

MCCULLAGH COFFEE SUSTAINABILITY STRATEGY & METRICS – 2015



April 2015

SECTION 1 - ABOUT McCULLAGH COFFEE & OUR INDUSTRY

Section 1.0 – Background & History

S.J. McCullagh, Incorporated (DBA McCullagh Coffee) has been continuously operating in WNY since 1867, first as a tea and spice importer, and then as a coffee roaster and distributor of coffees, teas, and allied products to restaurants, hospitality and gaming industries, hotels, and offices. McCullagh's primary channels to market include selling B2B through a dedicated sales and route delivery force, through strategic partnerships with distributors, and on-line with Staples and Sam's Club and more recently, a McCullagh operated On-line Store. The Company is currently looking for additional retail and on-line.

There is also a small retail shop at 245 Swan Street where smaller accounts and coffee lovers can purchase coffees, teas, and allied products (trade accounts only).

McCullagh employs close to 50 associates in its operations which includes the roasting facility and HQ in Buffalo NY, two Regional Sales and Distribution Centers in Rochester, NY and Mississauga, ON, and a smaller distribution center in Olean which services accounts in the southern tiers and PA.

In 1986 Warren Emblidge Jr. purchased S.J. McCullagh Inc., and under his guidance the company has grown and added to its regional presence, as well as moving the company into non-traditional channels such as the Staple's Website, and Sam's Club online. For the last three years Warren Emblidge III has been in a senior role with the company, first in the role of VP of Sales and Marketing, and since Jan 1, 2014 as President. Warren Emblidge Jr. remains the CEO.

Additional hires into the management team have been geared toward positioning the organization for further improvements in operational excellence, and driving the sales and marketing efforts into new products and channels.

1.1 - Operational Foot Print

There are three major sites within McCullagh's operations;

1. HQ and main operational site including roasters and processing equipment located at 245 Swan Street, Buffalo, NY. Total plant footprint is approximately 20,000 square feet; warehouse and service (16,000 sq. feet), Office and Production areas (4,000 sq. ft.) plus a large parcel of parking space/additional expansion areas. The front entrance to the building where most of the office staff park has a smaller lot of approximately 3,500 sq. feet that drains to a collection basin located on the south end of the parking lot, adjacent to Myrtle Street.
2. The Mississauga ,ON Sales and Distribution office, located at 505 Iroquois Shore Road, Oakville ON, approximately 4,600 square feet of building space, plus shared parking with other industrial mall tenants.
3. The Rochester Regional Sales and Distribution Office, located at 900 Jefferson Rd # 11-4, Rochester, NY 14623, also sharing parking facilities with other mall tenants. It has two exterior walls and a bay door for loading the delivery and service vehicles. The Rochester facility covers approximately 2,500 sq. feet.

This sustainability plan will initially address the Buffalo HQ and roasting facility, and the vehicle fleet. In 12-24 months the sustainability planning process may be extended to the other McCullagh locations starting with Rochester.

1.2 – Operational Processes and Materiality

- i. **Roasting and Manufacturing Equipment** : McCullagh currently operates two vintage (circa 1940) Probat - Burns roasters. The roasters have been updated periodically to improve operating efficiencies and most recently have undergone significant modernization of the roasting control instrumentation. In addition there are three high capacity grinders (although one has been mothballed) which have a significant energy load when they are operating. Post roast, McCullagh has packaging capabilities for a variety of products including bulk and retail bean products, “fractional pacs”, in-room small brewer filter pacs for the hotel trade, and a newly commissioned single serve packaging machine which is capable of producing coffees, teas, and other beverages compatible with Kuerig “K-Cup” and other similar machines.

The packaging equipment is powered by electricity and compressed air provided by a new high efficiency rotary screw air compressor. The roaster use significant amounts of natural gas and electricity for roasting, cooling, and conveying the roasted bean to the storage and packing hoppers.

Water is used for “quenching” the roasted beans, and alternatives to this process are expensive and often require more energy such as a chiller.

- ii. **Delivery /Service Vehicles and Employee Mileage Reimbursement:**

McCullagh operates a sizeable fleet of delivery trucks for the direct delivery routes, inter-company transfers, and the maintenance/equipment service department. These include 5 diesel fuel Sprinter delivery vans, two additional gas powered delivery vans, three box trucks, and two Service Department vans.

Sales people and employees conducting company business are compensated for all mileage. Fuel usage for supporting the sales and delivery functions is tracked for purposes of determining cost per service call and sales calls.

- iii. **Facilities and Offices:** all warehouses, office space, and production areas are heated using natural gas furnaces. Lighting is florescent. The warehouses and production areas are not currently air conditioned, although fans are installed to ensure air movement when the temperature warms.

The only property currently maintained on the exterior by McCullagh is the Swan Street building.

SECTION 2 - SUSTAINABILITY at McCULLAGH COFFEE

2.0 – Sustainability Overview & Strategic Alignment

Anticipating McCullagh's 150th anniversary in 2017, owner Warren Emblidge Jr., drove the adoption of a Board resolution in 2009 that stated that McCullagh would "be a sustainable company" by that anniversary. This objective requires McCullagh to actively identify and implement sustainable practices, and also continue to develop sustainable product lines, that are among the best in industry.

There are significant market forces that make this evolution critical to McCullagh's long term success. They include:

End Consumer Buying Habits;

- A significant shift in consumer preference for higher end / better quality coffees and teas, which also offer environmental or socially beneficial attributes. New entrants into the coffee and tea market often differentiate themselves on this basis, and they have grown the premium coffee and tea markets into a sizeable niche.
- Many consumers believe (with some justification) that the quality of agricultural products certified by eco-certifications such as Rainforest Alliance, organic, FT, and similar eco-logos is better, and healthier for their families. This perception is also driven by marketing campaigns for the certifying agencies.
- End user expectations that the companies that they buy from are also environmentally and socially responsible. Offering "green products" is no longer sufficient.
- Many end consumers want to feel connected to the farmers and producers at origin – the "story" behind the product is an important feature for a segment of the market

Customer Requirements;

- Big retailers such as Sam's Club, Walmart, Office Depot and Staples, have their own environmental initiatives, and are increasingly aligning themselves with companies that are cost competitive, have the requisite quality, AND are operated sustainably. For some retailers, this requirement is verified by auditing the operations and buying practices of their vendors. Having a metric driven sustainability plan is increasingly a requirement for entry into the bid/product placement process.

Operational Efficiency & Employee Attitudes;

- Many talented employees increasingly want to be part of a company that aligns with their own values and beliefs. For many younger employees this includes sustainable practices and a commitment by their company to community building.
- Sustainability at its core is the elimination of waste, and more efficient use of available resources. Many sustainability initiatives also yield significant cost savings in energy, materials, shipping, health and safety, etc. These economic advantages are often the best catalyst for an organization to embrace sustainability in the early stages.

These trends are also being seen in other agricultural products, and in industries that traditionally have not been viewed as being "green". Against this backdrop, however, there are also other trends which make this goal more difficult. For example, the shift to single serve ("K-Cup") coffees and teas have disrupted the consumer and office coffee markets while making the promise of a sustainable end product more difficult to achieve.

2.1 – Past Success and Future Thinking

Prior Achievements & Planning

Over the past few years McCullagh has made some significant headway including launching the first line of sustainable coffees in 100% certified compostable packaging (Ecoverde), slashing fleet emissions by using higher efficiency Sprinter vans, driving coffee manufacturing by-product and materials waste streams to lower levels, and purchasing acreage in Laos, where McCullagh is working toward certifying robusta beans under Rainforest Alliance standards.

For these efforts McCullagh was nominated by Insyte Consulting for a Buffalo Business First Excellence in Manufacturing Award for Sustainability (small business category), which was accepted in a ceremony on May 14th, 2014.

In late 2014 McCullagh finished a \$340K capital project to reduce emissions and particulate (smoke) from the roaster stacks. This project has significantly reduced the impact of roasting operations on McCullagh's neighbors located across the street, while upgraded instrumentation required for the project has greatly improved the precision of the roast profiles and end quality of the roasts.

Initiatives to date have undoubtedly been effective, but to a large degree have been scattershot. In order to accelerate its sustainability objectives McCullagh recognizes the need to create and execute a strategic sustainability plan which includes developing and tracking key metrics, creating concrete action plans to address deficiencies, ongoing assessment of its operations and product lines to work on what really matters, and finally creating a culture of sustainability which informs all operational and product decisions.

A draft sustainability plan was developed by intern Adam Plunkett in July of 2009, however it was not fully executed and has not been updated for a number of years. As a result McCullagh Coffee has not had a structured approach to defining opportunities even as it continues to look for ways to improve environmental performance for its operations and products. The adoption of this plan is expected to remedy the situation.

2.2 WNY Sustainable Business Roundtable

To help access resources and build a more sustainable WNY business community in which to operate McCullagh undertook a key role in launching and growing the WNY Sustainable Business Roundtable. The WNY SBR is a consortium of like-minded companies that are committed to sustainability, which identifies and shares best practices, information, and resources on a pre-competitive basis. Approximately 40 private and public sector organizations are members. McCullagh Coffee served on the Steering Committee from its beginning in 2013 until April of 2015.

Membership requires that each organization sign the WNY SBR "Pledge", which McCullagh President Warren Emblidge III signed in April of 2014 along with other member organizations. It specifically requires that participating organizations develop and implement a "transparent" and measurable approach to sustainability in the member company's operations. A follow up press conference outlining what organizations have created and shared a sustainability plan is scheduled for April 24, 2015

2.3 The WNY SBR Pledge

The Pledge requires that member organizations;

Commit to become a thriving and resilient business by establishing and implementing a Sustainability Plan that:

- Reduces waste and pollution
- Protects our waterways
- Optimizes use of energy and materials
- Invests in our communities

in a transparent and measurable way that collectively, with the efforts of other WNY organizations, reduces the severity of global climate change.

In a separate resolution by the Board it was determined that all pledge signatories develop and share a Plan within one (1) year of signing the Pledge. For the initial signatories these plans are due by Earth Day, 2015 (April 22, 2015), where they will be publicized with other companies and the public. The four Pledge commitments are the foundation of this sustainability plan and the metrics.

2.3 McCullagh's Sustainability Process and Documentation

- i. **DMAIC Process:** In September of 2014 McCullagh launched a formal sustainability team to develop meaningful metrics and action items to fulfill its commitments under the Pledge, as well as its own internal commitment to reducing waste and environmental and social impacts. The team uses a formal problem solving/continuous improvement methodology based on Six Sigma DMAIC (Define, Measure, Analyze, Improve, Control) principles.
- ii. **Sustainability Team (Green Team):** Team membership is comprised of the Director of Operations, the Sustainability Coordinator, the an accounting department representative, and operations employees with expert knowledge in the manufacturing and service processes. The team will report progress to President Warren Emblidge III on a quarterly basis. The team meets on a scheduled basis (generally bi-weekly) to identify appropriate metrics, decide on key initiatives which will favorably improve the metrics, and assess progress against goals.
- iii. **Metrics and Goal Setting:** metrics developed will be SMART – Specific, Measurable, Achievable, Realistic, and Time Weighted. Each metric will be supported by specific action plans that include the improvement steps to be taken, and responsibility for completing the task. Metrics will be oriented toward reduction of total energy use, transitioning from conventional energy sources to less carbon intensive energy, reduction of waste streams and land-fill, greater use of sustainable coffee and teas in the product line, community building, and protection of water ways.

Metrics that have been finalized and charted to date are outlined under Exhibit 2.

- iv. **Planning and Documentation Tool:** the McCullagh Green Team (MGT) Minutes and Action Item (Exhibit 1) worksheet will be the core working document for the sustainability planning and implementation process. Overtime additional metrics, action items,, members, etc. will be added as progress is made on the initial objectives. The Minutes and Action Items worksheet will outline the agreed upon metrics, the specific action items, who is responsible for completing the tasks, and outcome. The MGT worksheet will updated after each meeting, and the agreed upon metrics will be calculated and updated quarterly to assess progress.

Exhibit # 1 – Planning and Documentation Tool

McCullagh Green Team – Minutes and Action Items

DATE: 4/14/15			MINUTE TAKER: Jeff		
McCullagh Green Team					
P	J. Oliver (Acting Chair)			P	Jim Jacobs
P	Tim Lipinski			PNR	Mark Crotty
P	Present	A	Absent	E	Excused
G	Guest	L	Late	PNR	Presence Not Required

Mission of the Green Team: To drive McCullagh’s sustainability performance to among “best in industry”, by developing a sustainability plan, relevant and transparent metrics, and continuous improvement activities.

MM/DD Assigned	Description of Action Item	MM/DD Completed	Responsibility (Red=behind)
METRICS DEVELOPMENT – Goal: reduce total energy usage, and shift energy supply to renewable/less carbon intensive sources			
10/9/14	Discuss and agree on potential metrics based on the signed “Pledge” requirements and McCullagh’s operations	Complete 10/9/14	Team
10/9/14	Metric #1 Energy: Natural Gas - Reduce ccf / lbs. roasted	Complete 10/20/14	Jeff / Mark C.
10/9/14	Metric # 2 Energy: Electricity – kwh generated from renewable sources (currently 5%)	Complete 10/20/14	Tim / Mark C.
4/4/15	Metric # 3 Energy: Reduce Electricity kwh / lbs. roasted	Complete	Tim / Mark C./Jeff
10/9/14	Metric # 4 Waste: Cost of Landfill / Zero Organic Waste	Due 5/10/15	Tim
10/9/14	Metrics baseline Development – Metric # 5 – Storm Water Diversion	Due TBD	Jeff
4/14/15	Metric # 6 – Increase pounds of sustainable coffees (RA/Fairtrade/Organic) sold as % of total coffee sales. 2014 – 1.9%	Complete 4/22/15	Jeff
Not Assigned	Metric # 7 - Emissions Lbs. CO2 (by lb. roasted?) – Set objective. Action items to be summarized under energy metrics once energy usage is understood	Due TBD	Team
Not Assigned	Metric # 8 – Community Building – develop a metric and plan for community involvement (i.e. – free coffee donations, fund raising events, etc.) and employee volunteerism	Due TBD	Team
Not Assigned	Potential Metrics – Vehicle Mileage (Delivery, Service and Reimbursement for Personal Vehicles?) Gallons/Year? Total Miles Driven? What	Due TBD	Joe O.
SUSTAINABILITY PLAN DOCUMENTS - Goal: create a transparent and metric driven sustainability planning process. Document SMART objectives and progress in achieving agreed upon action items, and ensure action items are completed in a timely fashion.			
9/3/14	McCullagh Elevator Speech – overview of the why and how	Complete 9/18/14	Jeff
11/14/14	Transparent McCullagh Sustainability plan and Metrics for posting to WNYSBR website - Pledge	Complete 4/16/15	Jeff/Team

	Upload sustainability plan to WNYSBR	Complete 4/22/15	Jeff
METRIC # 1 Reduce Natural Gas Usage / Lb. Produced By 15% by end of 2016.			
10/9/14	Get data from accounting on current energy usage	C - 10/12/14	Jeff
10/9/14	Develop charts for initial review of natural gas usage versus lbs. roasted over last 5 years	C - 10/12/14	Jeff / mark
4/14/15	Investigate services available through NYSERDA, energy carriers, etc. for comprehensive energy audit	5/15/15	Tim/Jeff
	Update metrics and charts quarterly		Team Leader
METRIC # 2: Increase Electricity Generated from Sustainable Sources from 5% to 30% by Dec. 31, 2016			
10/9/14	Get data from accounting on current energy usage	C - 10/12/14	Jeff
	Break out supply and delivery costs	10/24/14	Jeff / Mark
	Investigate costs with local solar panel installers and determine available subsidies (Montante, Solar City, Solar Liberty, etc.)		
METRIC # 3: Reduce average KWH / Lb. roasted over 2014 and 2015 actuals by 10% by end of year, 2016			
10/9/14	Get data from accounting on current energy usage	C - 10/12/14	Jeff
10/9/14	Break out supply and delivery costs	10/24/14	Jeff / Mark
Ongoing	Chart KWH / Lb. Roasted on existing data and update quarterly	C - 4/18/15	Jeff
METRIC # 4 Reduce waste to landfill to 0 % by Dec. 31, 2016			
10/9/14	Determine current lbs. to landfill	10/20/14	Tim
11/6/14	Complete waste audit (materials going to landfill) – garbage audit 11/11/14	C- 11/14/14	Jim/Jeff
4/14/14	Create additional action items to	5/15	
11/6/14	Investigate potential cost savings by reducing 7.5" to 7" eye spot (7%) for 2.0 oz. Ecoverde frac pacs	11/25/14	Jeff/Tim
4/14/15	Find reliable urban farm partners to pick up chaff and collected organic wastes	Ongoing	Jeff/Tim
4/14/15	Investigate bulk buying and pricing to extend compostable packaging program (Genpak laminate) to other product lines	5/15/15	Tim/Jeff/Paul Spilak (Genpak
Ongoing	Reduce total waste of conventional met/cello films by reducing from 3 ply to 2 ply for Symphony line		Will
Ongoing	Reduce scrap cardboard generated and shipping costs by increasing		Will

	box sizes and density of pallet shipments		
METRIC # 5 Storm Water Diversion and Capture (SMART objective to be developed)			
11/6/14	Investigate Bean Quench options (air cooler?)	11/25/14	Jim / Darrell
11/6/14	Rain garden for storm water runoff from roof?	5/15/2015	Jeff/Dave Majewski
TBD	Create a cistern to capture and reuse rain water for landscaping	TBD	All
METRIC # 6 Increase Sustainable Coffees Roasted as % of total coffee produced from 1.9% to 15% by June 15, 2017			
3/15/2015	Investigate and report on costs and certification process to become USDA certified organic compliant		D. Jones / Tim
METRIC # 7 Community Building (SMART objective to be developed)			
	Develop and track metrics for coffee fund raising events, hours contributed by employees to causes, etc.		All

MEETING HIGHLIGHTS

1. Discussed need to push through on commitments – need to finalize metrics.
2. Discussed potential metrics and how they would be applicable to McCullagh
3. Updated team on current activities and tried to clarify most important to move forward on Metric goals

NEXT MEETING(S):

April 24, 2015: Sustainability Plan Roll Out for WNYsBR members

April 30, 2015: Next meeting of McCullagh Green Team

Exhibit # 2 - METRICS & TRACKING

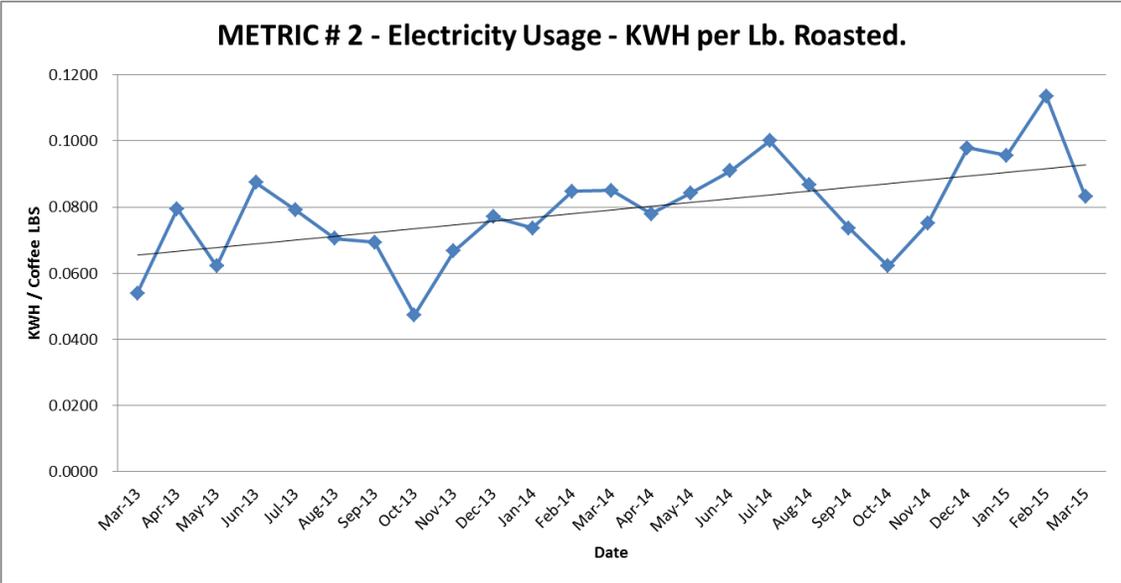
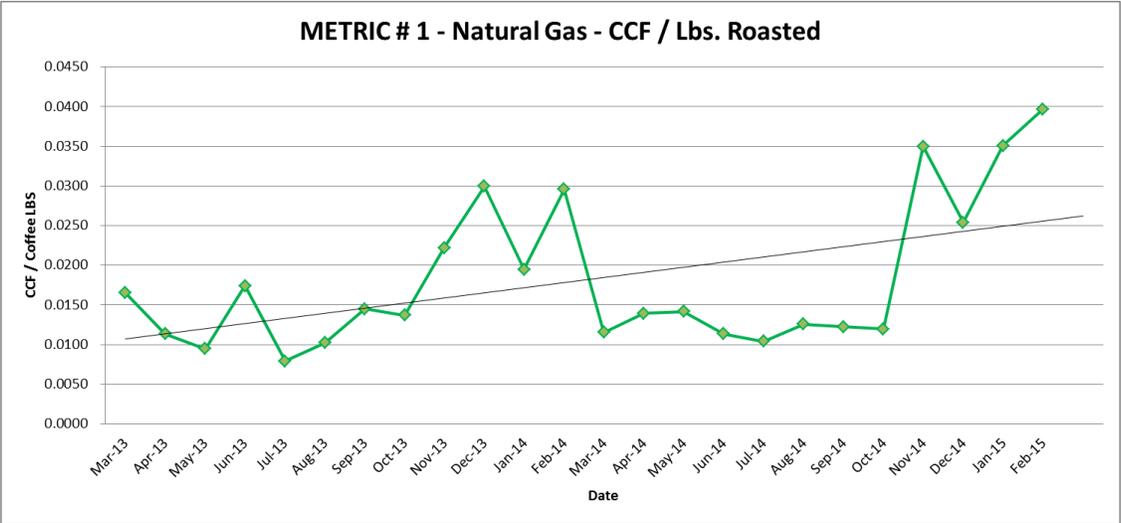


TABLE 1

Western New York Sustainable Business Roundtable Pledge



S.J. McCullagh, Inc.
245 Swan St.
Buffalo, NY 14204-2051
716.856.3473 800.753.3473
www.mccullaghcoffee.com

Western New York Sustainable Business Roundtable Pledge

We commit to become a thriving and resilient business by establishing and implementing a Sustainability Plan that:

- Reduces waste and pollution
- Protects our waterways
- Optimizes use of energy and materials
- Invests in our communities

in a transparent and measurable way that collectively, with the efforts of other WNY organizations, reduces the severity of global climate change.

A handwritten signature in black ink, appearing to read "Warren Emblidge", is written over a horizontal line.

Warren Emblidge, President

April 8, 2014