

## COOLBRANDS INTERNATIONAL INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations

(Tabular amounts expressed in thousands of Canadian dollars, except share data)

This management's discussion and analysis ("MD&A") addresses the consolidated results of operations and financial position of CoolBrands International Inc. ("CoolBrands" or the "Company") for the three and nine months ended May 31, 2010 (the "Fiscal 2010 Third Quarter"), compared to the three and nine months ended May 31, 2009 (the "Fiscal 2009 Third Quarter"). This MD&A is dated June 23, 2010 and has been approved by the Board of Directors of CoolBrands on the recommendation of the Audit Committee.

This MD&A should be read in conjunction with the Company's audited August 31, 2009 consolidated financial statements and the related notes, which may be accessed on the Internet at [www.sedar.com](http://www.sedar.com). Additional information relating to the Company, including the Company's Annual Information Form, can also be accessed on the SEDAR website.

Unless otherwise indicated, all financial information herein is prepared in accordance with Canadian generally accepted accounting principles and all dollar amounts referred to herein are in Canadian dollars, except per share data. As a result of rounding differences, certain figures in this MD&A may not total.

### Cautionary Statement Regarding Forward Looking Statements

*The information in this document contains certain forward-looking statements with respect to CoolBrands International Inc. and its subsidiaries. These statements are often, but not always made through the use of words or phrases such as "expect", "should continue", "continue", "believe", "anticipate", "estimate", "contemplate", "target", "plan", "budget", "may", "will", "schedule" and "intend" or similar formulations. By their nature, these forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant, known and unknown, business, economic, competitive and other risks, uncertainties and other factors affecting CoolBrands specifically or its industry generally that could cause actual performance, achievements and financial results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include the Company's ability to effectively manage the risks inherent with mergers and acquisitions; the ability of the Company to minimize the negative impact of any litigation; the effect on foreign operations of political, economic and regulatory risks; currency risk exposure; the ability to recruit and retain qualified employees; and other risks described from time to time in publicly filed disclosure documents of CoolBrands and its subsidiaries. In view of these uncertainties we caution readers not to place undue reliance on these forward-looking statements. CoolBrands disclaims any intention or obligation to update or revise any statements made herein, whether as a result of new information, future events or otherwise.*

### About CoolBrands International Inc.

CoolBrands International Inc. is a company looking to profit from its current financial holdings by searching out, investigating and investing in enterprises that are expected to provide long-term positive returns for its shareholders.

### Financial Results

#### *Revenue from continuing operations*

Revenue is comprised primarily of interest earned by the Company on its invested cash funds. Revenue decreased in the Fiscal 2010 Third Quarter to \$134,000 compared to \$254,000 in the Fiscal 2009 Third Quarter, primarily as a result of lower interest earned on invested funds due to lower interest rates and reduced rental income earned from the Company's property in New Jersey.

For the nine months ended May 31, 2010, revenue was \$443,000 versus \$1,269,000 in the corresponding period of 2009. The reduction was a result of lower interest earned on invested funds and interest earned on a promissory note in Fiscal 2009 that was repaid in the first quarter of fiscal 2010.

#### *General and administrative expenses*

General and administrative expenses include salaries and benefits, consulting and legal fees, directors fees, costs associated with public company reporting requirements, office expenses and operating expenses related to a building in New Jersey. The increase in general and administrative expenses in the Fiscal 2010 Third Quarter compared to the Fiscal 2009 Third Quarter was primarily the result of consulting fees incurred in addressing environmental matters at the New Jersey property.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

For the nine months ended May 31, 2010, general and administrative expenses were \$1,160,000 compared to \$1,200,000 in the corresponding period of 2009, primarily as a result of lower legal fees and insurance costs in the current year, offset by higher environmental consulting costs.

### *Gain (loss) on foreign exchange*

During the Fiscal 2010 Third Quarter the Company recognized a gain on foreign exchange of \$14,000 as a result of converting a portion of the Company's U.S. dollar cash holdings at favorable exchange rates. The Company has further reduced its U.S. dollar investment holdings, such that at May 31, 2010 the Company holds approximately \$2,616,000 of investments denominated in U.S. dollars, compared to \$4,190,000 at August 31, 2009.

For the current year to date, the Company incurred a foreign exchange loss of \$(150,000) as a result of an appreciating Canadian dollar, compared to a foreign exchange gain of \$1,826,000 in the prior year nine month period. The 2009 gain resulted from converting a significant amount of U.S. dollar denominated investments into Canadian dollars during a period when the U.S. dollar had realized significant gains against the Canadian dollar.

### *Income taxes*

As a result of cumulative operating losses, the Company does not have an income tax expense in the current or prior year. The Company has established an allowance for non-capital loss carry-forwards, and temporary differences between tax and accounting values, as the utilization of such loss carry-forwards is considered unlikely.

### *Discontinued operations*

Income from discontinued operations in the Fiscal 2010 Third Quarter of \$152,000 was primarily due to a reduction in the carrying value of liabilities as a result of an assessment of expected payments to be made on such liabilities. Contributing to the loss from discontinued operations for the first nine months of Fiscal 2010 was the settlement of a litigation matter. For further details on this litigation settlement, see comments in the Legal Matters section below.

### *Net income (loss) for the period*

The Company reported a loss of \$(111,000), or \$(0.00) per fully diluted share in the Fiscal 2010 Third Quarter, which was comprised of a loss from continuing operations of \$(263,000), or \$(0.00) per fully diluted share, and income from discontinued operations of \$152,000, or \$0.00 per fully diluted share. The loss from continuing operations resulted from general and administrative expenses that exceeded the amount of interest revenue earned during the quarter. The prior year loss for the quarter was less than in 2010 as interest earned on invested funds were higher due to higher prevailing interest rates.

For the year to date, the Company reported a loss of \$(1,175,000), or \$(0.02) per fully diluted share, which was comprised of a loss from continuing operations of \$(867,000), or \$(0.02) per fully diluted share and a loss from discontinued operations of \$(308,000), or \$(0.01) per fully diluted share. This compared to income of \$1,973,000 earned for the similar period in fiscal 2009. Income for the first nine months of fiscal 2009 included a gain on foreign exchange of \$1,826,000.

## Summary of quarterly results

The following table presents a summary of the Company's financial results for the last eight quarters:

<b>Quarter ended</b>	<b>May 31, 2010</b>	<b>February 28, 2010</b>	<b>November 30, 2009</b>	<b>August 31, 2009</b>
Total revenues from continuing operations	\$ 134	\$ 134	\$ 175	\$ 178
Income (loss) from continuing operations	(263)	(266)	(338)	(92)
Income (loss) from discontinued operations	152	(566)	106	121
Income (loss) for the quarter	<u>\$ (111)</u>	<u>\$ (832)</u>	<u>\$ (232)</u>	<u>\$ 29</u>
Earnings per share (basic and diluted)				
Loss per share from continuing operations	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Income (loss) per share from discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.00
Income (loss) per share	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ 0.00

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Quarter ended	May 31, 2009	February 28, 2009	November 30, 2008	August 31, 2008
Total revenues from continuing operations	\$ 254	\$ 449	\$ 566	\$ 774
Income (loss) from continuing operations	(1,128)	307	2,716	3,402
Income (loss) from sale of discontinued operations	-	163	-	(138)
Income (loss) from discontinued operations	163	-	(248)	448
Income (loss) for the quarter	\$ (965)	\$ 470	\$ 2,468	\$ 3,712
Earnings per share (basic and diluted)				
Income (loss) per share from continuing operations	\$ (0.02)	\$ 0.01	\$ 0.05	\$ 0.05
Income (loss) per share from discontinued operations	\$ 0.00	\$ 0.00	\$ (0.00)	\$ 0.01
Income (loss) per share	\$ (0.02)	\$ 0.01	\$ 0.04	\$ 0.06

### Liquidity

The following sets forth certain measures of the Company's liquidity:

	May 31, 2010	August 31, 2009
Cash and short-term investments	\$ 64,790	\$ 61,898
Working capital	\$ 62,337	\$ 63,149
Current ratio	25.09 to 1.0	19.75 to 1.0

Cash and short-term investments decreased by \$340,000 in the Fiscal 2010 Third Quarter primarily as a result of the loss from operations. Working capital declined from August 31, 2009 due to the litigation settlement payment.

The Company invests its funds primarily in short-term securities, consisting of corporate commercial paper (non-asset backed), bank term deposits, investment certificates and savings accounts, treasury bills and money market funds. These investments are held in a segregated account at a Canadian regulated financial institution. Over the past two years, the Company has not invested in any securities with a maturity date greater than nine months. This practice may change depending on yield curves presented to the Company and discussions with its investment manager.

As a consequence of the recent financial crises and corresponding decline in economic activity, market interest rates on investment instruments have remained at historically low levels. The impact of such low rates has resulted in a reduction of investment returns on the Company's invested funds. Assuming that these interest rates continue at a low level, the revenue earned by the Company over the remainder of the year will be lower when compared to prior periods. As well, investment returns may not be sufficient to offset the Company's general administration costs, such that income from continuing operations may continue to be negative in the future.

Due to the nature of the Company's current operations and its significant cash resources, the Company is not dependent on the availability of credit facilities nor is it subject to lending covenants that impact its business.

One of the Company's subsidiaries is a sponsor of a defined benefit pension plan. The last actuarial report, effective January 1, 2009, showed actuarial liabilities in excess of plan assets of U.S. \$494,000 or 19% of the actuarial liability. The Company's actuary has advised that no funding of this shortfall will be required in Fiscal 2010. However, in the event that the actuarial liability exceeds the value of the pension plan assets in the future, it may be necessary for the subsidiary to fund such shortfall.

### Cash flows from operating activities of continuing operations

The Company used cash in operating activities of \$(205,000) in the Fiscal 2010 Third Quarter, compared with using cash of \$(1,147,000) in operating activities in the Fiscal 2009 Third Quarter. The reduction in cash used related to the reduction in the loss from operations in the current year quarter versus the loss in the prior year quarter.

For the year to date, the Company earned cash of \$16,000 from operating activities compared to \$2,237,000 in the prior year period. The prior year results included a gain on foreign exchange of \$1,826,000.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Cash flows from investing activities of continuing operations**

During the Fiscal 2010 Third Quarter, cash used in investing activities amounted to \$(25,242,000), compared to \$(43,936,000) in the Fiscal 2009 Third Quarter, as a result of cash funds being invested in short-term investments. The Company's accounting policy provides that investments with maturities of greater than 90 days be considered as a short-term investment. The Fiscal 2010 year to date results reflect the collection of two promissory note balances.

### **Cash flows from operating activities of discontinued operations**

The Company used cash from discontinued operation of \$(115,000) in the Fiscal 2010 Third Quarter, compared to using cash of \$(392,000) in the Fiscal 2009 Third Quarter. The use of cash in discontinued operations in the current year quarter was the result of the payment of accounts payable balances.

For the year to date, the Company used cash of \$(942,000) in discontinued operations compared to using \$(1,102,000) in the prior nine month period. In addition to the litigation settlement payment made in the second quarter of Fiscal 2010, the Company reduced the balance owing to vendors, primarily legal counsel, during the year.

### **Contractual Obligations**

The Company does not have any remaining material contractual obligations pertaining to its continuing operations.

### **Capital resources**

CoolBrands' cash requirements are substantially unchanged from those disclosed in the annual MD&A for Fiscal 2009. The Company believes it has sufficient liquidity to fund operations for the foreseeable future.

### **Payment requirements**

Payment requirements are substantially unchanged from those disclosed in the annual MD&A for Fiscal 2009 and no new material obligations have been incurred.

### **Risk factors and uncertainties**

Risk factors and uncertainties are substantially unchanged from those disclosed in the annual MD&A for Fiscal 2009, except as described in the Liquidity section above dealing with changes in interest rates. As noted in the liquidity section above, one of the Company's subsidiaries is a sponsor of a defined benefit pension plan. Based on the latest actuarial report as at January 1, 2009, the plan had an actuarial liability in excess of plan assets. The actuarial valuation process contains measurement uncertainty. Accordingly, there is no assurance that the plan assets will, in the future, exceed the actuarial liability, as the assumed rate of return on invested assets may not be attained. Also, market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

### **Critical accounting estimates**

Significant estimates are used in determining, but not limited to, the allowance for collection risk on promissory notes receivable, income tax valuation allowances, accrued liabilities, pension plan assumptions and contingencies. Actual results could differ from the estimates made by management in preparing the consolidated financial statements. Due to the downturn in the financial markets in 2009, the value of assets supporting the defined benefit pension plan has decreased. Management will continue to review the estimates for the expected rate of return on assets and the discount rate used in determining the actuarial liability to ensure they are appropriate in the current market environment. The latest actuarial calculations are based on an expected rate of return on assets of 7.5% compared to the plan's five year average return of 0.3%. The discount rate used is 5.69% compared to a 7.11% rate used in the prior year actuarial calculation.

### **Transactions with related parties**

The nature of transactions with related parties is unchanged from those disclosed in the annual MD&A for Fiscal 2009.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Disclosure Controls and Internal Controls**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting.

There have been no changes in internal controls over financial reporting since November 18, 2009, the date of the Company's Management's Discussion and Analysis of its financial position for the fiscal year ended August 31, 2009, that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls at May 31, 2010, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

Management recognizes that the internal controls it has established for its current operations are impacted by the potential lack of segregation of duties due to a limited number of staff involved in performing accounting and financial disclosure activities.

### **Changes in accounting policies**

There have been no changes in the critical accounting policies from those disclosed in the annual MD&A for Fiscal 2009, except as noted below. For all of these policies, management cautions that future events rarely develop exactly as forecast, and management's best estimates may require adjustment.

#### **a) Goodwill and intangible assets:**

CICA Handbook Section 3064, "Goodwill and Intangible Assets", establishes revised standards for recognition, presentation and disclosure of goodwill and intangible assets. The adoption of this standard as at September 1, 2009 did not have a material impact on the Company's consolidated financial statements.

#### **b) Financial instruments – recognition and measurement:**

CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance to assess whether there is objective evidence of impairment of available-for-sale financial assets, as well as guidance on reclassifications of embedded derivatives that cannot be separated from the host contract. The adoption of this standard as at September 1, 2009 did not have a material impact on the Company's consolidated financial statements.

#### **c) Financial instruments – disclosures:**

CICA Handbook Section 3862, "Financial Instruments – Disclosures", provides for additional disclosures in the Company's annual financial statements on fair value and liquidity risk disclosures by requiring Company's to disclose a fair value hierarchy used in assessing the values of financial instruments, a maturity analysis of financial liabilities and a description of the management of liquidity risk. The Company will be providing this required disclosure in its annual consolidated financial statements for the year ended August 31, 2010.

### **IFRS changeover plan**

In its annual MD&A for the fiscal year ended August 31, 2009, the Company provided its plan outlining activities and milestones in order to achieve conversion to IFRS by the date mandated by the Canadian Accounting Standards Board. The Company expects to meet all milestones through to completion of the conversion to IFRS.

The following is a status report on activities contained within the Company's IFRS conversion plan.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Activity	Milestones	May 31, 2010 Status
<b>Financial reporting:</b> <ul style="list-style-type: none"> <li>• Assessment of the key differences in accounting treatment and financial reporting</li> <li>• Selection of accounting policies and IFRS 1 elections to be IFRS compliant</li> <li>• Development of IFRS financial statement format, including note disclosures</li> <li>• Quantification of effects of IFRS conversion</li> </ul>	<p>Senior management and audit committee approval for accounting policy decisions by March 2010</p> <p>Senior management and audit committee approval on financial statement format by March 2011</p> <p>Final quantification of conversion effects on August 31, 2011 comparative period by Q1 2012</p>	<p>Mapping process of existing accounting policies against IFRS completed.</p> <p>Selection of IFRS accounting policies and the elections for IFRS 1 exemptions underway.</p>
<b>Systems and procedures:</b> <ul style="list-style-type: none"> <li>• Assessment of impact of changes on systems and processes</li> <li>• Implementation of any system and process design changes</li> <li>• Documentation and testing of internal controls over new systems and processes</li> </ul>	<p>Systems, process and internal control changes implemented by February 2011</p> <p>Testing of internal controls for 2011 comparatives by Q1 2012</p>	<p>No work undertaken to date on system and internal controls changes.</p>
<b>Business:</b> <ul style="list-style-type: none"> <li>• Assessment of impacts of changes resulting from implementation of IFRS on business activities</li> <li>• Communicate changes internally and externally</li> </ul>	<p>Assessment will be completed by March 2011</p> <p>Communication will be made throughout conversion process</p>	<p>Assessment has not yet been undertaken.</p> <p>Internal communication is ongoing.</p>

### Financial Instruments and Other Instruments

The Company has identified a number of financial instruments relating to its operations and has made the following classification of these financial instruments in its financial statements:

- Cash, short-term investments and investments in marketable securities are classified as financial assets held for trading and are measured at fair value. Fair value of investments in short-term investments and marketable securities has been provided by the financial institution holding these investments and is based on prevailing market rates for such instruments;
- Promissory notes and interest receivable are treated as a held-to-maturity investment and are recorded at amortized cost using the effective interest method;
- Accounts receivable are classified as loans and receivables and are initially measured at fair value. Subsequent period revaluations are recorded at amortized cost using the effective interest rate method; and
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

These financial instruments subject the Company to the following risks:

- Interest rate risk arises from the investment of its cash resources in interest-bearing securities such that a reduction in market interest rates would reduce the amount of interest revenue earned by the Company. The Company has invested its funds in short-term investments that mature at various dates within six months from the date of investment. A mixture of maturity dates allows the Company to reinvest funds based on prevailing interest rates over a range of dates.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

- Foreign exchange risk arises as the Company holds certain financial instruments in U.S. dollar based currency. The amounts of the U.S. dollar based assets exceed the amounts of the Company's U.S. dollar based liabilities. As a result, a decrease in the value of the U.S. dollar compared to the Canadian dollar exposes the Company to foreign exchange losses in its financial statements.
- Credit risk exists as a result of investments in financial institutions and other commercial enterprises. The Company attempts to mitigate this risk by investing only in institutions with minimum of A or equivalent ratings by recognized rating agencies and has not invested in asset-backed securities.

The Company has not purchased any financial instruments that provide a hedge against the above-noted risks.

### **Legal matters**

CoolBrands is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. CoolBrands evaluates, among other things, the degree of probability of an unfavorable outcome and reasonably estimates the amount of the loss. Significant judgment is required in both the determination of the probability and as to whether an exposure can be reasonably estimated. When CoolBrands determines that it is probable that a loss has been incurred, the effect is recorded in the Consolidated Financial Statements. Although the legal outcome of these claims cannot be predicted with certainty, CoolBrands does not believe that any of the existing legal matters will have a material adverse affect on its financial condition or results of operations. However, significant changes in legal proceedings and claims or the factors considered in the evaluation of those matters could have a material adverse affect on CoolBrands business, financial condition and results of operation.

On October 31, 2006, Capricorn Investors III, L.P. ("Capricorn"), the parent of Americana Foods Corporation, filed a complaint in the Supreme Court of the State of New York ("the Court") against CoolBrands, Integrated Brands, Inc., CBA Foods LLC, CB Americana LLC and certain officers and directors of CoolBrands asserting allegations against the defendants for breaches of contract, breach of fiduciary duty, fraud and conspiracy and sought injunctive relief and damages of over \$60 million.

Following several successful decisions rendered by the Court in favour of the Company, on December 21, 2009, CoolBrands and certain related entities entered into a settlement agreement with Capricorn relating to this lawsuit. All claims in the lawsuit were dismissed with prejudice. Pursuant to the settlement agreement, CoolBrands agreed to make a payment to Capricorn of U.S. \$1,050,000. The Company's insurer agreed to contribute 50% of the settlement amount. The net amount of U.S. \$525,000 was paid and expensed in the Company's Fiscal 2010 Second Quarter financial results.

In February 1992, Eskimo Pie Corporation ("EPC") entered into an agreement with the former owner of EPC whereby the former owner agreed to indemnify EPC for damages or expenses resulting from environmental contamination caused by the former owner and its predecessors on an EPC owned property located in New Jersey. Litigation has commenced by the Company to demand that the former owner abide by the terms of the agreement. In the event the Company is not successful in this litigation, it may be required to pay the costs associated with remediating the environmental contamination on the property. The cost of remediation cannot be reasonably estimated at this time. EPC has provided a self-guarantee to the State of New Jersey in the amount of U.S.\$370,000 to cover potential clean up costs.

### **Annual Information Form**

Additional information relating to CoolBrands including CoolBrands' Annual Information Form is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Outstanding share data**

As of June 23, 2010, the Company had 56,185,433 common shares, 5,500,000 warrants and 920,000 stock options to purchase common shares outstanding.

### **Outlook**

The outlook for Fiscal 2010 is substantially unchanged from what was disclosed in the Fiscal 2009 MD&A. As described above, the current economic situation has resulted in a decline in interest rates which has had, and will continue to have, a negative impact on the amount of investment income earned by the Company on its cash funds. The Company continues to receive and review acquisition opportunities to invest its cash funds. The consolidated results of operations for Fiscal 2010 may be significantly impacted in the event the Company undertakes an acquisition of all or a portion of another entity. It is not possible to predict with a high degree of certainty the ultimate success of future operations of the Company, including the results of the investment of the Company's financial resources.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Company's future performance is subject to all of the risk factors and uncertainties previously disclosed.

### **RESPONSIBILITY FOR MD&A**

Management is responsible for the preparation of this MD&A, including its reliability and timeliness of information disclosed therein. Management is also responsible to implement and monitor an effective system of internal controls and procedures to ensure that information used internally by management and disclosed externally is reliable and timely. The Company's Board of Directors is responsible for approving the MD&A.

"Michael Serruya"

"Ken MacKenzie"

Chief Executive Officer

Chief Financial Officer

June 23, 2010