations related to the sale of the Company's wholly owned Australian entities as of June 30, 2022.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

10. Income Taxes (continued)

The major elements contributing to the difference between the reported income tax expense (benefit) from continuing operations and income taxes computed at the U.S. federal statutory tax rate of 21% are as follows for the years ended June 30:

	2023		2022			
	<i>(In Thousands, Except Percentages)</i>					
Statutory rate	\$	3,084	21.0 %	\$	17,147	21.0 %
State income tax, net of federal tax		827	5.6 %		2,751	3.4 %
Foreign-derived income deduction		1,654	11.3%		(4,414)	(5.4)%
Non-deductible settlement payment		–	– %		1,978	2.4 %
Share-based compensation		(45)	(0.3)%		(1,790)	(2.2)%
Tax credits		(1,736)	(11.8)%		(398)	(0.5)%
Other items, net		(21)	(0.2)%		120	0.2 %
Effective tax rate	\$	3,763	25.6 %	\$	15,394	18.9 %

The components of deferred tax assets (liabilities) are as follows at June 30:

	2023		2022		
	<i>(In Thousands)</i>				
Deferred tax assets:					
Compensation and employee benefit accruals	\$	6,398		\$	5,992
Pension and postretirement medical liability		4,095			6,329
Tax credit carryforwards		5,699			5,070
Inventories		6,274			3,795
Research expenditures		1,191			–
Accrued liabilities		1,401			1,696
Other		417			1,400
Total deferred tax assets		25,475			24,282
Valuation allowance		(4,685)			(4,685)
Net deferred tax assets		20,790			19,597
Deferred tax liabilities:					
Depreciation and amortization		(36,801)			(31,097)
Investment basis difference		(6,206)			(6,053)
Total deferred tax liabilities		(43,007)			(37,150)
Total net deferred tax liabilities	\$	(22,217)		\$	(17,553)

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

10. Income Taxes (continued)

The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax basis, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax laws and rates on deferred tax assets and liabilities is recognized in the results of operations in the period that includes the related enactment date.

As of June 30, 2023, the Company has available unused California Enterprise Zone tax credits of approximately \$372,000 which expire at various dates from 2026 through 2029.

The Company has recorded a valuation allowance of approximately \$4,685,000 for the years ended June 30, 2023 and 2022 related to foreign tax credits. In assessing whether its deferred tax assets are realizable, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjusts the valuation allowance accordingly.

The Company does not have any uncertain tax positions.

The Company files income tax returns in several tax jurisdictions, including the United States and California and is subject to routine audits by taxing authorities in the jurisdictions in which it files. As of June 30, 2023, tax years 2014 and 2016 through 2019 are under examination by the Internal Revenue Service and tax years 2012 and 2013 are under examination by the California Franchise Tax Board. The Company has extended the statute of limitations on its federal income tax returns for 2016 through 2019 to June 30, 2024 and California's 2012 through 2014 income tax returns to June 30, 2024.

J.G. Boswell Company

Notes to Consolidated Financial Statements (Continued)

June 30, 2023 and 2022

11. Commitments and Contingencies

Other Commitments

The Company has a long-term purchase contract that includes annual fixed payment terms for fifty years with an option to extend for an additional fifty years. Every tenth year, the fixed payment amount is subject to reassessments. Expenditures related to this agreement were \$2,201,000 and \$2,172,000 for the years ended June 30, 2023 and 2022, respectively.

Litigation

The Company is subject to various legal proceedings and claims arising from the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management believes that the ultimate resolution will not have a material adverse effect on the Company's financial position.

12. Subsequent Events

Subsequent events have been evaluated through October 11, 2023, the date the financial statements were available to be issued.

In September 2023, the Company amended its unsecured line of credit to increase the available balance to \$150,000,000. The date of expiration remains unchanged as January 2026.

The Company filed Prevented Planting claims on certain crops that were prevented from being planted due to adverse weather conditions. In the first quarter of fiscal year 2024, the Company received \$45,364,000 in net Prevented Planting insurance proceeds related to the 2023 Pima crop. These net proceeds will be recognized in the year ending June 30, 2024.

Supplementary Information

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation

	June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 92	\$ 16,261
Short-term investments	–	64,459
Trade receivables, net	52,290	81,912
Inventories	205,934	118,287
Growing crops	110,831	146,689
Prepaid expenses and other	21,594	17,593
Total current assets	<u>390,741</u>	<u>445,201</u>
Other assets:		
Right-of-use assets – operating leases	2,751	1,526
Other assets	9,738	9,333
Total other assets	<u>12,489</u>	<u>10,859</u>
Property, plant and equipment, at cost:		
Buildings and improvements	230,899	219,216
Machinery and equipment	472,307	457,069
Orchards	248,973	205,556
Less accumulated depreciation and amortization	(556,498)	(528,197)
	<u>395,681</u>	<u>353,644</u>
Land and related water investments	106,048	106,048
Net property, plant and equipment	<u>501,729</u>	<u>459,692</u>
Total assets	<u>\$ 904,959</u>	<u>\$ 915,752</u>

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation (Continued)

	June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Liabilities and stockholders' equity		
Current liabilities:		
Note payable	\$ 5,000	\$ –
Accounts payable trade	38,358	44,809
Accrued liabilities	37,267	42,457
Total current liabilities	<u>80,625</u>	<u>87,266</u>
Noncurrent liabilities:		
Accrued employee benefits and other	16,881	26,186
Lease liabilities – operating leases	1,522	1,012
Deferred tax liability – net	22,217	17,553
Total noncurrent liabilities	<u>40,620</u>	<u>44,751</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, without par value:		
Authorized shares – 2,500,000		
Issued and outstanding shares – 977,410 (977,778 in 2022)	93,581	89,168
Retained earnings	689,979	701,373
Accumulated other comprehensive income (loss)	154	(6,806)
Total stockholders' equity	<u>783,714</u>	<u>783,735</u>
Total liabilities and stockholders' equity	<u>\$ 904,959</u>	<u>\$ 915,752</u>

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation (Continued)

	Year Ended June 30	
	2023	2022
	<i>(In Thousands, Except Share Information)</i>	
Sales	\$ 382,156	\$ 475,585
Cost of sales	342,523	353,421
General and administrative	26,520	40,296
Operating income	<u>13,113</u>	<u>81,868</u>
Other income (expense):		
Net interest expense	(504)	(988)
Net gain on sale of assets	1,913	1,521
Other	166	(749)
	<hr/>	
Income before taxes	14,688	81,652
Income tax expense (benefit)	3,763	(1,589)
Net income	<u>\$ 10,925</u>	<u>\$ 83,241</u>
	<hr/>	
Basic earnings per share	<u>\$ 11.16</u>	<u>\$ 85.05</u>
	<hr/>	
Diluted earnings per share	<u>\$ 11.10</u>	<u>\$ 84.13</u>
	<hr/>	
Weighted-average shares outstanding – basic	978,587	978,630
Weighted-average shares outstanding – diluted	984,341	989,410