SECURITIES & EXCHANGE COMMISSION EDGAR FILING

New Age Beverages Corp

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 21, 2018

New Age Beverages Corporation
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of incorporation)

001-38014	**27-2432263**
(Commission File Number)	(IRS Employer Identification No.)

1700 E. 68th Avenue, Denver, CO 80229
(Address of principal executive offices) (Zip Code)

(303) 289-8655
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging Growth Company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in the Exhibits to this Amendment No. 1 to Current Report on Form 8-K (this "Amendment") are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include, but are not limited to, statements regarding the business and financial prospects of Morinda Holdings, Inc. ("Morinda"), the amount of contingent consideration that will be payable pursuant to our Series D Preferred Stock, the likelihood of future financing developments that will trigger payments of up to $25.0 million of additional consideration to the former Morinda shareholders, our estimated or anticipated future results, and future opportunities. These statements are based on various assumptions and on the current expectations of management and are not predictions of actual performance, nor are these statements of historical facts. These statements are subject to a number of risks and uncertainties regarding our business, and actual results may differ materially. These risks and uncertainties include, but are not limited to, changes in the business environment in which we operate, including inflation and interest rates, and general financial, economic, regulatory and political conditions affecting the industry in which we operate; changes in taxes, governmental laws, and regulations; competitive product and pricing activity; difficulties of managing growth profitably; the loss of one or more members of our management team; and those discussed under the heading "Risk Factors," as updated from time to time by our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and other documents we file with the Securities and Exchange Commission. There may be additional risks that we presently know or that we currently believe are immaterial that could also cause actual results to differ from those contained in the forward-looking statements. In addition, forward-looking statements provide our expectations, plans or forecasts of future events and views as of the date of this communication. We anticipate that subsequent events and developments will cause our assessments to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so. These forward-looking statements should not be relied upon as representing our assessments as of any date subsequent to the date of this communication.

Explanatory Note

This Amendment No. 1 on Form 8-K/A (the "Amendment") amends the Current Report on 8-K filed by New Age Beverages Corporation (the "Company") with the Securities and Exchange Commission on December 27, 2018 (the "Original 8-K"). This Amendment amends the Original 8-K to include the financial statements and proforma financial information required by Item 9.01(a) and Item 9.01(b) of Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.* In accordance with Item 9.01(a), (i) audited financial statements of Morinda Holdings, Inc. ("Morinda") for the prior two fiscal years ended December 31, 2017 and 2016, are filed herewith as Exhibit 99.1, and (ii) unaudited financial statements of Morinda for the nine-month interim periods ended September 30, 2018 and 2017, are filed herewith as Exhibit 99.2.

(b) *Pro Forma Financial Information*.

Unaudited pro forma condensed combined financial information of New Age Beverages Corporation (the "Company") and Morinda, as of September 30, 2018, for the nine months ended September 30, 2018, and for the year ended December 31, 2017, are filed herewith as Exhibit 99.3.

(d) Exhibits.

The exhibit listed in the following Exhibit Index is filed as part of this Current Report on Form 8-K.

Exhibit	Description
23.1	Consent of Deloitte & Touche LLP
99.1	Audited financial statements of Morinda for the fiscal years ended December 31, 2017 and 2016
99.2	Unaudited financial statements of Morinda for the nine-month interim periods ended September 30, 2018 and 2017
99.3	Unaudited pro forma condensed combined financial information of the Company and Morinda, as of September 30, 2018, for the nine months ended September 30, 2018, and for the year ended December 31, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NEW AGE BEVERAGES CORPORATION

Date: March 1, 2019

By: /s/ Gregory A. Gould

Gregory A. Gould
Chief Financial Officer

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-219341 on Form S-3 of our report dated June 21, 2018, relating to the financial statements of Morinda Holdings, Inc. and Subsidiaries as of and for the years ended December 31, 2017 and 2016, appearing in this Current Report on Form 8-K/A of New Age Beverages Corporation.

/s/Deloitte & Touche LLP

Salt Lake City, Utah
March 1, 2019

Exhibit 99.1

Morinda Holdings, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of

Morinda Holdings, Inc. and Subsidiaries

American Fork, Utah

We have audited the accompanying consolidated financial statements of Morinda Holdings, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Morinda Holdings, Inc. and its subsidiaries as of December 31, 2017 and 2016, 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.

Deloitte & Touche LLP

June 21, 2018

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 42,088,306	$ 33,262,343
Certificates of deposit	215,961	555,775
Accounts receivable—net	4,389,867	3,282,766
Other receivables	937,761	1,015,607
Inventories	20,906,169	20,319,693
Prepaid expenses and other assets	4,282,640	4,389,228
Total current assets	72,820,704	62,825,412
PROPERTY, PLANT AND EQUIPMENT—Net	42,658,637	41,652,312
RESTRICTED CASH	3,291,845	3,100,837
OTHER NONCURRENT ASSETS	2,643,153	2,505,101
DEFERRED INCOME TAX ASSETS—Net	1,036,322	1,000,762
TOTAL	$ 122,450,661	$ 111,084,424

(Continued)

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,317,012	$ 6,788,715
Accrued commissions	10,237,193	9,024,705
Accrued liabilities	13,296,418	12,449,949
Current portion of notes payable	1,287,600	1,367,649
Income taxes payable	1,368,093	1,855,525
Other liabilities	1,957,679	3,150,362
Total current liabilities	34,463,995	34,636,905
NOTES PAYABLE—Net of current portion	2,575,200	3,727,950
OTHER NONCURRENT LIABILITIES	5,931,780	5,778,483
DEFERRED INCOME TAX LIABILITIES—Net	1,620,088	1,459,671
Total liabilities	44,591,063	45,603,009
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 10 and 11)		
SHAREHOLDERS' EQUITY:		
Common stock—no par value; 100,000,000 shares authorized, and 43,216,216 issued and outstanding at December 31, 2017 and 2016	29,292,021	29,292,021
Accumulated other comprehensive income	4,108,270	875,759
Retained earnings	44,459,307	35,313,635
Total shareholders' equity	77,859,598	65,481,415
TOTAL	$ 122,450,661	$ 111,084,424

See notes to consolidated financial statements. (Concluded)

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES—Net	$ 229,152,602	$ 227,186,676
COST OF SALES	44,943,671	47,090,870
GROSS PROFIT	184,208,931	180,095,806
OPERATING EXPENSES:		
Commission expense	88,823,210	87,928,593
Selling, general, and administrative expenses	79,415,975	76,708,501
Foreign currency (gains) losses—net	(530,099)	681,065
Total operating expenses	167,709,086	165,318,159
INCOME FROM OPERATIONS	16,499,845	14,777,647
OTHER INCOME (EXPENSE):		
Interest income	199,221	174,650
Interest expense	(48,143)	(154,050)
Other—net	217,251	(953,321)
Total other income (expense)—net	368,329	(932,721)
INCOME BEFORE INCOME TAX EXPENSE	16,868,174	13,844,926
INCOME TAX EXPENSE	4,881,875	4,256,489
NET INCOME	$ 11,986,299	$ 9,588,437

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET INCOME	$ 11,986,299	$ 9,588,437
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (NET OF TAX)	3,242,884	(681,884)
DEFINED BENEFIT PENSION PLANS (NET OF TAX)	(10,373)	(27,152)
Total other comprehensive gain (loss)	3,232,511	(709,036)
TOTAL COMPREHENSIVE INCOME	$ 15,218,810	$ 8,879,401

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock		Accumulated Other Comprehensive Income	Retained	
	Shares	Amount	(Loss)	Earnings	Total
BALANCE—January 1, 2016	43,216,216	$ 29,292,021	$ 1,584,795	$ 27,885,380	$ 58,762,196
Net income				9,588,437	9,588,437
Other comprehensive loss—net of tax			(709,036)		(709,036)
Dividends				(2,160,182)	(2,160,182)
BALANCE—December 31, 2016	43,216,216	29,292,021	875,759	35,313,635	65,481,415
Net income				11,986,299	11,986,299
Other comprehensive income—net of tax			3,232,511		3,232,511
Dividends				(2,840,627)	(2,840,627)
BALANCE—December 31, 2017	43,216,216	$ 29,292,021	$ 4,108,270	$ 44,459,307	$ 77,859,598

See notes to consolidated financial statements.

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,986,299	$ 9,588,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,540,957	2,905,302
Provision for doubtful accounts	122,382	154,196
Gain on sale of property, plant, and equipment	(130,849)	(110,130)
Deferred income taxes	150,269	(214,775)
Foreign currency remeasurement (gains) losses	(530,099)	681,065
Changes in assets and liabilities:		
Accounts receivable	(1,229,483)	1,073,065
Other receivables	73,734	545,664
Inventories	(870,505)	1,648,902
Prepaid expenses and other assets	33,270	(501,489)
Other noncurrent assets	19,220	440,207
Accounts payable	(240,145)	(152,120)
Accrued commissions	1,212,488	(399,665)
Accrued liabilities	793,673	(694,791)
Income taxes payable	(487,432)	622,406
Other liabilities	(1,192,683)	848,309
Other noncurrent liabilities	265,706	525,993
Net cash provided by operating activities	12,516,802	16,960,576
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(1,946,293)	(2,542,794)
Proceeds from sale of property, plant, and equipment	228,734	349,517
Change in certificates of deposit	339,814	250,189
Change in restricted cash		(19,437)
Net cash used in investing activities	(1,377,745)	(1,962,525)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(1,075,092)	(1,740,586)
Dividends	(2,840,627)	(2,160,182)
Net cash used in financing activities	(3,915,719)	(3,900,768)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1,602,625	(523,369)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,825,963	10,573,914
CASH AND CASH EQUIVALENTS—Beginning of year	33,262,343	22,688,429
CASH AND CASH EQUIVALENTS—End of year	$ 42,088,306	$ 33,262,343

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid during the year for:		
Interest	$ 47,888	$ 153,568
Income taxes	$ 6,206,351	$ 2,663,627
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property plant, and equipment purchases included in accounts payable	$ 11,376	$ 242,934

See notes to consolidated financial statements. (Concluded)

1. BUSINESS OPERATIONS

Morinda Holdings, Inc. and subsidiaries (collectively, the “Company”) is primarily engaged in the development, manufacturing, and marketing of Tahitian Noni® Juice, MAX and other noni beverages (the Company’s primary products) as well as other nutritional, cosmetic and personal care products. The majority of the Company’s products have a component of the Noni plant, Morinda Citrifolia, (“Noni”) as a common element. The Company primarily sells and distributes its products to an independent sales force through a network marketing arrangement.

The Company is based in the United States and markets and sells its products in more than 60 countries throughout the world.

Domestically, the Company is subject to regulation from a number of governmental agencies, including the U.S. Food and Drug Administration; Federal Trade Commission; Consumer Product Safety Commission; federal, state, and local taxing agencies; and others. The Company is also subject to regulations from a number of foreign government agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the financial statements of Morinda Holdings, Inc., and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparing Consolidated Financial Statements—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or GAAP) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include sales returns and allowances, inventory obsolescence, contingencies, the valuation and recoverability of long-lived tangible assets, and income and other taxes. Actual results may differ from current estimates and those differences may be material.

Cash and Cash Equivalents—The Company considers all highly liquid short-term investments with remaining maturities of three months or less at the date of acquisition by the Company to be cash equivalents.

The Company’s cash and cash equivalents balances by country as of December 31, 2017 and 2016, consisted of the following:

	2017	2016
Cash and cash equivalents:		
China	$ 22,003,076	$ 12,683,877
Japan	5,834,582	7,280,774
United States	10,113,924	9,390,650
Other	4,136,724	3,907,042
Total cash and cash equivalents	$ 42,088,306	$ 33,262,343

Restricted Cash—Restricted cash represents long-term cash deposits held in a bank for a foreign governmental agency to enable the Company to maintain its direct selling license to do business in that foreign country.

Certificates of Deposit—Certificates of deposit are unrestricted and have a remaining maturity date of less than one year.

Fair Value Measurements—The Company records certain financial instruments at fair value. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs. This accounting guidance establishes a fair value hierarchy used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1—Quoted market prices in active markets for identical assets or liabilities

Level 2—Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3—Unobservable inputs that are not corroborated by market data

The fair values of the Company’s cash and cash equivalents, certificates of deposit, restricted cash, interest rate swap and notes payable approximate their carrying values as of December 31, 2017 and 2016. The Company’s interest rate swap is recorded at fair market value and has been classified as a Level 2 investment. The Company had no nonrecurring assets and liabilities measured at fair value as of December 31, 2017 and 2016.

Inventories—Inventories consist of the costs associated with the purchase of raw materials and the manufacturing and transportation of products. Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method.

Property, Plant, and Equipment—Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets and approximated \$2,541,000 and \$2,905,000 for the years ended December 31, 2017 and 2016, respectively. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the related assets or the lease term. The straight-line method is generally followed for depreciation purposes.

Expenditures that significantly improve or extend the life of an asset are capitalized. The costs of routine repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets—The Company evaluates the carrying value of long-lived assets based upon current and anticipated undiscounted cash flows and recognizes an impairment when such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. There were no impairments in 2017 and 2016.

Comprehensive Income—Comprehensive income represents changes in shareholders' equity resulting from transactions other than shareholder investments and distributions. Included in accumulated other comprehensive income are changes in equity that are excluded from the Company's net income, specifically, gains and losses on foreign currency translation adjustments and applicable amounts associated with the Company's defined benefit pension plans (see Note 8 and 13).

Intercompany Receivables—As of December 31, 2017 and 2016, the Company has approximately \$20,950,000 of intercompany receivables due from certain foreign entities classified as long-term as management does not believe that these balances will be settled in the foreseeable future. These balances have been eliminated in consolidation; however, all translation gains/losses on these intercompany balances are recorded in other comprehensive income.

Income Taxes—Income taxes on net earnings taxed by the United States and various states in which the Company does business are generally payable personally by the shareholders pursuant to an election under Subchapter S of the Internal Revenue Code. Accordingly, no provision has been made for U.S. federal income taxes.

The Company is required to pay taxes to the appropriate governmental entities on profits derived from international operations, including foreign withholding taxes imposed on the repatriation of earnings of the Company's foreign subsidiaries and withholding taxes imposed on royalty payments. The Company has provided for foreign withholding on distributed earnings and on undistributed earnings for certain foreign subsidiaries where there is no intent to permanently reinvest such earnings. As of December 31, 2017 and 2016, the Company has no undistributed earnings from foreign subsidiaries that are indefinitely reinvested. The Company is also responsible for certain state income taxes assessed in states that do not recognize the federal Subchapter S ("S-Corporation") election and for state franchise tax or other taxes assessed at the Company level. The Company's provision for income taxes includes such taxes.

The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement purposes and income tax purposes. The Company also records a valuation allowance for certain tax assets and loss carryforwards when management determines that it does not believe that such assets will more likely than not be realized. The Company also evaluates and records tax contingencies for unrecognized tax benefits.

As of December 31, 2017 and 2016, approximately $360,000 and $597,000, respectively, was recorded for unrecognized tax benefits, which are included in other noncurrent liabilities in the consolidated balance sheets. The Company accounts for interest and penalties related to unrecognized tax benefits as part of the income tax provision (see Note 10).

Revenue Recognition—Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. These criteria are typically met when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for undelivered or back-ordered products are recorded as deferred revenue and are included in other current liabilities.

Sales for an internet subscription are recognized as revenue ratably over the requisite service period.

Revenue includes gross sales price, less estimated returns and allowances for which provisions are made at the time of sale and less certain other discounts, allowances, and personal rebates that are accounted for as a reduction from gross sales.

Shipping and handling charges that are billed to customers are included as a component of revenue and costs incurred by the Company for shipping and handling charges are included in cost of sales.

The Company accounts for volume rebates made to its independent product consultants "IPCs" as a reduction of revenue. Personal volume rebates totaled approximately $8,070,000 and $7,845,000 during 2017 and 2016, respectively.

Deferred Revenue—The Company's policy is to defer revenue related to distributor convention fees, payments received on products ordered in the current year but not delivered until the subsequent year, initial IPC fees, IPC renewal fees and internet subscription fees until the products or services have been provided. These amounts are included in accrued liabilities in the consolidated balance sheets.

Accrued Marketing Events Costs—The Company accrues expenses for incentive trips associated with its direct sales marketing program, which rewards certain IPCs with paid attendance at its conventions, meetings, and retreats. Expenses associated with incentive trips are accrued over qualification periods as they are earned. The Company specifically analyzes incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could result in liabilities being more or less than the amounts recorded. The Company has accrued approximately $4,585,000 and $3,706,000 at December 31, 2017 and 2016, respectively, for these incentives, and such amounts are included in accrued liabilities in the consolidated balance sheets.

Foreign Currency—A majority of the Company's business operations occur outside the United States. The local currency of each of the Company's international subsidiaries and branches is used as its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the consolidated balance sheet date, and revenues and expenses are translated at monthly average exchange rates. The resulting foreign currency translation net adjustments are recorded in accumulated other comprehensive income (AOCI) as a separate component of shareholders' equity in the consolidated balance sheets, except for remeasurement gains (losses) on short-term intercompany borrowings, which are recognized in the consolidated statements of income. The foreign currency gains (losses) recognized in the consolidated statements of income were approximately $530,000 and $(681,000) in 2017 and 2016, respectively.

Derivative Financial Instruments—The Company holds a derivative financial instrument in the form of an interest rate swap. The Company uses interest rate swaps to economically convert variable interest rate debt to a fixed rate. The Company has not designated these derivatives as hedging instruments. The interest rate swaps are recorded in the accompanying consolidated financial statements at their fair value with the unrealized gains/losses recorded in interest expense. The amount of unrealized loss from interest rate swaps at December 31, 2017 and 2016, was approximately $74,000 and $127,000, respectively, and is included in other noncurrent liabilities in the consolidated balance sheets. At December 31, 2017, the Company had one contract for an interest rate swap with a total notional amount of $3,862,800.

Research and Development—All research and development costs are expensed as incurred. Total research and development expenses were approximately $3,800,000 and $6,000,000 for the years ended December 31, 2017 and 2016, respectively, and are included in selling, general, and administrative expenses in the consolidated statements of income.

Recent Accounting Pronouncements—In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the Company to include in its cash and cash-equivalent balances in the statement of cash flows, those amounts that are deemed to be restricted cash and restricted cash equivalents. In addition, the Company is required to explain the changes in the combined total of restricted and unrestricted balances in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, where the guidance should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance on accounting for leases in "Leases (Topic 840)" and generally requires leases to be recognized in the statement of financial position. The standard is effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued authoritative guidance amending the FASB Accounting Standards Codification and creating a new Topic 606, *Revenue from Contracts with Customers*. The new guidance clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The existing industry guidance will be eliminated when the new guidance becomes effective and annual disclosures will be substantially revised. The amendments in the new guidance are effective for annual reporting periods beginning after December 15, 2018. The Company is not expecting to early adopt this guidance and is currently evaluating the effect of adoption of this guidance on its financial statements.

3. INVENTORIES

Inventories at December 31, 2017 and 2016, consisted of the following:

	2017	2016
Raw materials	$ 6,951,539	$ 6,999,034
Work in process	835,144	808,164
Finished goods	13,119,486	12,512,495
Total	$ 20,906,169	$ 20,319,693

4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at December 31, 2017 and 2016, consisted of the following:

	Expected Useful Life (Years)	2017	2016
Computer and telephone equipment	3–5	$ 5,368,430	$ 5,448,211
Machinery and equipment	5–7	12,812,055	12,202,227
Software	3	811,799	1,066,007
Office furniture and other equipment	5–7	4,058,042	4,719,590
Leasehold improvements	1–18	12,437,271	11,779,251
Buildings and improvements	38–40	25,046,808	23,334,596
Transportation equipment	5	2,155,253	1,974,284
Land		17,633,808	17,018,213
Other		65,334	280,628
		80,388,800	77,823,007
Less accumulated depreciation and amortization		(37,730,163)	(36,170,695)
Property, plant, and equipment—net		$ 42,658,637	$ 41,652,312

5. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2017 and 2016, consisted of the following:

	2017	2016
Accrued payroll	$ 3,714,712	$ 3,180,589
Deferred revenue	2,143,656	2,673,953
Accrued marketing events	4,585,009	3,705,632
Restructuring		100,000
Other	2,853,041	2,789,775
Total	$ 13,296,418	$ 12,449,949

6. NOTES PAYABLE

Notes payable at December 31, 2017 and 2016, consisted of the following:

Note payable to a foreign bank, TIBOR plus .7% interest rate (.76%) at December 31, 2017; quarterly principal payments of $321,900, plus interest; payable in Japanese yen and collateralized by buildings and land (through the use of an interest rate swap, the interest rate is fixed at 1.97%)	$ 3,862,800	$ 4,970,600
Note payable to a bank, 3.35% interest rate, monthly principal and interest payments through March 2017; collateralized by equipment	-	124,999
Total notes payable	3,862,800	5,095,599
Less current portion	(1,287,600)	(1,367,649)
Long-term notes payable	$ 2,575,200	$ 3,727,950

Future maturities of notes payable as of December 31, 2017, are as follows:

Years Ending December 31	
2018	$ 1,287,600
2019	1,287,600
2020	1,287,600
Total	$ 3,862,800

7. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company is obligated under operating leases for warehouse space, office space, equipment and vehicles. Lease expense was approximately $6,213,000 and $5,922,000 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under noncancelable operating leases as of December 31, 2017, are summarized as follows:

Years Ending December 31

2018	$ 5,827,106
2019	4,370,995
2020	2,554,721
2021	1,579,340
2022	1,427,772
Thereafter	3,590,864
Total	$ 19,350,798

Contingencies—The Company's operations are subject to numerous governmental rules and regulations in each of the countries it does business. These rules and regulations include a complex array of tax and customs regulations as well as restrictions on product ingredients and claims, the commissions paid to the Company's IPCs, labeling and packaging of products, conducting business as a direct-selling business, and other facets of manufacturing and selling products. In some instances, the rules and regulations may not be fully defined under the law or are otherwise unclear in their application. Additionally, laws and regulations can change from time to time, as can their interpretation by the courts, administrative bodies, and the tax and customs authorities in each country. The Company actively seeks to be in compliance, in all material respects, with the laws of each of the countries in which it does business and expects its IPCs to do the same. The Company's operations are often subject to review by local country tax and customs authorities and inquiries from other governmental agencies. No assurance can be given that the Company's compliance with governmental rules and regulations will not be challenged by the authorities or that such challenges will not result in assessments or required changes in the Company's business that could have a material impact on its business, consolidated financial statements and cash flow.

The Company has various non-income tax contingencies in several countries. Such exposure could be material depending upon the ultimate resolution of each situation. At December 31, 2017 and 2016, the Company has recorded a liability under Accounting Standards Codification (ASC) 450, *Contingencies*, of approximately $915,000 and $1,130,000, respectively.

Legal Proceedings—As part of normal business operations, the Company from time to time is involved in litigation and other disputes. The Company is currently not involved in any legal matters with a reasonably possible exposure at December 31, 2017. Management does not currently anticipate that any pending litigation or dispute against the Company will have a materially adverse effect on the business, operations, or consolidated financial condition of the Company.

Guarantee Deposits—To comply with Korean law, as of December 31, 2017 and 2016, approximately $469,000 and $415,000, respectively, of deposits were provided as collateral to Direct Selling Mutual Aid Co. for guarantee of IPC product returns. Additionally, in Korea, as of December 31, 2017 and 2016, approximately $492,000 and $436,000, respectively, of deposits were provided as collateral to credit card companies for guarantee of IPC payments. Such collateral consists of deposits included in other noncurrent assets in the consolidated balance sheets at December 31, 2017 and 2016.

8. RETIREMENT BENEFITS

Employee Contribution Plans—The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees who are U.S. employees. Employees are eligible to participate in the plan at the beginning of the first full quarter following commencement of employment. The Company matches contributions up to 3% of the participating employee's compensation. The Company's matching contributions vest over four years with 0% vested through the end of the first year of service and 33% vesting evenly in years two through four. Total contributions by the Company to the plan were approximately $391,000 and $402,000 for the years ended December 31, 2017 and 2016, respectively. The Company also makes contributions to employee contribution plans in various other countries in which it operates. For the years ended December 31, 2017 and 2016, total contributions by the Company to foreign employee contribution plans were approximately $981,000 and $999,000, respectively.

Foreign Retirement Benefit Plan—The Company has an unfunded retirement benefit plan in the Company's Japanese branch that entitles substantially all employees in Japan, other than directors, to retirement payments. The Company also has an unfunded retirement benefit plan in Indonesia that entitles all permanent employees to retirement payments.

Employees whose service with the Japanese branch is terminated are, under most circumstances, entitled to retirement benefits determined by reference to basic rates of pay at the time of termination, years of service, and conditions under which the termination occurs. If the termination is involuntary or caused by retirement at the mandatory retirement age of 65, the employee is entitled to a greater payment than in the case of voluntary termination.

Employees in Indonesia whose service is terminated are, under most circumstances, entitled to retirement benefits determined by reference to basic rates of pay at the time of termination, years of service and conditions under which the termination occurs.

The unfunded benefit obligation for the defined benefit pension plans is measured at December 31 in each fiscal year. The total accrued obligation at December 31, 2017 and 2016, was approximately $2,598,000 and $2,425,000, respectively. Such amounts are included in other noncurrent liabilities. The expense related to these plans for 2017 and 2016 was $274,000 and $258,000, respectively. Actual retirement payments during 2017 and 2016 were not significant.

9. CAPITAL STOCK

The Company's authorized capital stock consists of 100,000,000 shares of no par common stock. All of the common stock has the same voting rights and there are no conversion rights associated with the shares.

10. INCOME TAXES

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. As an S-Corporation, the Company is generally not liable for federal and state income taxes. The Company's income is allocated to its shareholders who are responsible for paying the tax on such income. The Company makes cash distributions to the shareholders, which are considered sufficient to pay the tax liabilities the shareholders incur as a result of the S-Corporation election.

The Company is subject to certain state income and franchise taxes that are assessed at the Company level. State income and franchise tax benefit of $20,000 and tax expense of $43,000 was recorded in 2017 and 2016, respectively.

The Company has numerous foreign subsidiaries that are subject to the statutory income tax in their respective tax jurisdictions. The Company has recorded income tax expense attributable to foreign operations of approximately $4,110,000 and $3,865,000 in 2017 and 2016, respectively. In addition, the Company has recorded foreign withholding tax expense associated with intercompany dividend and royalty payments made to the U.S. parent company. Foreign withholding tax expense of approximately $792,000 and $349,000 was recorded in 2017 and 2016, respectively.

The Company's tax expense for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Current	$ 4,731,606	$ 4,471,264
Deferred	150,269	(214,775)
Total	$ 4,881,875	$ 4,256,489

The difference between the income tax expense reported and amounts computed by applying the statutory federal rate of 35% to pretax income for 2017 and 2016 primarily relates to domestic operations that are not subject to income tax due to the Company's S-Corporation status, taxes required in foreign jurisdictions that are taxed at different statutory rates, and valuation allowances recorded on tax benefits from operating losses in foreign jurisdictions.

Deferred tax assets (liabilities) at December 31, 2017 and 2016, consist of the following:

	2017	2016
Deferred tax assets:		
Inventory reserves	$ 85,785	$ 55,964
Accounts payable	1,135	987
Accrued liabilities	1,185,662	1,393,987
Accrued pension costs	985,816	900,947
Property, plant, and equipment	286,848	307,615
Other	154,487	189,995
Foreign net operating loss carryforwards	5,125,455	7,147,228
Valuation allowance	(5,178,287)	(7,513,090)
Total deferred tax assets	2,646,901	2,483,633
Net deferred tax liabilities:		
Property, plant, and equipment	(2,317,842)	(2,339,377)
Foreign withholdings	(800,000)	(535,000)
Accrued pension costs	(69,966)	(68,127)
Other	(42,859)	(38)
Total deferred tax liabilities	(3,230,667)	(2,942,542)
Net deferred tax liability	$ (583,766)	$ (458,909)

Management has provided a valuation allowance of approximately $5,178,000 and $7,503,000 as of December 31, 2017 and 2016, respectively, related to certain international subsidiaries' net deferred income tax assets for which management does not believe it is more likely than not that they will be realized. The valuation allowance decreased by $2,335,000 and $1,116,000 during the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the Company had net operating loss carryforwards for foreign income tax purposes of approximately $24,335,000, of which $24,306,000 is offset by a valuation allowance. Generally, the tax net operating losses will begin to expire at various dates starting in 2018 through 2035. However, in certain jurisdictions, many of the net operating loss carryforwards have no expiration dates. The foreign tax credit carryforwards have no expiration date.

The Company's liability for unrecognized tax benefits decreased by $237,000 and increased by $132,000 in 2017 and 2016, respectively. The decrease primarily relates to the withholding tax on commissions paid outside of Chile. The Company does not anticipate that unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

11. CONCENTRATIONS OF RISK

The Company's Tahitian Noni® Juice, MAX and other noni beverage products constitute a significant portion of overall sales, accounting for approximately 87% and 88% of retail sales for the years ended December 31, 2017 and 2016, respectively. If consumer demand for these products decreases significantly or if the Company ceases to offer these products without a suitable replacement, the Company's consolidated financial condition and operating results would be adversely affected.

A substantial portion of the Company's business is conducted in foreign markets, exposing it to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations and similar risks associated with foreign operations. Approximately 90% and 88% of gross sales for the years ended December 31, 2017 and 2016, respectively, were generated outside the United States. The Company's Japanese operations contributed approximately 45% and 46% of overall sales for the years ended December 31, 2017 and 2016, respectively. Net property, plant, and equipment relating to the Japanese location constituted approximately 64% and 65% of the Company's consolidated property, plant, and equipment at December 31, 2017 and 2016, respectively.

The Company purchases fruit and other Noni based raw materials from French Polynesia, but these purchases of materials are from a wide variety of individual suppliers with no single supplier accounting for more than 10% of its raw material purchases during 2017 and 2016. However, as the majority of the raw materials are consolidated and processed at the Company's plant in Tahiti, the Company could be negatively affected by certain governmental actions or natural disasters if they occurred in that region of the world.

12. EXECUTIVE DEFERRED COMPENSATION PLAN

The Company's board of directors implemented an unfunded executive deferred compensation plan in 2009 for select senior management personnel. Under the plan, if certain financial targets are achieved by the Company, the Company is obligated to pay certain cash bonuses. The Company is currently obligated to pay deferred compensation to certain executives during a fixed term of years after retirement from the Company. The Company increased the liability of the executive deferred compensation plan by $8,000 and $189,000 for the years ended December 31, 2017 and 2016, respectively.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income and related activity as of and for the years ended December 31, 2017 and 2016, are as follows:

	Defined Benefit Pension Plans	Foreign Currency Gains (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance—December 31, 2015	$ 181,434	$ 1,403,361	$ 1,584,795
2016 activity	(27,152)	(681,884)	(709,036)
Balance—December 31, 2016	154,282	721,477	875,759
2017 activity	(10,373)	3,242,884	3,232,511
Balance—December 31, 2017	$ 143,909	$ 3,964,361	$ 4,108,270

During the years ended December 31, 2017 and 2016, there were no amounts reclassified to income.

14. SUBSEQUENT EVENTS

The Company has performed an evaluation of its subsequent events though June 21, 2018, which is the date the consolidated financial statements were available to be issued.

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Morinda Holdings, Inc. and Subsidiaries

Consolidated Financial Statements as of September 30, 2018 and December 31, 2017 and for the Nine-Month Periods Ended September 30, 2018 and 2017

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,305,302	$ 42,088,306
Certificates of deposit	69,824	215,961
Accounts receivable - net	3,900,873	4,389,867
Other receivables	321,476	937,761
Inventories	25,779,376	20,906,169
Prepaid expenses and other assets	4,816,269	4,282,640
Total current assets	79,193,120	72,820,704
PROPERTY, PLANT AND EQUIPMENT—NET	41,209,230	42,658,637
RESTRICTED CASH	3,340,052	3,291,845
OTHER NONCURRENT ASSETS	2,672,196	2,643,153
DEFERRED INCOME TAX ASSETS—NET	979,499	1,036,322
TOTAL	$ 127,394,097	$ 122,450,661

(Continued)

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(Unaudited)

	September 30, 2018	December 31, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 7,606,396	$ 6,317,012
Accrued commissions	8,393,909	10,237,193
Accrued liabilities	14,258,899	13,296,418
Current portion of notes payable	1,275,174	1,287,600
Income taxes payable	757,685	1,368,093
Other liabilities	2,748,151	1,957,679
Total current liabilities	35,040,214	34,463,995
NOTES PAYABLE—NET OF CURRENT PORTION	1,593,967	2,575,200
OTHER NONCURRENT LIABILITIES	6,051,778	5,931,780
DEFERRED INCOME TAX LIABILITIES—NET	1,660,535	1,620,088
Total liabilities	44,346,494	44,591,063
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 10 and 12)		
SHAREHOLDERS' EQUITY:		
Common stock—no par value; 100,000,000 shares authorized, and 43,216,216 issued and outstanding at September 30, 2018 and December 31, 2017	29,292,021	29,292,021
Accumulated other comprehensive income	1,792,067	4,108,270
Retained earnings	51,963,515	44,459,307
Total shareholders' equity	83,047,603	77,859,598
TOTAL	$ 127,394,097	$ 122,450,661

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
REVENUES—NET	$ 177,400,164	$ 170,834,505
COST OF SALES	34,347,783	33,675,863
GROSS PROFIT	143,052,381	137,158,642
OPERATING EXPENSES:		
Commission expense	69,656,857	66,195,264
Selling, general, and administrative expenses	61,514,538	58,326,947
Foreign currency losses (gains)—net	508,429	(546,935)
Total operating expenses	131,679,824	123,975,276
INCOME FROM OPERATIONS	11,372,557	13,183,366
OTHER INCOME (EXPENSE):		
Interest income	205,492	132,930
Interest expense	(22,358)	(37,887)
Other—net	38,958	207,429
Total other income—net	222,092	302,472
INCOME BEFORE INCOME TAX EXPENSE	11,594,649	13,485,838
INCOME TAX EXPENSE	3,929,902	3,320,737
NET INCOME	$ 7,664,747	$ 10,165,101

See notes to consolidated financial statements.

MORINDA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
NET INCOME	$ 7,664,747	$ 10,165,101
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS (NET OF TAX)	(2,285,425)	2,462,933
DEFINED BENEFIT PENSION PLANS (NET OF TAX)	(30,778)	(32,469)
Total other comprehensive (loss) gain	(2,316,203)	2,430,464
TOTAL COMPREHENSIVE INCOME	$ 5,348,544	$ 12,595,565

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NONE-MONTH PERIOD ENDED SEPTEMBER 30, 2018
(Unaudited)

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Income (Loss)	Earnings	Total
BALANCE—December 31, 2017	43,216,216	$ 29,292,021	$ 4,108,270	$ 44,459,307	$ 77,859,598
Net income				7,664,747	7,664,747
Other comprehensive income—net of tax			(2,316,203)		(2,316,203)
Dividends				(160,539)	(160,539)
BALANCE—September 30, 2018	43,216,216	$ 29,292,021	$ 1,792,067	$ 51,963,515	$ 83,047,603

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,664,747	$ 10,165,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,971,798	2,256,237
Provision for doubtful accounts	8,849	74,268
Loss (gain) on sale of property, plant, and equipment	45,109	(107,876)
Deferred income taxes	122,682	(46,092)
Foreign currency remeasurement losses (gains)	508,429	(546,934)
Changes in assets and liabilities:		
Accounts receivable	480,145	(1,015,683)
Other receivables	610,459	679,850
Inventories	(5,372,924)	(1,455,041)
Prepaid expenses and other assets	(619,178)	(475,611)
Other noncurrent assets	(175,945)	22,092
Accounts payable	1,520,942	281,298
Accrued commissions	(1,843,284)	(975,506)
Accrued liabilities	863,367	2,240,467
Income taxes payable	(610,408)	(1,159,368)
Other liabilities	790,472	(335,372)
Other noncurrent liabilities	85,474	390,092
Net cash provided by operating activities	6,050,734	9,991,922
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(1,595,938)	(1,643,436)
Proceeds from sale of property, plant, and equipment	99,436	228,734
Change in certificates of deposit	146,137	(563,300)
Change in restricted cash	77,001	
Net cash used in investing activities	(1,273,364)	(1,978,002)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(1,026,832)	(747,339)
Dividends	(160,539)	(217,623)
Net cash used in financing activities	(1,187,371)	(964,962)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(1,373,003)	1,221,858
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,216,996	8,270,816
CASH AND CASH EQUIVALENTS—BEGINNING OF PERIOD	42,088,306	33,262,343
CASH AND CASH EQUIVALENTS—END OF PERIOD	$ 44,305,302	$ 41,533,159

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—CASH PAID DURING THE YEAR FOR:		
Interest	$ 22,424	$ 39,383
Income taxes	$ 4,102,467	$ 4,734,946

See notes to consolidated financial statements. (Concluded)

1. BUSINESS OPERATIONS

Morinda Holdings, Inc. and subsidiaries (collectively, the “Company”) is primarily engaged in the development, manufacturing, and marketing of Tahitian Noni® Juice, MAX and other noni beverages (the Company’s primary products) as well as other nutritional, cosmetic and personal care products. The majority of the Company’s products have a component of the Noni plant, Morinda Citrifolia, (“Noni”) as a common element. The Company primarily sells and distributes its products to an independent sales force through a network marketing arrangement.

The Company is based in the United States and markets and sells its products in more than 60 countries throughout the world.

Domestically, the Company is subject to regulation from a number of governmental agencies, including the U.S. Food and Drug Administration; Federal Trade Commission; Consumer Product Safety Commission; federal, state, and local taxing agencies; and others. The Company is also subject to regulations from a number of foreign government agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the financial statements of Morinda Holdings, Inc., and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparing Consolidated Financial Statements—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or GAAP) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include sales returns and allowances, inventory obsolescence, contingencies, the valuation and recoverability of long-lived tangible assets, and income and other taxes. Actual results may differ from current estimates and those differences may be material.

Cash and Cash Equivalents—The Company considers all highly liquid short-term investments with remaining maturities of three months or less at the date of acquisition by the Company to be cash equivalents.

The Company's cash and cash equivalents balances by country as of September 30, 2018 and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
Cash and cash equivalents:		
China	$ 20,409,921	$ 22,003,076
Japan	3,750,585	5,834,582
United States	15,979,436	10,113,924
Other	4,165,360	4,136,724
Total cash and cash equivalents	$ 44,305,302	$ 42,088,306

Restricted Cash—Restricted cash represents long-term cash deposits held in a bank for a foreign governmental agency which enables the Company to maintain its direct selling license to do business in that foreign country.

Certificates of Deposit—Certificates of deposit are unrestricted and have a remaining maturity date of less than one year.

Fair Value Measurements—The Company records certain financial instruments at fair value. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs. This accounting guidance establishes a fair value hierarchy used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1—Quoted market prices in active markets for identical assets or liabilities

Level 2—Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3—Unobservable inputs that are not corroborated by market data

The fair values of the Company's cash and cash equivalents, certificates of deposit, restricted cash, interest rate swap and notes payable approximate their carrying values as of September 30, 2018 and December 31, 2017. The Company's interest rate swap is recorded at fair market value and has been classified as a Level 2 investment. The Company had no nonrecurring assets and liabilities measured at fair value as of September 30, 2018 and December 31, 2017.

Inventories—Inventories consist of the costs associated with the purchase of raw materials and the manufacturing and transportation of products. Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method.

Property, Plant, and Equipment—Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets and approximated $1,972,000 and $2,256,000 for the nine-month periods ended September 30, 2018 and 2017, respectively. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the related assets or the lease term. The straight-line method is generally followed for depreciation purposes.

Expenditures that significantly improve or extend the life of an asset are capitalized. The costs of routine repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets—The Company evaluates the carrying value of long-lived assets based upon current and anticipated undiscounted cash flows and recognizes an impairment when such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. There were no impairments at September 30, 2018 and December 31, 2018.

Comprehensive Income—Comprehensive income represents changes in shareholders' equity resulting from transactions other than shareholder investments and distributions. Included in accumulated other comprehensive income are changes in equity that are excluded from the Company's net income, specifically, gains and losses on foreign currency translation adjustments and applicable amounts associated with the Company's defined benefit pension plans (see Note 8 and 13).

Intercompany Receivables—As of September 30, 2018 and December 31, 2017, the Company has approximately $20,950,000 of intercompany receivables due from certain foreign entities classified as long-term as management does not believe that these balances will be settled in the foreseeable future.

Income Taxes—Income taxes on net earnings taxed by the United States and various states in which the Company does business are generally payable personally by the shareholders pursuant to an election under Subchapter S of the Internal Revenue Code. Accordingly, no provision has been made for U.S. federal income taxes.

The Company is required to pay taxes to the appropriate governmental entities on profits derived from international operations, including foreign withholding taxes imposed on the repatriation of earnings of the Company's foreign subsidiaries and withholding taxes imposed on royalty payments. The Company has provided for foreign withholding on distributed earnings and on undistributed earnings for certain foreign subsidiaries where there is no intent to permanently reinvest such earnings. As of September 30, 2018 and December 31, 2017, the Company has no undistributed earnings from foreign subsidiaries that are indefinitely reinvested. The Company is also responsible for certain state income taxes assessed in states that do not recognize the federal Subchapter S ("S-Corporation") election and for state franchise tax or other taxes assessed at the Company level. The Company's provision for income taxes includes such taxes.

The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement purposes and income tax purposes. The Company also records a valuation allowance for certain tax assets and loss carryforwards when management determines that it does not believe that such assets will more likely than not be realized. The Company also evaluates and records tax contingencies for unrecognized tax benefits.

Revenue Recognition—Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. These criteria are typically met when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for undelivered or back-ordered products are recorded as deferred revenue and are included in other current liabilities.

Sales for an internet subscription are recognized as revenue ratably over the requisite service period.

Revenue includes gross sales price, less estimated returns and allowances for which provisions are made at the time of sale and less certain other discounts, allowances, and personal rebates that are accounted for as a reduction from gross sales.

Shipping and handling charges that are billed to customers are included as a component of revenue and costs incurred by the Company for shipping and handling charges are included in cost of sales.

The Company accounts for volume rebates made to its independent product consultants "IPCs" as a reduction of revenue. Personal volume rebates totaled approximately $5,015,000 and $6,270,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

Deferred Revenue—The Company's policy is to defer revenue related to distributor convention fees, payments received on products ordered in the current year but not delivered until the subsequent year, initial IPC fees, IPC renewal fees and internet subscription fees until the products or services have been provided. These amounts are included in accrued liabilities in the consolidated balance sheets.

Accrued Marketing Events Costs—The Company accrues expenses for incentive trips associated with its direct sales marketing program, which rewards certain IPCs with paid attendance at its conventions, meetings, and retreats. Expenses associated with incentive trips are accrued over qualification periods as they are earned. The Company specifically analyzes incentive trip accruals based on historical and current sales trends as well as contractual obligations when evaluating the adequacy of the incentive trip accrual. Actual results could result in liabilities being more or less than the amounts recorded. The Company has accrued approximately $3,366,000 and $4,585,000 at September 30, 2018 and December 31, 2017, respectively, for these incentives, and such amounts are included in accrued liabilities in the consolidated balance sheets.

Foreign Currency—A majority of the Company's business operations occur outside the United States. The local currency of each of the Company's international subsidiaries and branches is used as its functional currency. All assets and liabilities are translated into U.S. dollars at exchange rates existing at the consolidated balance sheet date, and revenues and expenses are translated at monthly average exchange rates. The resulting foreign currency translation net adjustments are recorded in accumulated other comprehensive income (AOCI) as a separate component of shareholders' equity in the consolidated balance sheets, except for remeasurement gains (losses) on short-term intercompany borrowings, which are recognized in the consolidated statements of income. The foreign currency (losses) gains recognized in the consolidated statements of income were approximately $(508,000) and $547,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

Derivative Financial Instruments—The Company holds a derivative financial instrument in the form of an interest rate swap. The Company uses interest rate swaps to economically convert variable interest rate debt to a fixed rate. The Company has not designated these derivatives as hedging instruments. The interest rate swaps are recorded in the accompanying consolidated financial statements at their fair value with the unrealized gains/losses recorded in interest expense. The amount of unrealized loss from interest rate swaps at September 30, 2018 and December 31, 2017, was approximately $42,000 and $74,000, respectively, and is included in other noncurrent liabilities in the consolidated balance sheets. At September 30, 2018, the Company had one contract for an interest rate swap with a total notional amount of $2,869,141.

Research and Development—All research and development costs are expensed as incurred. Total research and development expenses were approximately $4,000,000 and $3,200,000 for the nine-month periods ended September 30, 2018 and 2017, respectively, and are included in selling, general, and administrative expenses in the consolidated statements of income.

Recent Accounting Pronouncements—In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the Company to include in its cash and cash-equivalent balances in the statement of cash flows, those amounts that are deemed to be restricted cash and restricted cash equivalents. In addition, the Company is required to explain the changes in the combined total of restricted and unrestricted balances in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 for non-public companies, where the guidance should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance on accounting for leases in “Leases (Topic 840)” and generally requires leases to be recognized in the statement of financial position. The standard is effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued authoritative guidance amending the FASB Accounting Standards Codification and creating a new Topic 606, *Revenue from Contracts with Customers*. The new guidance clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The existing industry guidance will be eliminated when the new guidance becomes effective and annual disclosures will be substantially revised. The amendments in the new guidance are effective for annual reporting periods beginning after December 15, 2018. The Company is not expecting to early adopt this guidance and is currently evaluating the effect of adoption of this guidance on its financial statements.

3. INVENTORIES

Inventories at September 30, 2018 and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
Raw materials	$ 9,669,676	$ 6,951,539
Work in process	1,205,554	835,144
Finished goods	14,904,146	13,119,486
Total	$ 25,779,376	$ 20,906,169

4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at September 30, 2018 and December 31, 2017, consisted of the following:

	Expected Useful Life (Years)	September 30, 2018	December 31, 2017
Computer and telephone equipment	3–5	$ 5,289,030	$ 5,368,430
Machinery and equipment	5–7	12,568,293	12,812,055
Software	3	796,278	811,799
Office furniture and other equipment	5–7	3,763,345	4,058,042
Leasehold improvements	1–18	12,563,237	12,437,271
Buildings and improvements	38–40	24,465,251	25,046,808
Transportation equipment	5	1,918,342	2,155,253
Land		17,463,628	17,633,808
Other		38,905	65,334
		78,866,309	80,388,800
Less accumulated depreciation and amortization		(37,657,079)	(37,730,163)
Property, plant, and equipment—net		$ 41,209,230	$ 42,658,637

5. ACCRUED LIABILITIES

Accrued liabilities at September 30, 2018 and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
Accrued payroll	$ 5,907,953	$ 3,714,712
Deferred revenue	2,299,184	2,143,656
Accrued marketing events	3,366,237	4,585,009
Other	2,685,525	2,853,041
Total	$ 14,258,899	$ 13,296,418

6. NOTES PAYABLE

Notes payable at September 30, 2018 and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
Note payable to a foreign bank, TIBOR plus .7% interest rate (.76%) at September 30, 2018; quarterly principal payments of $318,793, plus interest; payable in Japanese yen and collateralized by buildings and land (through the use of an interest rate swap, the interest rate is fixed at 1.97%)	$ 2,869,141	$ 3,862,800
Less current portion	(1,275,174)	(1,287,600)
Long-term notes payable	$ 1,593,967	$ 2,575,200

Future maturities of notes payable as of September 30, 2018, are as follows:

Years Ending December 31

2018 (3 months)	$ 318,793
2019	1,275,174
2020	1,275,174
Total	$ 2,869,141

7. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company is obligated under operating leases for warehouse space, office space, equipment and vehicles. Lease expense was approximately $4,585,000 and $4,511,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

Future minimum lease payments under noncancelable operating leases as of September 30, 2018, are summarized as follows:

Years Ending December 31

2018 (3 months)	$ 1,390,898
2019	4,657,564
2020	2,923,235
2021	1,906,930
2022	1,613,638
Thereafter	3,627,049
Total	$ 16,119,314

Contingencies—The Company's operations are subject to numerous governmental rules and regulations in each of the countries it does business. These rules and regulations include a complex array of tax and customs regulations as well as restrictions on product ingredients and claims, the commissions paid to the Company's IPCs, labeling and packaging of products, conducting business as a direct-selling business, and other facets of manufacturing and selling products. In some instances, the rules and regulations may not be fully defined under the law or are otherwise unclear in their application. Additionally, laws and regulations can change from time to time, as can their interpretation by the courts, administrative bodies, and the tax and customs authorities in each country. The Company actively seeks to be in compliance, in all material respects, with the laws of each of the countries in which it does business and expects its IPCs to do the same. The Company's operations are often subject to review by local country tax and customs authorities and inquiries from other governmental agencies. No assurance can be given that the Company's compliance with governmental rules and regulations will not be challenged by the authorities or that such challenges will not result in assessments or required changes in the Company's business that could have a material impact on its business, consolidated financial statements and cash flow.

The Company has various non-income tax contingencies in several countries. Such exposure could be material depending upon the ultimate resolution of each situation. At September 30, 2018 and December 31, 2017, the Company has recorded a liability under Accounting Standards Codification (ASC) 450, *Contingencies*, of approximately $1,243,000 and $915,000, respectively.

Legal Proceedings—As part of normal business operations, the Company from time to time is involved in litigation and other disputes. The Company is currently not involved in any legal matters with a reasonably possible exposure at September 30, 2018. Management does not currently anticipate that any pending litigation or dispute against the Company will have a materially adverse effect on the business, operations, or consolidated financial condition of the Company.

Guarantee Deposits—In Korea, the Company has deposits for collateral on IPC returns dictated by law and collateral to credit card companies for guarantee of IPC payments. As such, approximately $925,000 and $961,000 of guarantee deposits for this collateral are included in other noncurrent assets in the consolidated balance sheets at September 30, 2018 and December 31, 2017, respectively.

8. RETIREMENT BENEFITS

Employee Contribution Plans—The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees who are U.S. employees. Employees are eligible to participate in the plan at the beginning of the first full quarter following commencement of employment. The Company matches contributions up to 3% of the participating employee's compensation. The Company's matching contributions vest over four years with 0% vested through the end of the first year of service and 33% vesting evenly in years two through four. Total contributions by the Company to the plan were approximately $309,000 and $293,000 for the nine-month periods ended September 30, 2018 and 2017, respectively. The Company also makes contributions to employee contribution plans in various other countries in which it operates. For the nine-month periods ended September 30, 2018 and 2017, total contributions by the Company to foreign employee contribution plans were approximately $809,000 and $726,000, respectively.

Foreign Retirement Benefit Plan—The Company has an unfunded retirement benefit plan in the Company's Japanese branch that entitles substantially all employees in Japan, other than directors, to retirement payments. The Company also has an unfunded retirement benefit plan in Indonesia that entitles all permanent employees to retirement payments.

Employees whose service with the Japanese branch is terminated are, under most circumstances, entitled to retirement benefits determined by reference to basic rates of pay at the time of termination, years of service, and conditions under which the termination occurs. If the termination is involuntary or caused by retirement at the mandatory retirement age of 65, the employee is entitled to a greater payment than in the case of voluntary termination.

Employees in Indonesia whose service is terminated are, under most circumstances, entitled to retirement benefits determined by reference to basic rates of pay at the time of termination, years of service and conditions under which the termination occurs.

The unfunded benefit obligation for the defined benefit pension plans is measured at December 31 in each fiscal year. The total accrued obligation at December 31, 2017 was approximately $2,598,000.

9. CAPITAL STOCK

The Company's authorized capital stock consists of 100,000,000 shares of no par common stock. All of the common stock has the same voting rights and there are no conversion rights associated with the shares.

10. INCOME TAXES

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. As an S-Corporation, the Company is generally not liable for federal and state income taxes. The Company's income is allocated to its shareholders who are responsible for paying the tax on such income. The Company makes cash distributions to the shareholders, which are considered sufficient to pay the tax liabilities the shareholders incur as a result of the S-Corporation election.

The difference between the income tax expense reported and amounts computed by applying the statutory federal rate of 21% and 35% to pretax income for the nine-month periods ended September 31, 2018 and 2017, respectively, primarily relates to domestic operations that are not subject to income tax due to the Company's S-Corporation status, taxes required in foreign jurisdictions that are taxed at different statutory rates, and valuation allowances recorded on tax benefits from operating losses in foreign jurisdictions.

11. CONCENTRATIONS OF RISK

The Company's Tahitian Noni® Juice, MAX and other noni beverage products constitute a significant portion of overall sales, accounting for approximately 88% and 87% of retail sales for the nine-month periods ended September 30, 2018 ,2017, respectively. If consumer demand for these products decreases significantly or if the Company ceases to offer these products without a suitable replacement, the Company's consolidated financial condition and operating results would be adversely affected.

A substantial portion of the Company's business is conducted in foreign markets, exposing it to the risks of trade or foreign exchange restrictions, increased tariffs, foreign currency fluctuations and similar risks associated with foreign operations. Approximately 90% of gross sales for the nine-month periods ended September 30, 2018 and 2017, were generated outside the United States. The Company's Japanese operations contributed approximately 42% and 46% and China operations contributed approximately 35% and 30% of overall sales for the nine-month periods ended September 30, 2018 and 2017, respectively. Net property, plant, and equipment relating to the Japanese location constituted approximately 66% and 64% of the Company's consolidated property, plant, and equipment at September 30, 2018 and December 31, 2017, respectively.

The Company purchases fruit and other Noni based raw materials from French Polynesia, but these purchases of materials are from a wide variety of individual suppliers with no single supplier accounting for more than 10% of its raw material purchases during the periods ended September 30, 2018 and December 31, 2017. However, as the majority of the raw materials are consolidated and processed at the Company's plant in Tahiti, the Company could be negatively affected by certain governmental actions or natural disasters if they occurred in that region of the world.

12. EXECUTIVE DEFERRED COMPENSATION PLAN

The Company's board of directors implemented an unfunded executive deferred compensation plan in 2009 for select senior management personnel. Under the plan, if certain financial targets are achieved by the Company, the Company is obligated to pay certain cash bonuses. The Company is currently obligated to pay deferred compensation to certain executives during a fixed term of years after retirement from the Company.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income and related activity as of and for the nine-month period ended September 30, 2018 is as follows as follows:

	Defined Benefit Pension Plans	Foreign Currency Gains (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance—December 31, 2017	143,909	3,964,361	4,108,270
2018 activity	(30,778)	(2,285,425)	(2,316,203)
Balance—September 30, 2018	$ 113,131	$ 1,678,936	$ 1,792,067

During the periods ended September 30, 2018 and December 31, 2017, there were no amounts reclassified to income.

14. SUBSEQUENT EVENTS

The Company has performed an evaluation of its subsequent events though March 1, 2019, which is the date the consolidated financial statements were available to be issued.

On December 21, 2018, the Company executed a merger agreement with New Age Beverages Corporation (“NABC”), and New Age Health Sciences Holdings, Inc. Pursuant to the Merger Agreement, NABC paid the following consideration to the Company’s equity holders, subject to certain adjustments described in the Merger Agreement; (i) $75 million in cash; (ii) 2,016,480 shares of the NABC’s common stock; and (iii) 43,804 shares of Series D Preferred Stock (the “Preferred Stock”) providing for the potential payment of up to $15 million contingent upon the Company achieving certain post-closing milestones.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On December 2, 2018, New Age Beverages Corporation (referred to interchangeably herein as the “Company” and “New Age”) entered into a Plan of Merger (the “Merger Agreement”) with Morinda Holdings, Inc., a Utah corporation (“Morinda”) and New Age Health Sciences Holdings, Inc., a newly formed Utah corporation and wholly owned subsidiary of the Company (“Merger Sub”). On December 21, 2018 (the “Closing Date”), the transactions contemplated by the Merger Agreement were completed. Merger Sub was merged with and into Morinda and Morinda became a wholly-owned subsidiary of the Company. This transaction is referred to herein as the “Merger.”

The unaudited pro forma condensed combined financial information is presented to illustrate the estimated effects of the Merger and related transactions based on the historical financial statements and accounting records of the Company and Morinda after giving effect to the Merger and the Merger-related pro forma adjustments. Assumptions and estimates underlying the unaudited pro forma adjustments are described in the Notes to Unaudited Pro Forma Condensed Combined Financial Information (the “Notes”). The unaudited pro forma condensed combined financial information was based on, and should be read in conjunction with, the following historical consolidated financial statements and accompanying notes:

- historical audited consolidated financial statements of the Company as of and for the year ended December 31, 2017, and the related notes to consolidated financial statements, as set forth in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2017, filed with the Securities and Exchange Commission (the “SEC”) on August 17, 2018;
- historical unaudited condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2018, and the related notes to unaudited condensed consolidated financial statements, as set forth in the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018, filed with the SEC on November 14, 2018;
- historical audited consolidated financial statements of Morinda as of and for the year ended December 31, 2017, and the related notes to consolidated financial statements, as set forth in Exhibit 99.1 to this Current Report on Form 8-K/A;
- historical unaudited consolidated financial statements of Morinda as of September 30, 2018, and for the nine months ended September 30, 2018, and the related notes to unaudited consolidated financial statements, as set forth in Exhibit 99.2 to this Current Report on Form 8-K/A.

The pro forma condensed combined balance sheet as of September 30, 2018, combines the historical unaudited consolidated balance sheets of the Company and Morinda, giving effect to the Merger, liabilities to Morinda’s former stockholders, and the pre-closing Equity Offerings, as if these events had occurred on September 30, 2018. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 and the nine months ended September 30, 2018, combine the historical consolidated statements of operations of the Company and Morinda, giving effect to the Merger, imputed interest on the liabilities to Morinda’s former stockholders, and the additional shares issued in the pre-closing Equity Offerings, as if these events had occurred on January 1, 2017, the first day of the fiscal year ended December 31, 2017.

For accounting and financial reporting purposes, the Company is considered the acquirer in the Merger and will account for the business combination with Morinda using the acquisition method, whereby the assets acquired and the liabilities assumed are adjusted to estimated fair value. All of the incremental and direct costs to consummate the business combination are charged to expense in the periods incurred. The Company will finalize the acquisition accounting (including the necessary valuation and other studies) as soon as practicable within the required measurement period, but in no event later than one year following completion of the Merger. The assets acquired and liabilities assumed by the Company in the Merger have been measured at their respective estimated fair values as of the Closing Date. Differences between these estimates of fair value and the final acquisition accounting are expected to occur, and those differences could have a material impact on the accompanying unaudited pro forma condensed combined financial information, and the combined company’s future results of operations and financial position. The pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information prepared in accordance with the rules and regulations of the SEC.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only and does not purport to represent the actual results of operations that the Company and Morinda would have achieved had the companies been combined during the periods presented herein. The unaudited pro forma condensed combined financial information is not intended to project the future results of operations that the combined company may achieve after the Merger and does not reflect any potential cost savings that may be realized as a result of the Merger.

NEW AGE BEVERAGES CORPORATION
Unaudited Pro Forma Condensed Combined Balance Sheet
September 30, 2018
(In Thousands)

			Pro Forma Adjustments					
ASSETS	**Historical New Age(A)**	**Historical Morinda(B)**	**Morinda Liabilities(C)**	**Equity Offerings(D)**	**Purchase Consideration(E)**	**Acquisition Accounting**		**Pro Forma Combined**
Current assets:								
Cash and cash equivalents	$ 28,627	$ 44,305	$ (5,000)	$ 53,295	$ (75,000)	$ (1,063)	(F)	$ 45,164
Inventories	9,997	25,779				2,169	(G)	37,945
Accounts receivable, prepaids and other	8,755	9,109						17,864
Total current assets	47,379	79,193						100,973
Long-term assets:								
Identifiable intangible assets, net	22,458	104				42,106	(G)	64,668
Property and equipment, net	1,541	41,209				13,715	(G)	56,465
Goodwill	21,230	-			99,104	(87,718)	(G)	32,616
Deposits and other	4,624	6,887	-	-	-	14,444	(G)	25,955
Total assets	$ 97,232	$ 127,393	$ (5,000)	$ 53,295	$ 24,104	$ (16,347)		$ 280,677
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities:								
Current maturities of long-term debt	$ -	$ 1,275	$ -	$ -	$ -	$ -		$ 1,275
Accounts payable and accrued expenses	3,026	33,765				5,714	(F)(G)	42,505
Payable to former Morinda stockholders	-	-	8,701					8,701
Total current liabilities	3,026	35,040						52,481
Long-term liabilities:								
Long-term debt, net of current maturities		1,594						1,594
Deferred income taxes	-	1,660				9,400	(G)	11,060
Payable to former Morinda stockholders	-	-	30,218		13,134			43,352
Lease right to use liability and other	4,632	6,052				10,266	(G)	20,950
Total liabilities	7,658	44,346						129,437
Stockholders' equity:								
Common stock, issued and outstanding 49,514 shares historical (67,768 shares pro forma combined)	50	-		16	2			68
Common stock, no par value, issued 43,216 shares	-	29,292				(29,292)	(H)	-
Additional paid-in capital	109,547	-		53,279	10,968	1,166	(F)	174,960
Accumulated other comprehensive income	-	1,792				(1,792)	(H)	-
Retained earnings (deficit)	(20,023)	51,963	(43,919)			(11,809)	(F)(H)	(23,788)
Total stockholders' equity	89,574	83,047	-	-	-	-		151,240
Total liabilities and stockholders' equity	$ 97,232	$ 127,393	$ (5,000)	$ 53,295	$ 24,104	$ (16,347)		$ 280,677

See accompanying notes to unaudited pro forma condensed combined financial information.

NEW AGE BEVERAGES CORPORATION
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2018
(In Thousands, Except Per Share Amounts)

	Historical New Age(AA)	Historical Morinda(BB)	Pro Forma Adjustments		Pro Forma Combined
Net revenue	$ 38,164	$ 177,400	$ -		$ 215,564
Cost of goods sold	32,089	34,347	-		66,436
Gross profit	6,075	143,053	-		149,128
Operating expenses:					
Commissions	1,029	69,657	-		70,686
Selling, general and administrative	12,736	60,051	-		72,787
Depreciation and amortization expense:					
Property and equipment	426	1,972	737	(CC)	3,135
Identifiable intangible assets	1,028	-	2,381	(CC)	3,409
Total operating expenses	15,219	131,680	3,118		150,017
Operating income (loss)	(9,144)	11,373	(3,118)		(889)
Non-operating income (expenses):					
Interest expense	(225)	(22)	(472)	(DD)	(719)
Interest income	-	205	-		205
Other, net	(153)	39	-		(114)
Income (loss) before income taxes	(9,522)	11,595	(3,590)		(1,517)
Income tax expense	-	(3,930)	-	(EE)	(3,930)
Net income (loss)	$ (9,522)	$ 7,665	$ (3,590)		$ (5,447)
Net loss per share applicable to common stockholders (Basic and Diluted)	$ (0.24)				$ (0.09)
Weighted average number of common shares outstanding (Basic and Diluted)	39,492		18,254	(FF)	57,746

See accompanying notes to unaudited pro forma condensed combined financial information.

NEW AGE BEVERAGES CORPORATION
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2017
(In Thousands, Except Per Share Amounts)

	Historical New Age(II)	Historical Morinda(JJ)	Pro Forma Adjustments		Pro Forma Combined
Net revenue	$ 52,188	$ 229,153	$ -		$ 281,341
Cost of goods sold	39,788	44,944	-		84,732
Gross profit	12,400	184,209	-		196,609
Operating expenses:					
Commissions	1,456	88,823	-		90,279
Selling, general and administrative	15,387	76,438	-		91,825
Depreciation and amortization expense:					
Property and equipment	578	2,448	984	(CC)	4,010
Identifiable intangible assets	1,028	-	3,172	(CC)	4,200
Total operating expenses	18,449	167,709	4,156		190,314
Operating income (loss)	(6,049)	16,500	(4,156)		6,295
Non-operating income (expenses):					
Interest expense	(228)	(48)	(2,107)	(DD)	(2,383)
Interest income		199	-		199
Other, net	2,741	217	-		2,958
Income (loss) before income taxes	(3,536)	16,868	(6,263)		7,069
Income tax expense	-	(4,882)	-	(EE)	(4,882)
Net income (loss)	$ (3,536)	$ 11,986	$ (6,263)		$ 2,187
Income (loss) per share applicable to common stockholders:					
Basic	$ (0.12)				$ 0.04
Diluted	$ (0.12)				$ 0.04
Weighted average number of common shares outstanding:					
Basic	30,617		18,254	(FF)	48,871
Diluted	30,617		18,701	(FF)	49,318

See accompanying notes to unaudited pro forma condensed combined financial information.

1. Description of Transaction

Prior to the Merger, Morinda was an S corporation for U.S. federal and state income tax purposes. Accordingly, Morinda's taxable earnings were reported on the individual income tax returns of the stockholders who were responsible for payment of the related income tax liabilities. In contemplation of the Merger Agreement, Morinda agreed in December 2018 to distribute to its stockholders approximately $44.6 million of its previously-taxed S corporation earnings. This amount was payable for $5.0 million in December 2018, and the remainder is payable between April 2019 and July 2020 as discussed further in Note 3(C).

Pursuant to the Merger Agreement, the Company paid to Morinda's equity holders (i) $75.0 million in cash; (ii) 2,016,480 shares of the Company's Common Stock with an estimated fair value on the Closing Date of approximately $11.0 million, and (iii) 43,804 shares of Series D Preferred Stock (the "Preferred Stock") providing for the potential earn-out payment of up to $15 million contingent upon Morinda achieving certain post-closing milestones, as discussed below.

Pursuant to the Certificate of Designations for the Series D Preferred Stock (the "CoD"), the holders of the Preferred Stock are entitled to receive a dividend of up to an aggregate of $15.0 million (the "Milestone Dividend") if the Adjusted EBITDA (as defined in the CoD) of Morinda is at least $20.0 million for the year ending December 31, 2019. The Milestone Dividend is payable on April 15, 2020. If the Adjusted EBITDA of Morinda is less than $20.0 million, the Milestone Dividend shall be reduced by applying a five-times multiple to the difference between the Adjusted EBITDA target of $20 million and actual Adjusted EBITDA for the year ending December 31, 2019. Accordingly, no Milestone Dividend is payable if actual Adjusted EBITDA is $17.0 million or lower. Additionally, the Company is required to pay quarterly dividends to the holders of the Preferred Stock at a rate of 1.5% per annum of the Milestone Dividend amount, payable on a pro rata basis. The Company may pay the Milestone Dividend and /or the annual dividend in cash or in kind, provided that if the Company chooses to pay in kind, the shares of Common Stock issued as payment therefore must be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Preferred Stock shall terminate on April 15, 2020. The Company expects to classify the fair value of the earn-out consideration in the form of Series D Preferred Stock as a liability.

In order to provide funding for the business combination with Morinda, during the fourth quarter of 2018 the Company (i) issued an aggregate 1,188,565 shares of Common Stock in an underwritten At the Market Offering that resulted in aggregate net proceeds of approximately $5.2 million, and (ii) completed an underwritten public offering of 14,835,000 shares of Common Stock at an offering price of $3.50 per share for aggregate net proceeds of approximately $48.1 million. The aggregate net proceeds from these equity offerings amounted to $53.3 million.

2. Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and is based on the historical consolidated financial statements of the Company and Morinda. The acquisition method of accounting is set forth in Accounting Standards Codification ("ASC") 805, *Business Combinations*, and uses the fair value concepts defined in ASC 820, *Fair Value Measurement*. Under the acquisition method of accounting, the assets acquired and liabilities assumed are generally recorded as of the completion of the Merger at their respective fair values and added to those of the Company. Financial statements and reported results of operations of the Company issued after completion of the Merger will reflect these fair value adjustments, but the Company's previously issued historical financial statements will not be retroactively restated.

The unaudited pro forma condensed combined financial information does not reflect any potential cost savings or synergies that may be realized as a result of the Merger. Although the Company expects that some cost savings and synergies will result from the Merger, there can be no assurance that these cost savings will be achieved.

The unaudited pro forma condensed combined financial information has been prepared based on the historical consolidated financial statements of the Company and Morinda, and by accounting for the Merger using the acquisition method. Pro forma effect has also been given for the Company's equity offerings completed in the fourth quarter of 2018, since the proceeds were required to consummate the business combination. The unaudited pro forma condensed combined balance sheet as of September 30, 2018 combines the historical unaudited condensed balance sheets of the Company and Morinda as of September 30, 2018, giving effect to the Merger as if it had been consummated on September 30, 2018. The unaudited pro forma condensed combined statements of operations give effect to the Merger as if it had been consummated on January 1, 2017, and combine the historical consolidated statements of operations of the Company and Morinda for each of (i) the nine-month period ended September 30, 2018, and (ii) the year ended December 31, 2017.

In order to conform with the Company's accounting policies, the accompanying pro forma balance sheet reflects the pro forma adjustment discussed in Note 2(G) for the adoption by Morinda of ASU No. 2016-02, *Leases*, which requires that assets and liabilities be recognized on the balance sheet for the rights and obligations created by those leases. While Morinda had not adopted this ASU for the periods covered in the accompanying unaudited pro forma condensed combined statements of operations, the Company determined that the differences for this policy were not material. At this time, the Company is not aware of any significant differences between the accounting policies of the two companies that would have a material impact on the combined company's financial statements. As the Company completes its review of Morinda's accounting policies, it is possible that policy differences may be identified that, when conformed, could have a material impact on the combined company's financial statements.

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed combined financial information to give pro forma effect to events that are: (i) directly attributable to the Merger; (ii) factually supportable; and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results of operations. The unaudited pro forma condensed combined financial information does not reflect the impact of possible revenue enhancements or cost savings initiatives.

3. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

Presented below are the Notes to the accompanying unaudited pro forma condensed combined balance sheet:

(A) New Age Historical Balance Sheet

Amounts are derived from the historical condensed consolidated balance sheet of New Age as of September 30, 2018. As permitted by the SEC's rules for preparation of pro forma financial information, the Company has condensed certain balance sheet captions that comprised less than 10% of total assets.

(B) Morinda Historical Balance Sheet

Amounts are derived from the historical condensed consolidated balance sheet of Morinda as of September 30, 2018. As permitted by the SEC's rules for preparation of pro forma financial information, the Company has condensed certain balance sheet captions that comprised less than 10% of total assets.

(C) Morinda Distributions and Liabilities

As discussed in Note 1, Morinda agreed in December 2018 to distribute to its stockholders approximately $44.6 million of its previously-taxed S corporation earnings. On December 19, 2018, Morinda paid $5.0 million of distributions to its stockholders, and agreed to pay additional distributions (i) up to $25.0 million for which the timing and amount are subject to a future financing event, and (ii) approximately $14.6 million based on the calculation of excess working capital ("EWC") as of the Closing Date. EWC is the amount by which Morinda's actual working capital, as defined, on the Closing Date exceeds $25.0 million. The preliminary Closing Date balance sheet of Morinda indicates that EWC amounted to approximately $14.6 million as of the Closing Date. As of September 30, 2018, the pro forma calculation of EWC amounted to $15.4 million as set forth in the second table below.

Accordingly, a pro forma adjustment is computed as of September 30, 2018 to give effect to the $5.0 million of distributions and the liabilities to the former Morinda stockholders, including the liability for EWC that was computed based on the current assets and liabilities of Morinda as of September 30, 2018. Presented below are the contractual amounts payable, along with the net carrying value and balance sheet classification as a result of this pro forma adjustment (in thousands):

	Liability Carrying Value			Balance Sheet			
					Liabilities		Retained
	Total	Discount (4)	Net	Cash	Current	Long-term	Earnings
Pre-closing distribution				$ (5,000)(1)	$ -	$ -	$ (5,000)
EWC payable in:							
April 2019	$ 1,000(2)	$ (16)	$ 984	-	984	-	(984)
July 2019	8,000(2)	(283)	7,717	-	7,717	-	(7,717)
Total current portion	9,000	(299)	8,701	-	8,701	-	(8,701)
EWC payable in July 2020	6,428(2)	(566)	5,862	-	-	5,862	(5,862)
Contingent on financing event	25,000(3)	(644)	24,356	-	-	24,356	(24,356)
Total long-term portion	31,428	(1,210)	30,218	-	-	30,218	(30,218)
Total	$ 40,428	$ (1,509)	$ 38,919	$ (5,000)	$ 8,701	$ 30,218	$ (43,919)

(1) Pro forma effect is given for a $5.0 million distribution to the stockholders of Morinda on December 19, 2018.

(2) For purposes of the unaudited pro forma condensed combined balance sheet, EWC is calculated based on the historical balance sheet after giving effect to the impact of the $5.0 million distribution paid to the former Morinda Stockholders on December 19, 2018. As shown in the table below, after giving pro forma effect for this distribution, EWC amounted to $15.4 million (compared to $14.6 million as of the Closing Date). Pursuant to a separate agreement between the parties, EWC is payable to Morinda's former stockholders for $1.0 million by April 30, 2019, $8.0 million by July 31, 2019, and any remainder is payable by July 31, 2020.

(3) Pursuant to a separate agreement between the parties, Morinda agreed to pay its former stockholders up to $25.0 million from the net proceeds of a financing event to be completed after the Closing Date. The Company believes it is probable that this event will occur in the second quarter of 2019, and that the entire $25.0 million will be payable to Morinda's former stockholders. Accordingly, since this payment will only be made from the proceeds of a long-term financing, the net carrying value is classified as a long-term liability in the accompanying unaudited pro forma condensed combined balance sheet.

(4) Interest was imputed on each obligation based on a credit and tax adjusted interest rate of 6.1% for the period from the Closing Date until the respective contractual or estimated payment dates. For purposes of the unaudited pro forma condensed combined statements of operations, this discount is accreted using the effective interest method as discussed further in Note 4(DD).

As shown in the table above, liabilities for EWC as of September 30, 2018 amount to an aggregate of approximately $15.4 million, which was computed as follows (in thousands):

Total current assets	$ 79,193
Give effect to distributions discussed above	(5,000)
Less total current liabilities	(35,040)
Current maturities of long-term debt excluded from EWC definition in Merger Agreement	1,275
Adjusted Working Capital	40,428
Threshold	(25,000)
EWC	$ 15,428

(D) New Age Equity Offerings

In order to consummate the Merger, the Company needed to raise equity capital to ensure adequate capital resources were available. Accordingly, a pro forma adjustment gives effect to equity financings completed by the Company during the fourth quarter of 2018 for aggregate net proceeds as follows (dollars in thousands):

	Summary of Equity Financings				Balance Sheet	
Description	**Number of Shares**	**Gross Proceeds**	**Offering Costs**	**Net Proceeds**	**Common Stock**	**Additional Paid-In Capital**
At The Market Offering in October 2018	1,188,565	$ 5,347	$ (160)	$ 5,187	$ 1	$ 5,186
Public offering in November 2018:						
Firm commitment	12,900,000	45,150	(3,340)	41,810	13	41,797
Overallotment option	1,935,000	6,773	(475)	6,298	2	6,296
Total	16,023,565	$ 57,270	$ (3,975)	$ 53,295	$ 16	$ 53,279

(E) Purchase Consideration

Under ASC 805, the consideration transferred is required to be measured at the date the Merger is completed at the then-current market price. Accordingly, the following adjustment gives effect to the consideration issued in the Merger, consisting of a $75.0 million cash payment, the estimated fair value for the issuance of 2,016,480 shares of Common Stock, and the estimated fair value of the earn-out payable to Morinda's former stockholders (in thousands):

		Balance Sheet Classification			
Consideration	**Estimated Fair Value of Consideration**	**Cash**	**Payable to Morinda Stockholders**	**Common Stock**	**Additional Paid-In Capital**
Common stock issued	$ 10,970(1)	$ -	$ -	$ 2	$ 10,968
Cash paid at Closing	75,000	(75,000)	-	-	-
Earn-out consideration	13,134(2)	-	13,134	-	-
Total	$ 99,104	$ (75,000)	$ 13,134	$ 2	$ 10,968

(1) Fair value was determined based on the closing price of the Company's Common Stock on the Closing Date.

(2) Earn-out consideration represents the fair value of the Series D Preferred Stock based on the probability of achieving the Milestone Dividend, whereby the maximum Milestone Dividend is $15.0 million if the Adjusted EBITDA of Morinda is $20.0 million or more. The earn-out consideration is expected to be finalized by the first quarter of 2020 and is required to be paid on April 30, 2020. The fair value of the earn-out was determined using an option pricing model.

(F) Acquisition Expenses

Under ASC 805, acquisition-related transaction costs (e.g., advisory, legal and other professional fees) are not included as a component of consideration transferred but are accounted for as expenses in the periods in which such costs are incurred. In December 2018, the Company paid cash and issued 214,250 shares of Common Stock to a financial advisor that assisted with the consummation of the Merger. In addition, the Company and Morinda incurred professional fees and other incremental and direct costs associated with the Merger, all of which were incurred after September 30, 2018.

The unaudited pro forma condensed combined balance sheet as of September 30, 2018 is required to include adjustments which give effect to events that are directly attributable to the Merger regardless of whether they are expected to have a continuing impact on the combined company's results or are non-recurring. Therefore, acquisition-related transaction costs incurred by the Company after September 30, 2018, are reflected as pro forma adjustments to the unaudited pro forma condensed combined balance sheet as of September 30, 2018. The table below summarizes the pro forma adjustments to give effect to the estimated transaction costs incurred to consummate the Merger (in thousands):

		Balance Sheet Classification				
Description	**Total**	**Cash**	**Accrued Expenses**	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings (Deficit)**
Financial Advisor fees:						
Issuance of common stock	$ 1,166(1)	$ -	$ -	$ 2	$ 1,164	$ (1,166)
Cash payment at Closing	1,063(2)	(1,063)	-	-	-	(1,063)
Payable in December 2019	375(3)	-	375	-	-	(375)
Professional fees, diligence and other:						
Incurred for Morinda stockholders	200(4)	-	200	-	-	(200)
Incurred for New Age	961(4)	-	961	-	-	(961)
Total	$ 3,765	$ (1,063)	$ 1,536	$ 2	$ 1,164	$ (3,765)

(1) Fair value for 214,250 shares of Common Stock issued New Age's financial advisor were determined based on the closing price of the Company's Common Stock on the Closing Date.

(2) Financial advisor fees were payable in cash on the Closing Date.

(3) Additional financial advisor fees are payable in December 2019. These fees are payable 50% in cash and 50% in shares of the Company's Common Stock

(4) All professional fees and other costs related to the business combination were incurred after September 30, 2018.

(G) Estimated Fair Value of Assets Acquired and Liabilities Assumed

ASC 805 generally requires that assets acquired, and liabilities assumed be recognized at their fair values as of the acquisition date. Many of these fair value measurements can be highly subjective, and it is possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The following table summarizes the total consideration transferred in the Merger, along with the Company's fair value adjustments to arrive at the preliminary estimate of the fair value of the assets acquired and liabilities assumed (in thousands):

Pro forma book value of net assets acquired		$ 39,128 (1)
Acquisition accounting fair value of asset adjustments:		
Inventories		2,169 (2)(8)
Identifiable intangible assets		42,106 (3)(8)
Property and equipment:		
Land	$ 7,692 (4)(8)	
Buildings and improvements	2,662 (4)(8)	
Machinery and equipment	2,786 (3)(8)	
Other	575 (3)(8)	
Total property and equipment		13,715
Lease right to use asset		14,444 (5)
Fair value of identifiable assets acquired		111,562
Liabilities assumed:		
Lease right to use liabilities		
Current portion		(4,178) (5)
Long-term portion		(10,266) (5)
Increase in deferred income tax liabilities		(9,400) (6)
Fair value of net identifiable assets acquired		87,718
Increase in goodwill due to Morinda business combination		11,386 (7)
Total consideration		$ 99,104

(1) Consists of Morinda's historical total assets of $127.4 million less historical total liabilities of $44.3 million, less items for which pro forma effect is given as discussed in Note 3(C) for the liabilities to former Morinda Stockholders of $38.9 million and a $5.0 million reduction in cash for pre-closing distributions.

(2) Based on the report of an independent valuation specialist, the fair value of work-in-process and finished goods inventories on the Closing Date exceeded the historical carrying value by approximately $2.2 million. This amount represents an element of built-in profit that needs to be eliminated in the post combination historical consolidated statements of operations. Accordingly, this amount will be charged to cost of goods sold as the related inventories are sold which is expected to occur within approximately six months after the Closing Date. Since this $2.2 million adjustment is not expected to have a continuing impact on the combined results of operations, pro forma effect for the reversal is not provided in the unaudited pro forma condensed combined statements of operations.

(3) Based on the reports prepared by independent valuation specialists. Please see below for further discussion about the valuation approach for identifiable intangible assets.

(4) Fair value of Morinda's real estate property was based upon real estate appraisals prepared by an independent firm.

(5) In order to conform with the Company's accounting policies for purposes of the unaudited pro forma condensed combined balance sheet, Morinda adopted ASU No. 2016-02, *Leases*, which requires that assets and liabilities be recognized on the balance sheet for the rights and obligations created by those leases.

(6) Morinda's U.S. operations were previously taxed as a subchapter S Corporation whereby no deferred income tax assets or liabilities had been recognized for U.S. federal and state income tax purposes. Upon consummation of the Merger, Morinda's U.S. operations will be included in the consolidated income tax returns of the Company. Accordingly, a pro forma adjustment has been reflected for net deferred income tax liabilities related to Morinda's that resulted from differences between the financial reporting basis and the income tax basis of such U.S. assets and liabilities. This liability primarily results from long-lived assets that retain the predecessor basis for income tax purposes. The net deferred income tax liabilities were computed using the Company's estimated overall U.S. federal and state effective tax rate of approximately 23% as of the Closing Date.

(7) Goodwill related to Morinda is recognized for the difference between the total consideration transferred to consummate the Merger of $99.1 million and the fair value of net identifiable assets acquired of $87.7 million.

(8) Amounts are based upon valuations as of the Closing Date, since the Company believes there were no material changes in the fair value of inventories, identifiable intangible assets and property and equipment between September 30, 2018 and the Closing Date.

For purposes of the unaudited pro forma condensed combined financial information, the fair value of Morinda's identifiable intangible assets and the weighted average useful lives have been preliminarily estimated as follows (dollars in thousands):

	Estimated Fair Value	Estimated Useful Life (Years)
Direct selling license in China	$ 18,600	15
IPC distributor sales force	9,460	10
Proprietary manufacturing processes	7,490	15
Trade name	6,370	15
Former Morinda shareholder non-complete agreements	186	3
Total identifiable intangible assets	$ 42,106	

Fair value measurement methodologies used to calculate the value of any asset can be broadly classified into one of three approaches, referred to as the cost, market and income approaches. In any fair value measurement analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value measurement of that asset. The fair value of identifiable intangible assets was determined primarily using variations of the "income approach," which is based on the present value of the future after-tax cash flows attributable to each identifiable intangible asset. The fair value of inventories was determined using both the "cost approach" and the "market approach". The fair value of real estate was determined primarily using the "income approach".

Some of the more significant assumptions inherent in the development of intangible asset values, from the perspective of a market participant, include, but are not limited to (i) the amount and timing of projected future cash flows (including revenue and profitability), (ii) the discount rate selected to measure the risks inherent in the future cash flows, (iii) the assessment of the asset's life cycle, and (iv) the competitive trends impacting the asset.

These preliminary estimates of fair value and estimated useful lives may be different from the amounts included in the final acquisition accounting, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. Once sufficient information has been gathered about Morinda's identifiable intangible assets, additional insight may be gained that could impact the estimated total value assigned to identifiable intangible assets, and the estimated weighted average useful life of each category of intangible assets.

(H) Capital Structure Adjustments

The capital structure of Morinda is required to be eliminated in the consolidated financial statements of the Company after the Merger. Accordingly, a pro forma adjustment is required to eliminate Morinda's no par value Common Stock, accumulated other comprehensive loss, and retained earnings associated with the capital structure of Morinda. The pro forma adjustment eliminates the historical capital structure of Morinda after giving effect to the pro form adjustment discussed in Note 3(C).

4. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

Presented below are the Notes to the accompanying unaudited pro forma condensed combined statements of operations:

(AA) New Age Historical Statement of Operations

Amounts are derived from the historical unaudited condensed consolidated statement of operations of New Age for the nine months ended September 30, 2018. For purposes of the unaudited pro forma condensed combined statements of operations, the Company has made certain reclassifications to better illustrate the pro forma adjustments and to obtain consistent classifications between New Age and Morinda.

(BB) Morinda Historical Statement of Operations

Amounts are derived from the historical unaudited condensed consolidated statement of operations of Morinda for the nine months ended September 30, 2018. For purposes of the unaudited pro forma condensed combined statements of operations, the Company has made certain reclassifications to better illustrate the pro forma adjustments and to obtain consistent classifications between New Age and Morinda.

(CC) Depreciation and Amortization Expense

As discussed in Note 3(G), based on the reports of independent valuation specialists and real estate appraisals, the Company has reflected pro forma adjustments for the estimated fair value of identifiable tangible and intangible assets, and determined the estimated useful lives for purposes of computing depreciation and amortization expense. The Company does not believe there were material changes in the fair value of Morinda's identifiable tangible and intangible assets between Spetember 30, 2018 and the Closing Date. Accordingly, the pro forma adjustments for depreciation and amortization expense are based on the estimated fair value determined as of the Closing Date. The following table presents the fair value adjustments, the estimated useful lives and the pro forma adjustments to recognize depreciation and amortization expense (dollars in thousands):

	Estimated Fair Value Adjustments	Estimated Useful Life (Years)	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Property and equipent adjustments:				
Land	$ 7,692	-	$ -	$ -
Building and improvements	2,662	28	71	95
Machinery and equipment	2,786	4	522	697
Other	575	3	144	192
Total property and equipment	13,715		737	984
Intangible asset adjustments:				
Direct selling license in China	18,600	15	930	1,240
IPC distributor sales force	9,460	10	710	946
Proprietary manufacturing processes	7,490	15	375	499
Trade name	6,370	15	319	425
Non-compete agreements	186	3	47	62
Total intangible assets	42,106		2,381	3,172
Total	$ 55,821		$ 3,118	$ 4,156

(DD) Imputed Interest Expense

As discussed in Note 3(C), Morinda incurred liabilities to its former stockholders for $45.4 million in December 2018 that are payable over periods up to 19 months after the Closing Date. In addition, as discussed in Note 3(E), the purchase consideration for the Merger included an earn-out in the form of Series D Preferred Stock. The final installment of the earn-out is payable to the former stockholders of Morinda approximately 19 months after the Closing Date. The table below presents the total contractual obligations and the related discounts, along with accretion of discount that is recognized using the effective interest method over the period the debt is expected to be outstanding (dollars in thousands):

		Initial Acquisition Date Allocation			Interest Expense	
Debt Obligation	Expected Term (Months)	Contractual Obligations	Discount	Net Carrying Value	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Contingent on financing event	5	$ 25,000	$ (644)	$ 24,356	$ -(1)	$ 644(1)
April 2019 EWC payment	4	1,000	(16)	984	-(1)	16(1)
July 2019 EWC payment	7	8,000	(283)	7,717	-(1)	283(1)
July 2020 EWC payment	19	6,428	(566)	5,862	204(3)	362(3)
Sub-total		40,428	(1,509)	38,919	204	1,305
Series D preferred stock earn-out	16	14,204	(1,070)	13,134	268(3)	802(3)
Total		$ 54,632	$ (2,579)	$ 52,053	$ 472	$ 2,107

(1) Since this obligation is expected to be outstanding for less than one year, accretion of the entire discount is included in the pro forma results for the year ended December 31, 2017.

(2) No discount or accretion was recognized for the December 2018 distributions since they were paid before the Closing Date.

(3) The Series D preferred stock will be adjusted to fair value each quarter. Changes in fair value will result from (i) the progress towards achievement of the EBITDA target for the Milestone Dividend, and (ii) accretion of the 6.1% credit and tax adjusted discount that is inherent in the valuation at inception. For purposes of the unaudited pro forma condensed combined statements of operations the changes in the accretion element are reflected. The accretion element for the first 12 months that this obligation is expected to be outstanding is included in the pro forma results for the year ended December 31, 2017; the accretion element for the remaining four months is included in the pro forma results for the nine months ended September 30, 2018.

(EE) Income Tax Expense

Prior to the Merger, Morinda was a subchapter S corporation for U.S. federal and state income tax purposes. Accordingly, Morinda's taxable earnings were reported on the individual income tax returns of the stockholders who were responsible for payment of the related income tax liabilities. Therefore, all of Morinda's income tax expense recognized in its historical financial statements is attributable to foreign jurisdictions for the nine months ended September 30, 2018 and the year ended December 31, 2017.

Pursuant to the Merger, Morinda's subchapter S income tax status was terminated on the Closing Date. For purposes of the unaudited pro forma condensed combined statements of operations, the Company calculated the U.S. federal and state income tax expense as if the subchapter S income tax status had been terminated on January 1, 2017. Due to Morinda's significant foreign tax credits generated for the year ended December 31, 2017 and the nine months ended September 30, 2018, the results of these calculations indicated that no U.S. federal and state income tax expense would have been incurred on a pro forma basis. In addition, the Company determined that a valuation allowance would have been recognized for the entire amount of any U.S. federal and state income tax benefits generated on a pro forma basis. Accordingly, no pro forma adjustment to income tax expense was recognized in the unaudited pro forma condensed combined statements of operations.

(FF) Weighted Average Number of Shares Outstanding

The pro forma adjustments discussed in Notes 3(D), (E) and (F) give effect to issuance of Common Stock as consideration related to the consummation of the Merger. These issuances of shares of the Company's Common Stock are given effect as of January 1, 2017 for purposes of the unaudited pro forma condensed combined statements of operations. Accordingly, a pro forma adjustment is required for the calculation of the weighted average number of shares of Common Stock outstanding as follows (in thousands):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Historical weigthed average number of shares of common stock outstanding	39,492	30,617
Equity Offerings (Note (D)):		
At The Market Offering in October 2018	1,189	1,189
Public offering in November 2018:		
Firm commitment	12,900	12,900
Overallotment option	1,935	1,935
Acquisiton Expenses (Note (F))	214	214
Purchase Consideration (Note (E))	2,016	2,016
Total	18,254	18,254
Pro forma basic weighted average number of shares of common stock outstanding	57,746	48,871
Pro forma diluted weighted average number of common stock equivalents outstanding	-	447
Pro forma diluted weighted average number of shares of common stock outstanding	57,746	49,318

(GG) New Age Historical Statement of Operations

Amounts are derived from the historical condensed consolidated statement of operations of New Age for the year ended December 31, 2017. For purposes of the unaudited pro forma condensed combined statements of operations, the Company has made certain reclassifications to better illustrate the pro forma adjustments and to obtain consistent classifications between New Age and Morinda.

(HH) Morinda Historical Statement of Operations

Amounts are derived from the historical condensed consolidated statement of operations of Morinda for the year ended December 31, 2017. For purposes of the unaudited pro forma condensed combined statements of operations, the Company has made certain reclassifications to better illustrate the pro forma adjustments and to obtain consistent classifications between New Age and Morinda.