Centric
Group

October 29, 2013

State of West Virginia
Department of Corrections
1409 Greenbrier Street
Charleston, WV 25311

RE: Financial Statements; Keefe Commissary Network, L.L.C.

Dear Sir or Madam:

Please find attached the 2012 and 2011 Keefe Commissary Network, L.L.C. Financial Statements. Keefe Commissary Network, L.L.C. is a privately held company; therefore we ask that you keep these financial statements in the strictest confidence.

Please note that Footnote #2 on the report has been redacted due to sensitivity with a prior year acquisition; this redaction does not alter the financial position presented on the financial statements and other supporting footnotes of Keefe Commissary Network, L.LC.

Keefe Commissary Network, L.L.C. is wholly owned by Centric Group, L.L.C.

Feel free to contact me at 314.214.2700 or by e-mail at rwilley@centricgroup.com.

Sincerely,

Russell A. Willey

Russell A. Willey
L.L.C. Manager

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Financial Statements

Keefe Commissary Network, LLC
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Keefe Commissary Network, LLC

Financial Statements

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Directors and Member
Keefe Commissary Network, LLC

We have audited the accompanying financial statements of Keefe Commissary Network, LLC (the Company) which comprise the balance sheets as of December 31, 2012 and December 31, 2011, and the related statements of income and comprehensive income, changes in member's net investment, 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keefe Commissary Network, LLC at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 28, 2013

Keefe Commissary Network, LLC

Balance Sheets

	December 31 2012	December 31 2011
Assets		
Current assets:		
Cash	$ **10,344,214**	$ 2,089,603
Restricted cash	**3,257,272**	–
Trade accounts receivable, net	**25,904,670**	27,656,374
Due from affiliates	**2,065,404**	–
Inventories	**16,892,341**	17,284,593
Prepaid expenses and other assets	**815,812**	776,121
Total current assets	**59,279,713**	47,806,691
Property and equipment:		
Buildings and improvements	**17,173**	17,173
Equipment	**35,050,047**	28,133,480
Furniture and fixtures	**1,180,429**	1,047,680
Leasehold improvements	**2,949,324**	2,834,459
	39,196,973	32,032,792
Less accumulated depreciation	**25,895,342**	20,314,366
Property and equipment, net	**13,301,631**	11,718,426
Other assets	**1,829,793**	–
Total assets	$ **74,411,137**	$ 59,525,117
Liabilities and Centric Group, LLC Investment		
Current liabilities:		
Accounts payable and accrued expenses	$ **7,040,571**	$ 5,189,273
Accrued salaries and commissions	**1,954,836**	702,718
Restricted funds for third parties	**2,148,844**	–
Due to affiliates	**639,280**	2,199,011
Total short-term liabilities	**11,783,531**	8,091,002
Long-term liabilities:		
Notes payable to parent	**15,000,000**	–
Total long-term liabilities	**15,000,000**	–
Member's Investment	**47,627,606**	51,434,115
	$ **74,411,137**	$ 59,525,117

See accompanying notes.

Keefe Commissary Network, LLC

Statements of Income and Comprehensive Income

	December 31 2012	December 31 2011
Net sales	**$ 375,763,394**	$ 367,900,060
Cost of sales	**270,196,818**	265,968,320
Gross profit	**105,566,576**	101,931,740
Expenses:		
Selling	**14,827,526**	14,726,544
Warehousing	**3,775,065**	3,847,061
General and administrative	**45,859,824**	47,006,430
	64,462,415	65,580,035
Net income and comprehensive income	**$ 41,104,161**	$ 36,351,705

See accompanying notes.

Keefe Commissary Network, LLC

Statement of Member's Net Investment

		Centric Investment
Balance at December 31, 2010	$	51,160,332
Net income and comprehensive income		36,351,705
Net advances to Centric Group, LLC		(36,077,922)
Balance at December 31, 2011		51,434,115
Net income and comprehensive income		**41,104,161**
Net advances to Centric Group, LLC		**(44,910,670)**
Balance at December 31, 2012	$	**47,627,606**

See accompanying notes.

Keefe Commissary Network, LLC

Statements of Cash Flows

	December 31 2012	December 31 2011
Operating activities		
Net income	$ **41,104,161**	$ 36,351,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,580,976**	5,433,997
Changes in assets and liabilities:		
Accounts receivable, trade	**1,751,704**	(2,698,445)
Due from affiliates	**(2,065,404)**	–
Inventories	**392,252**	(2,519,626)
Prepaid expenses and other assets	**(1,869,484)**	(484,803)
Due to affiliates	**(1,559,731)**	65,147
Accounts payable	**1,851,298**	1,941,682
Accrued salaries and commissions	**1,252,118**	11,506
Net cash provided by operating activities	**46,737,890**	38,101,163
Investing activities		
Additions to property and equipment	**(7,164,181)**	(8,053,975)
Net cash used in investing activities	**(7,164,181)**	(8,053,975)
Financing activities		
Change in restricted funds for third parties	**(1,108,428)**	–
Note payable to parent company	**15,000,000**	–
Net advances to Centric Group, LLC	**(44,910,670)**	(36,077,922)
Net cash used in financing activities	**(31,019,098)**	(36,077,922)
Net increase (decrease) in cash	**8,254,611**	(6,030,734)
Cash, beginning of year	**2,089,603**	8,120,337
Cash, end of year	$ **10,344,214**	$ 2,089,603

See accompanying notes.

Keefe Commissary Network, LLC

Notes to Financial Statements

December 31, 2012 and 2011

1. Summary of Significant Accounting Policies

Lines of Business

The primary line of business of Keefe Commissary Network, LLC (the Company) is the sale and distribution of food and other products to inmates located in prisons throughout the United States and includes the operations of Access Securepak and Access Corrections. The Company is a limited liability company (LLC) whose sole member is Centric Group, LLC (Centric).

Significant intercompany accounts and transactions between operations within the Company have been eliminated. The financial statements include allocations of common costs and general management services from Centric as discussed in Note 4.

Subsequent Events

The Company evaluated the effect of all subsequent events from December 31, 2012 through March 28, 2013, the date the consolidated financial statements were available for issuance.

Cash

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash.

Restricted Cash

Restricted cash consists of cash being held on behalf of correctional facilities in fiduciary bank accounts in the amount of $2,148,844 at December 31, 2012. The Company has its own cash held on reserve of $1,108,428 to meet state requirements for money transmitter licenses.

Accounts Receivable

The Company's accounts receivable are recorded at the amounts invoiced to customers, less an allowance for doubtful accounts. Management estimates the allowance based on a review of the portfolio. Accounts are written off to the allowance for doubtful accounts once collection efforts are exhausted. The allowance for doubtful accounts was $149,722 and $496,635 at December 31, 2012 and 2011.

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories, which consist primarily of finished goods held-for-sale, are valued at the lower of cost (first-in, first-out and average cost methods) or market.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	15 to 20 years
Equipment	3 to 10 years
Furniture and fixtures	5 years
Software	3 years

Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvements.

The Company capitalizes into equipment certain costs incurred in connection with the development or acquisition of software for internal use. Depreciation expense related to computer software was $1,940,026 and $1,580,937 in 2012 and 2011, respectively.

Other Assets

Other assets consist of definite-life intangible assets being amortized over five years (see Note 3).

Long-Lived Assets

The Company evaluates impairment on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the estimated undiscounted cash flows to be generated by such assets are less than their book value. Losses are recorded if the discounted cash flow value is less than the carrying value. No long-lived asset impairment charges were recorded during 2012 and 2011.

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recorded when title passes to the customer, generally upon shipment. The Company records all revenues related to shipping and handling fees to the statements of income and comprehensive income in cost of sales.

Advertising

Advertising and sales promotion costs are expensed as incurred. The Company incurred advertising and promotion expenses of $1,257,277 and $1,355,988 for the years ended December 31, 2012 and 2011, respectively.

Income Taxes

The Company has elected to be taxed as a partnership through December 31, 2012. As a result, no income tax expense is reflected in the accompanying financial statements. See Note 8 for information regarding the change in Centric's (the Parent Company) income tax status in 2013.

Use of Estimates

The preparation of 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 financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Standards

In June 2011, the FASB issued changes to the requirements for reporting comprehensive income. These changes are included in Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income: Presentation of Comprehensive Income*. ASC Topic 220 requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive net income or in two separate but consecutive statements. Regardless of which method an entity chooses, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to

1. Summary of Significant Accounting Policies (continued)

net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other changes to ASC Topic 220 were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (January 1, 2012 for the Company). The adoption of this standard did not impact the Company's consolidated financial condition or results of operations.

2.

3. Intangible Assets

Intangibles consist of the following at December 31, 2012:

	Balance at December 31, 2011	Additions 2012	Amortization 2012	Balance at December 31, 2012
		(In Thousands)		
Definite-life intangible assets:				
Supplier contract	$ –	$ 1,871	$ (281)	$ 1,590
Software	–	300	(60)	240
Total	$ –	$ 2,171	$ (341)	$ 1,830

Total amortization expense for the year ended December 31, 2012 was $341,139. The Company is amortizing the supplier contracts and software over five years, the estimated useful life of the assets. The remaining weighted-average useful life of the amortizable intangible assets is four years as of December 31, 2012.

3. Intangible Assets (continued)

Estimated amortization expense for the next five years and thereafter is as follows:

Year ending December 31:	
2013	$ 434,064
2014	434,064
2015	434,064
2016	434,064
2017	93,537
Thereafter	–
	$ 1,829,793

4. Transactions with Member and Affiliates

Centric, the Company's sole member, and an affiliated company also owned by Centric, perform certain management and selling, general, and administrative services for the Company. Expenses are allocated based on Centric's best estimate of proportional or incremental costs, whichever is more representative of costs incurred by Centric on behalf of the Company. The Company was charged $10,861,106 and $9,227,288 for the years ended December 31, 2012 and 2011, respectively, for such services. As of December 31, 2012 and 2011, the Company had an outstanding balance due to affiliates of $639,280 and $2,199,011, respectively. The Company also had an outstanding balance due from affiliates of $2,065,404 at December 31, 2012.

5. Note Payable – Due to Parent

At December 31, 2012, the Company entered into a note payable agreement with the Parent Company for $15 million. The note is a demand note and no principal payments are due in 2013. Effective January 1, 2013, interest will be paid monthly and will be determined by Centric annually based on market conditions and Centric's interest costs.

6. Benefit Plans

The Company participates in a profit-sharing plan and a 401(k) plan maintained by Centric (collectively, the Plans). The Plans generally cover employees who have met service requirements. Under the profit-sharing plan, the Company may make discretionary contributions not to exceed maximum amounts deductible for federal income tax purposes. Total profit-sharing expense was $2,223,057 and $1,901,667 for the years ended December 31, 2012 and 2011, respectively. The 401(k) plan does not provide for employer contributions.

7. Leases

The Company leases certain operating premises under noncancelable leases expiring at various dates through 2017. Certain of these leases provide for renewal options and/or require the payment of property taxes, insurance, and maintenance. Total rent expense was approximately $2,925,445 and $1,105,987 for the years ended December 31, 2012 and 2011, respectively.

Future minimal rentals committed under all such leases in effect at December 31, 2012, with noncancelable terms in excess of one year are as follows:

December 31:	
2013	$ 877,441
2014	768,871
2015	779,321
2016	418,833
2017	80,979
Thereafter	–
	$ 2,929,445

8. Subsequent Event (unaudited)

As of January 1, 2013, Centric has elected to be taxed as a C Corporation under the provisions of the Internal Revenue Code and similar provisions of state tax laws. The Company is a part of the consolidated Centric income tax return. FASB ASC 740, *Income Taxes*, specifies that the amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when the members issue separate financial statements. As a result, the Company has a net deferred tax asset of $13,708,760 as of January 1, 2013 that will be recorded to the financial statements for fiscal year 2013.

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