Boss Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 30, 2017

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Independent Auditor's Report

To the Board of Directors
Boss Holdings, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Boss Holdings, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 30, 2017 and December 31, 2016, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the periods ended December 30, 2017, December 31, 2016 and December 26, 2015, and the related notes to the consolidated financial statements, (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boss Holdings, Inc. and Subsidiaries as of December 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for the periods ended December 30, 2017, December 31, 2016 and December 26, 2015, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Davenport, Iowa
September 21, 2018

Boss Holdings, Inc.
and Subsidiaries

Consolidated Balance Sheets
(Dollars in Thousands, Except Per Share Data)

	December 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 17,316	$ 16,592
Accounts receivable, net of allowance for doubtful accounts and returns 2017 $139; 2016 $149	9,892	10,052
Income tax receivable	859	-
Inventories	19,418	18,749
Prepaid expenses and other	678	858
Total current assets	48,163	46,251
Property and equipment, net	2,647	2,647
Available for sale securities	1,425	-
Intangibles, net of accumulated amortization	881	227
Goodwill	2,853	2,853
Deferred tax asset	451	974
	$ 56,420	$ 52,952
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 2,506	$ 10
Accounts payable	3,332	2,639
Accrued payroll and related expenses	1,519	1,448
Accrued promotional expenses	968	1,061
Other accrued liabilities	589	675
Total current liabilities	8,914	5,833
Long-term debt	3	2,505
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, $.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,118 shares and 1,991,323 shares in 2017 and 2016, respectively	497	498
Additional paid-in capital	64,424	64,562
Accumulated (deficit)	(16,989)	(19,899)
Accumulated other comprehensive (loss)	(429)	(547)
Total stockholders' equity	47,503	44,614
	$ 56,420	$ 52,952

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Comprehensive Income
Periods Ended December 30, 2017, December 31, 2016 and December 26, 2015
(Dollars in Thousands, Except Per Share Data)

	2017	2016	2015
Net sales	**$ 62,312**	$ 62,194	$ 67,944
Cost of sales	**44,857**	45,712	50,619
Gross profit	**17,455**	16,482	17,325
Operating expenses	**14,624**	13,839	14,211
Operating income	**2,831**	2,643	3,114
Other income and (expenses):			
Interest income	**-**	-	1
Interest expense	**(59)**	(62)	(38)
Change in unrealized gains on available for sale securities	**527**	-	-
Other	**(15)**	21	144
	453	(41)	107
Income before income tax expense	**3,284**	2,602	3,221
Income tax expense	**374**	967	1,245
Net income	**2,910**	1,635	1,976
Other comprehensive income (loss), foreign currency translation adjustments	**118**	14	(301)
Comprehensive income	**$ 3,028**	$ 1,649	$ 1,675
Basic earnings per common share	**$ 1.46**	$ 0.82	$ 0.98
Diluted earnings per common share	**$ 1.46**	$ 0.82	$ 0.97

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Stockholders' Equity
Periods Ended December 30, 2017, December 31, 2016 and December 26, 2015
(Dollars and Shares In Thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Dollars	Capital	(Deficit)	(Loss)	Equity
Balance, December 27, 2014	2,022	$ 505	$ 65,164	$ (23,510)	$ (260)	$ 41,899
Exercise of stock options; 46 shares	45	11	303	-	-	314
Repurchase of 57 shares of common stock	(57)	(14)	(720)	-	-	(734)
Net income	-	-	-	1,976	-	1,976
Other comprehensive (loss)	-	-	-	-	(301)	(301)
Income tax benefit related to share based compensation	-	-	27	-	-	27
Balance, December 26, 2015	2,010	502	64,774	(21,534)	(561)	43,181
Repurchase of 19 shares of common stock	(19)	(4)	(221)	-	-	(225)
Net income	-	-	-	1,635	-	1,635
Other comprehensive income	-	-	-	-	14	14
Share-based compensation	-	-	9	-	-	9
Balance, December 31, 2016	1,991	498	64,562	(19,899)	(547)	44,614
Exercise of stock options; 10 shares	10	3	60	-	-	63
Repurchase of 15 shares of common stock	(15)	(4)	(221)	-	-	(225)
Net income	-	-	-	2,910	-	2,910
Other comprehensive income	-	-	-	-	118	118
Income tax benefit related to share based compensation	-	-	23	-	-	23
Balance, December 30, 2017	**1,986**	**$ 497**	**$ 64,424**	**$ (16,989)**	**$ (429)**	**$ 47,503**

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended December 30, 2017, December 31, 2016 and December 26, 2015
(Dollars in Thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 2,910**	$ 1,635	$ 1,976
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**659**	607	612
Share-based compensation and related tax benefits	**23**	9	27
Deferred tax expense	**523**	132	202
Loss on sale of property and equipment	**-**	-	32
Change in unrealized gains on available-for-sale securities	**(527)**	-	-
Changes in assets and liabilities net of acquisitions:			
(Increase) decrease in:			
Accounts receivable	**211**	(156)	(201)
Inventories	**(456)**	5,628	3,257
Prepaid expenses and other	**188**	(251)	204
Other assets	**(369)**	(117)	(103)
Increase (decrease) in:			
Accounts payable	**453**	(360)	(1,407)
Accrued liabilities	**(1,058)**	(325)	(222)
Net cash provided by operating activities	**2,557**	6,802	4,377
Cash flows from investing activities:			
Purchases of property and equipment	**(520)**	(323)	(430)
Purchase of available-for-sale securities	**(898)**	-	-
Payment for acquisition	**(504)**	-	-
Net cash used in investing activities	**(1,922)**	(323)	(430)
Cash flows from financing activities:			
Repurchase of common stock	**(225)**	(225)	(734)
Proceeds from long-term revolving line of credit	**-**	-	2,500
Repayment of long-term obligations	**(6)**	(5)	(441)
Proceeds from exercise of stock options	**63**	-	314
Net cash provided by (used in) financing activities	**(168)**	(230)	1,639
Effect of exchange rate changes on cash	**257**	68	(562)
Increase in cash and cash equivalents	**724**	6,317	5,024
Cash and cash equivalents:			
Beginning	**16,592**	10,275	5,251
Ending	**$ 17,316**	$ 16,592	$ 10,275

(Continued)

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended December 30, 2017, December 31, 2016 and December 26, 2015
(Dollars in Thousands)

	2017	2016	2015
Supplemental disclosure of cash flows information, cash payments for:			
Interest	**$ 59**	$ 62	$ 38
Income taxes	**$ 425**	$ 684	$ 716
Supplemental disclosure of noncash investing activities:			
Increase in accounts payable in connection with acquisition	**$ 80**	$ -	$ -
Increase in accounts payable in connection with construction in progress additions	**$ 11**	$ -	$ -

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Boss Holdings, Inc. and its subsidiaries are engaged in the import, marketing and distribution of gloves, boots, rainwear, pet supplies and cell phone accessories, as well as custom imprinting of inflatable and other products for the advertising specialties industry. Customers, located throughout the world, include retailers ranging from convenience stores to mass merchandisers and various commercial users. The Company sells its products primarily through distributors and manufacturers' representatives.

Significant accounting policies:

Principles of consolidation: The accompanying financial statements include the accounts of Boss Holdings, Inc. (BHI), and its wholly owned subsidiary, Boss Manufacturing Holdings, Inc. and subsidiaries (BMHI) (collectively, the Company). All significant intercompany balances and transactions have been eliminated in the financial statements.

Fiscal year: The Company maintains a 52/53-week year ending on the last Saturday of the calendar year. Years 2017, 2016 and 2015 contained 52, 53, and 52 weeks, respectively.

Use of estimates in the preparation of financial statements: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand, time deposits and liquid debt instruments such as commercial paper with maturities of three months or less from the date of purchase.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

An account is considered to be past due if any portion of the receivable balance is past due more than 30 days. The provision for bad debts charged to expense, net of recoveries was $(5), $(39) and $80 for the periods ended 2017, 2016 and 2015, respectively.

Revenue recognition: The Company recognizes revenue from product sales at the time of shipment based on standard terms of FOB shipping point, with title passing to the customer at time of shipment. Management records estimated reductions to revenue for various customer programs and incentive offerings primarily in the consumer market of the work gloves and protective wear segment.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

These programs include the following:

- Rebates and other volume-based incentives—The Company records a revenue reduction and associated accrued liability each period based on the estimated rebate total. Rebates paid are then charged to the accrued liability. Each quarter, management compares the accrued liability balance to the estimated rebates payable compiled for all customers and makes adjustments as appropriate to revenues and the accrued rebate liability.

- Terms discounts—The Company offers cash discounts to certain customers, recorded as revenue reductions in each period with an associated accounts receivable allowance. Quarterly management analyzes this allowance account to ensure its adequacy, adjusting sales and the accounts receivable allowance when appropriate.

- Cooperative advertising and marketing allowances—The Company supports certain customer advertising and marketing initiatives to promote product sales at retail. In many cases, customers advertise Company products using mutually agreed specifications such as the Boss logo and trade names, with the Company then reimbursing a portion of the advertising cost incurred by the customer. The Company also supports various other advertising and marketing initiatives to promote sales. All such costs are treated as a reduction of revenues for accounting purposes.

- To a lesser extent, the Company occasionally utilizes additional incentives to increase market share such as buying back a competitor's inventory from a new customer, offering conversion allowances and providing other new customer incentives. Such methods are common in certain retail industry channels. All such costs are treated as a reduction of revenues for accounting purposes.

As of December 30, 2017 and December 31, 2016, the Company's accrual for customer advertising and promotional activities totaled $968 and $1,061, respectively. The Company has received no material allowances or credits from any vendors in connection with the purchase or promotion of such vendor's products.

Cost of sales: The Company's cost of sales expense includes all costs incident to purchasing goods for sale, transporting them from the supplier to Company facilities, warehousing and shipping goods to the customer. Such costs include product cost, inbound freight, duty, brokerage fees and storage costs as well as shipping and handling costs associated with outbound shipments to customers.

Warranty costs and returns: The Company provides for estimated warranty costs and returns at the time of sale. Accrued costs of warranty obligations and returns are classified as accrued liabilities and are immaterial to the financial statements as a whole.

Inventories: Inventories are valued at the lower of cost or net realizable value using primarily the first-in, first-out (FIFO) method. The Company provides estimated inventory allowances for excess, slow moving and obsolete inventory whose carrying value is in excess of net realizable value. Inventories consist of finished goods for the periods presented.

(Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Available for sale securities: Management determines the appropriate classification of marketable securities at the time of purchase and reviews such designation as of each balance sheet date. All marketable securities are categorized as available for sale securities. Marketable equity securities are stated at fair value and realized and unrealized gains and losses are included in net income. The Company uses the specific identification method of computing realized gains and losses. Purchases and sales are recorded on the trade date. The Company's available for sale portfolio had no individual securities in an unrealized loss position as of December 30, 2017. No investments were held as of or during the year ended December 31, 2016.

Property and equipment and depreciation: Property and equipment is recorded at historical cost. The Company provides for depreciation generally using the straight-line method over the following estimated useful lives:

	Years
Machinery and equipment	7
Office furniture and equipment	3-7
Buildings and improvements	10-39

Depreciation expense was $519, $551 and $582 for 2017, 2016 and 2015, respectively.

Goodwill and other intangibles: Goodwill represents the excess of purchase price over the fair value of the identifiable net assets acquired. In accordance with Financial Accounting Standards Board (FASB) ASC Topic 350, goodwill is not amortized and, instead, is evaluated for impairment at least annually. The Company performs its impairment test in December each year. Other intangible assets are recorded at cost and amortized over their estimated useful life (see Note 10).

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

(Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The cost and accumulated amortization of other intangible assets as of December 30, 2017 and December 31, 2016, are as follows:

	2017			
	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
Customer lists	5	$ 425	$ 43	$ 382
Trademarks	5	334	284	50
Product certifications	5	590	142	448
Product certifications	4	18	17	1
		$ 1,367	$ 486	$ 881

	2016			
	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
Trademarks	5	$ 320	$ 270	$ 50
Product certifications	5	238	64	174
Product certifications	4	18	15	3
		$ 576	$ 349	$ 227

Estimated future amortization of intangible assets is as follows:

Periods ending:	
December 29, 2018	$ 220
December 28, 2019	214
December 26, 2020	194
December 25, 2021	169
December 31, 2022	84
	$ 881

The Company's goodwill impairment evaluation as of December 30, 2017 and December 31, 2016, indicated that the goodwill was not impaired.

Concentrations of credit risk: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable.

The Company places its cash and temporary cash investments with high credit quality financial institutions. The combined account balances at each institution periodically exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Concentrations of credit risk with respect to accounts receivable are limited due to the diversity of the Company's customer base. The Company's management has established certain credit requirements that its customers must meet before sales credit is extended. The Company generally does not require collateral, but monitors the financial condition of its customers to help ensure collections and to minimize losses. Historically, the Company has not experienced significant losses related to accounts receivable from individual customers or from groups of customers in any geographic area.

Foreign currency translation: Financial statements of the Company's Canadian subsidiary are translated into U.S. dollars using fiscal year-end exchange rates for assets and liabilities, and average exchange rates during the year for the results of operations. Translation adjustments of the Canadian accounts are reported as a separate component of other comprehensive income (loss) within stockholders' equity. Exchange rate adjustments related to foreign currency transactions are recognized in comprehensive income (loss).

Income taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates applied to taxable income. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company accounts for stock options using the tax-law-ordering approach which recognizes an excess tax benefit when a stock option deduction is used on the company's tax return, before an NOL or another tax attribute. A valuation allowance is provided for deferred income tax assets when it is more likely than not that the asset will not be realized.

Advertising costs: The Company generally expenses the production costs of advertising the first time advertising takes place. Costs of trade shows and developing advertising materials are expensed at the time of the trade shows or as the advertising materials are produced and distributed to customers. Advertising expense for 2017, 2016 and 2015 was $1,576, $1,633 and $1,521, respectively.

Stock based compensation: The Company calculates stock-based compensation by estimating the fair value of each option using the Black-Scholes option pricing model. The Company's determination of fair value of share-based payment awards is made as of their respective dates of grant using that option pricing model and is affected by the Company's stock price as well as a number of subjective assumptions. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behavior. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors, as they pertain to future grants, could change in the future, affecting the determination of stock-based compensation expense in future periods.

Earnings per share: Basic net earnings per common share are based upon the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is based upon the weighted average number of common shares outstanding plus dilutive potential common shares, including options outstanding during the period.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Subsequent events: The Company has evaluated subsequent events through September 21, 2018, the date on which the financial statements were issued, in preparing the financial statements and notes thereto.

New and pending accounting pronouncements: In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11*, Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The new standard became effective for fiscal years beginning after December 15, 2016, including interim periods within those years, on a prospective basis. Accordingly, the Company adopted ASU 2015-11 during the year ended December 30, 2017, and determined that such adoption did not have a material impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. As permitted, during the year ended December 30, 2017, the Company elected to early-adopt the provision that requires unrealized gains and losses on available for sale securities to be recognized in net income, rather than in other accumulated comprehensive income (loss). The Company has determined that the remaining provisions of ASU 2016-01 will not have a material impact on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 one year making it effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company has selected the retrospective with cumulative effect transition method and anticipates this standard will not have a material impact on its financial statements with an immaterial impact to its net income on an ongoing basis.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the effect that the standard will have on its financial statements.

Note 2. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value guidance establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There have been no changes in valuation techniques for any assets or liabilities measured at fair value during the year ended December 30, 2017.

Available for sale securities consist of common shares in another publicly-traded company, with respect to which the Company is an affiliate as defined by the Securities Act of 1933 (Title 17, United States Code of Federal Regulations, Section 230) (the Act). Under the Act, the Company is constructively prohibited from selling these shares in a public market until May 2018, with the exception of certain shares comprising approximately 20 percent of the Company's holding as of December 30, 2017, which are held within a Section 240.10b5-1 plan permitting their sale provided certain price limits are met during the period of February 2018 through 2020. The Company's available-for-sale securities are carried at fair value on a recurring basis based on quoted market prices as of December 30, 2017 and are classified as Level 2 in the fair value hierarchy given the restriction on the ability to trade these securities.

There have been no transfers of assets or liabilities between Levels 1, 2 and 3 of the fair value hierarchy during the year ended December 30, 2017.

The investments of the Company are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

(Dollars in Thousands, Except Per Share Data)

Note 3. Property and Equipment

Property and equipment as of December 30, 2017 and December 31, 2016, is as follows:

	2017	2016
Land	$ 410	$ 410
Machinery and equipment	2,833	2,682
Buildings and improvements	2,740	2,732
Office furniture and equipment	3,950	3,871
Construction in progress	305	28
	10,238	9,723
Less accumulated depreciation	7,591	7,076
	$ 2,647	$ 2,647

Note 4. Long-Term Debt and Subsequent Event

Long-term debt as of December 30, 2017 and December 31, 2016, is as follows:

	2017	2016
BHI revolving line of credit. (A)	$ 2,500	$ 2,500
Boss Canada Inc. revolving line of credit. (B)	-	-
Capital lease obligations with various lending agencies. Requiring total monthly payments of approximately $1, including various interest rates and maturity dates. Collateralized by leased equipment.	9	15
	2,509	2,515
Less current maturities	2,506	10
	$ 3	$ 2,505

(A) Effective June 15, 2015, the Company modified its loan and security agreement (Credit Agreement) with a commercial bank. The revised Credit Agreement expired September 15, 2018, and provided a revolving credit facility up to $7,000 based on a formula that included eligible accounts receivable and inventories. Interest was payable monthly at the bank's prime rate less 1.50 percent (effective rate of 3.00 percent as of December 30, 2017) or, at the Company's option, the applicable LIBOR plus 1.00 percent on tranches requested. The Company incurred an unused line fee of 1/8 percent per annum on the unused portion of the credit facility.

As of both December 30, 2017 and December 31, 2016, the Company had borrowings of $2,500 on the revolving credit facility with remaining availability under the Credit Agreement of $4,500 as of December 30, 2017. The Company entered into a 3-year swap agreement on July 31, 2015, to hedge against interest rate increases on the line of credit. The swap agreement guaranteed an interest rate of 1.27 percent plus the applicable LIBOR interest spread (effective rate of 2.27 percent as of December 30, 2017). Management has determined that the fair value of the swap agreement is $6 as of December 30, 2017.

(Dollars in Thousands, Except Per Share Data)

Note 4. Long-Term Debt and Subsequent Event (Continued)

In September 2018, the Company amended and restated the Credit Agreement to increase the maximum permitted borrowings on the revolving line of credit to $7,500. The revolving credit facility is now extended to September 30, 2019. Concurrently with the execution of the amended and restated Credit Agreement, the Company borrowed $4,000 in the form of a term note under the terms and conditions of the amended and restated Credit Agreement. Borrowings under this term note are due quarterly in amounts ranging from $50 to $200 over the 5-year term of the note, with all remaining unpaid principal maturing in September 2023. Interest rates on the $4,000 term note are similar to original revolving credit terms described above. In conjunction with the execution of the amended and restated Credit Agreement, the Company paid off the previously outstanding revolving line of credit balance of $2,500 in full.

The amended and restated Credit Agreement includes certain restrictive covenants and requires maintenance of certain financial ratios including total debt to EBITDA ratio and fixed charge coverage ratio, but no longer includes any borrowing base formula. The Company's accounts receivable and inventories continue to secure the credit facility.

(B) Effective October 7, 2015, the Company modified its loan and security agreement (the Credit Agreement) with a commercial bank for Boss Canada. The revised Credit Agreement expired June 30, 2018, and provides a revolving credit facility up to $100 Canadian ($80 U.S. Dollars using December 30, 2017, exchange rate of 0.7966) based on a formula that includes certain eligible accounts receivable and inventories. Interest is payable monthly at the bank's Canadian prime rate (effective rate of 3.20 percent as of December 30, 2017). As of December 30, 2017 and December 31, 2016, the Company had no borrowings on the Canadian revolving credit facility.

Scheduled principal payments of long-term debt are as follows:

Periods ending:		
December 29, 2018	$	2,506
December 28, 2019		3
	$	2,509

Note 5. Commitments and Contingencies

Leases: The Company leases certain office and operating facilities and certain equipment under operating lease agreements that expire on various dates through 2023 and require the Company to pay all maintenance costs. Rent expense under office and operating facilities' leases was $445, $446 and $582 for 2017, 2016 and 2015, respectively.

The following is a schedule by year of future minimum payments under the operating lease agreements:

Periods ending:		
December 29, 2018	$	333
December 28, 2019		309
December 26, 2020		287
December 25, 2021		276
December 31, 2022		276
Thereafter		69
Total minimum lease payments	$	1,550

(Dollars in Thousands, Except Per Share Data)

Note 5. Commitments and Contingencies (Continued)

Licensing: During 2002, the Company entered into a license agreement for the use of certain trademarks in its products which requires the payment of guaranteed or minimum royalties. The Company incurred royalties of $579, $657 and $570 in 2017, 2016 and 2015, respectively. The Company has extended the agreement with provisions for the payment of royalties through 2019, with minimum obligations of $550 and $625 in 2018 and 2019, respectively.

Litigation: The Company is a party to various legal actions incident to the normal operation of its business. These lawsuits primarily involve claims for damages arising out of commercial disputes. The Company has been named as a defendant in several lawsuits alleging past exposure to asbestos contained in gloves manufactured or sold by one of the Company's predecessors-in-interest, all of which actions are being defended by one or more of the Company's products liability insurers. Management believes the ultimate disposition of these matters should not materially impact the Company's consolidated financial position, operations or liquidity.

Note 6. Stock Options

In 2004, an equity-based incentive program was adopted allowing the issuance of up to 150,000 shares of common stock in the form of any of the following: stock options, stock appreciation rights, performance based stock awards and restricted stock units. The 2004 plan has expired such that no new grants can be made, but 10,000 options were exercised under the 2004 plan in 2017. In 2015, the Company adopted a new equity-based incentive program allowing future issuance of up to 200,000 shares of common stock utilizing the same types of equity grants as permitted under the 2004 plan, and 2,500 options remain outstanding and unexercised under the 2015 plan. Various vesting conditions apply to these options, based on either tenure or certain performance criteria. Stock option transactions are summarized as follows:

	Years Ended					
	December 30, 2017		December 31, 2016		December 26, 2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	12,500	$ 7.39	10,000	$ 6.21	61,000	$ 7.29
Granted	-	-	2,500	12.12	-	-
Exercised	(10,000)	15.00	-	-	(45,500)	7.50
Expired	-	-	-	-	(5,500)	7.50
Outstanding, ending	2,500	12.12	12,500	7.39	10,000	6.21
Options exercisable, end of year	2,500	$ 12.12	12,500	$ 7.39	10,000	$ 6.21

(Dollars in Thousands, Except Per Share Data)

Note 7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Periods Ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Numerator, earnings attributable to common stockholders	$ 2,910	$ 1,635	$ 1,976
Denominator:			
Basic-weighted average common shares outstanding	1,987,447	1,997,809	2,023,016
Dilutive effect of employee stock options	1,507	5,160	8,533
Diluted outstanding shares	1,988,954	2,002,969	2,031,549
Basic earnings, per common share	$ 1.46	$ 0.82	$ 0.98
Diluted earnings, per common share	1.46	0.82	0.97

Note 8. Related-Party Transactions

During 2017, 2016 and 2015, compensation, fees and expense reimbursements paid to directors or their affiliates totaled $631, $490 and $441, respectively.

Note 9. Acquisitions

In July of 2017, Boss Pet Products, Inc., a wholly-owned subsidiary of Boss Manufacturing Holdings, Inc. acquired certain assets of a third-party pet products distributor to further expand its presence in the pet supplies industry in exchange for total cash consideration of $584. Inventory accounted for $159 of the purchase price while customer lists accounted for $425. $504 of the purchase price was paid, in cash, at closing while the remaining balance of $80 was paid subsequent to December 30, 2017.

In April 2018, Boss Pet Products, Inc. through its subsidiary, Ponte Pet, Inc., also acquired substantially all assets of another third-party pet products distributor to further expand its presence in the pet supplies industry in exchange for cash consideration of approximately $6,000.

(Dollars in Thousands, Except Per Share Data)

Note 10. Goodwill and Intangible Assets

In connection with its purchase of Galaxy, the Company recorded goodwill of $2,853. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. The Company does not amortize the goodwill associated with an acquisition since it has an indefinite life. In July 2012, the FASB issued guidance to amend and simplify the rules related to testing indefinite-lived intangible assets, including goodwill, for impairment. The revised guidance permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is unlikely that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The determination of the reporting unit is based on the Company's organizational structure and the financial information that is provided to and reviewed by the chief operating decision maker.

The Company's goodwill impairment evaluation as of December 31, 2017, December 31, 2016 and December 26, 2015 indicated that its goodwill was not impaired.

The Company's evaluation used significant assumptions including: expected future revenue and expense growth rates, cost of capital, discount rate and forecasted capital expenditures. The projections for the Company's goodwill impairment evaluation as of December 30, 2017, assume continued sales growth for Galaxy and stable income from operations. Assumptions and estimates about future cash flows and discount rates are complex and may be subjective. They can be affected by a variety of external and internal factors. Management believes the assumptions and estimates made in these evaluations were reasonable and appropriate, however, different assumptions and estimates could materially impact the projected earnings.

Note 11. Income Taxes

The Company records income taxes based on its consolidated tax return. Current and deferred federal and state tax expense (benefit) is as follows:

	Periods Ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Current income tax expense (benefit):			
Federal	$ (194)	$ 722	$ 946
State and local	45	113	97
	(149)	835	1,043
Deferred income tax expense (benefit):			
Federal	554	116	176
State and local	(31)	16	26
	523	132	202
Total income tax expense	$ 374	$ 967	$ 1,245

(Dollars in Thousands, Except Per Share Data)

Note 11. Income Taxes (Continued)

Income taxes recorded by the Company differ from the amounts computed by applying the statutory U.S. federal income tax rate to net earnings before income taxes. The following schedule reconciles income tax expense at the statutory rate and the actual income tax expense as reflected in the consolidated statements of comprehensive income for the respective periods:

	Periods Ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Income tax expense computed at the U.S. corporate tax rate of 34%	$ 1,117	$ 885	$ 1,095
Adjustments attributable to:			
State income taxes, net of the federal benefit	9	89	81
Effect of foreign operations	(948)	8	85
Deferred tax expense resulting from enacted rate changes	197	-	-
Other	(1)	(15)	(16)
Total income tax expense	$ 374	$ 967	$ 1,245

The temporary differences result in a net deferred income tax asset that is reduced by a related valuation allowance, summarized as follows:

	December 30, 2017	December 31, 2016
Deferred income tax assets:		
Accounts receivable	$ 56	$ 84
Accruals	47	79
Compensation related	125	173
Inventories	387	640
Intangibles	-	214
Net operating loss carryforward	58	-
Tax credit carryforwards	36	36
Gross deferred tax assets	709	1,226
Less valuation allowance	36	36
Deferred income tax assets	673	1,190
Deferred income tax liabilities:		
Intangibles	13	-
Property and equipment	209	216
Net deferred income tax assets	$ 451	$ 974

(Dollars in Thousands, Except Per Share Data)

Note 11. Income Taxes (Continued)

As of December 30, 2017, the Company had operating loss carryforwards for Canadian income tax purposes of approximately $1,317. The operating loss carryforwards are available to reduce future taxable income through the following years:

Period of expiration:		
2030	$	40,000
Thereafter		1,277,000
	$	1,317,000

The Company follows FASB guidance related to *Accounting for Uncertainty in Income Taxes.* This guidance clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. The guidance also prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The application of this guidance had no impact on the Company's financial statements.

During 2017, 2016 and 2015, there were no settlements with state taxing authorities. The Company is generally no longer subject to state, local and foreign income tax examinations by tax authorities for years prior to 2013, and no longer subject to U.S. federal income tax examinations for years prior to 2014. The Company recognizes interest and penalties related to income tax matters in the provision for income taxes. All unrecognized tax benefits, if recognized, would affect the effective tax rate. The liability for unrecognized tax benefits includes accrued interest for tax positions, which either do not meet the more−likely−than−not recognition threshold or where the tax benefit is measured at an amount less than the tax benefit claimed or expected to be claimed on an income tax return.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The law is required to be accounted for in the period of enactment. The legislation will reduce the U.S. corporate tax rate from the current rate of 34 percent to 21 percent for fiscal year 2018. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates on the date of enactment. During the year ended December 30, 2017, tax expense was increased by approximately $197 as a result of a change in the federal tax rate enacted on December 22, 2017.

Note 12. Major Customer

The Company has a concentration of sales to one customer. Management defines a material concentration as having sales that account for 10 percent or more of the Company's net sales. Net sales for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 with the Company's single major customer were $10,805, $10,636 and $12,701, respectively. The trade receivable amounts due from the same customer as of December 30, 2017, December 31, 2016 and December 26, 2015 were $2,202, $2,794 and $2,732, respectively.