Boss Holdings, Inc.
and Subsidiaries

Consolidated Financial Statements
December 29, 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

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 29, 2018 and December 30, 2017, the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for the periods ended December 29, 2018, December 30, 2017 and December 31, 2016, 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 29, 2018 and December 30, 2017, and the results of their operations and their cash flows for the periods ended December 29, 2018, December 30, 2017 and December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Davenport, Iowa
May 31, 2019

Boss Holdings, Inc.
and Subsidiaries

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

		December 29, 2018		December 30, 2017
Assets				
Current assets:				
Cash and cash equivalents	**$**	**1,974**	$	17,316
Accounts receivable, net of allowance for doubtful accounts and returns 2018 $296; 2017 $139		**13,839**		9,892
Income tax receivable		**873**		859
Inventories		**31,950**		19,418
Prepaid expenses and other		**1,166**		678
Total current assets		**49,802**		48,163
Property and equipment, net		**4,220**		2,647
Available for sale securities		**240**		1,425
Intangibles, net of accumulated amortization		**1,304**		881
Goodwill		**2,853**		2,853
Deferred tax asset		**1,065**		451
	$	**59,484**	$	56,420
Liabilities and Stockholders' Equity				
Current liabilities:				
Current portion of long-term debt	**$**	**202**	$	2,506
Accounts payable		**6,338**		3,332
Accrued payroll and related expenses		**1,672**		1,519
Accrued promotional expenses		**1,281**		968
Other accrued liabilities		**951**		589
Total current liabilities		**10,444**		8,914
Long-term debt		**3,801**		3
Commitments and contingencies (Note 5)				
Stockholders' equity:				
Common stock, $.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,118 shares in 2018 and 2017		**497**		497
Additional paid-in capital		**64,424**		64,424
Accumulated (deficit)		**(19,072)**		(16,989)
Accumulated other comprehensive (loss)		**(610)**		(429)
Total stockholders' equity		**45,239**		47,503
	$	**59,484**	$	56,420

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended December 29, 2018, December 30, 2017 and December 31, 2016
(Dollars in Thousands, Except Per Share Data)

	2018	2017	2016
Net sales	**$ 77,060**	$ 62,312	$ 62,194
Cost of sales	**57,756**	44,857	45,712
Gross profit	**19,304**	17,455	16,482
Operating expenses	**20,748**	14,624	13,839
Operating income (loss)	**(1,444)**	2,831	2,643
Other income (expenses):			
Interest income	**147**	-	-
Interest expense	**(53)**	(59)	(62)
Change in unrealized gains and losses on available for sale securities	**(1,185)**	527	-
Other	**(139)**	(15)	21
	(1,230)	453	(41)
Income (loss) before income tax expense (benefit)	**(2,674)**	3,284	2,602
Income tax expense (benefit)	**(591)**	374	967
Net income (loss)	**(2,083)**	2,910	1,635
Other comprehensive income (loss), foreign currency translation adjustments	**(181)**	118	14
Comprehensive income (loss)	**$ (2,264)**	$ 3,028	$ 1,649
Basic earnings per common share	**$ (1.05)**	$ 1.46	$ 0.82
Diluted earnings per common share	**$ (1.05)**	$ 1.46	$ 0.82

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Stockholders' Equity
Periods Ended December 29, 2018, December 30, 2017 and December 31, 2016
(Dollars and Shares In Thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Dollars	Capital	(Deficit)	(Loss)	Equity
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
Net (loss)	-	-	-	(2,083)	-	(2,083)
Other comprehensive (loss)	-	-	-	-	(181)	(181)
Balance, December 29, 2018	**1,986**	**$ 497**	**$ 64,424**	**$ (19,072)**	**$ (610)**	**$ 45,239**

See notes to consolidated financial statements.

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended December 29, 2018, December 30, 2017 and December 31, 2016
(Dollars in Thousands)

	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	**$ (2,083)**	$ 2,910	$ 1,635
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**1,327**	659	607
Share-based compensation and related tax benefits	**-**	23	9
Deferred tax expense (benefit)	**(614)**	523	132
Change in unrealized (gains) losses on available-for-sale securities	**1,185**	(527)	-
Changes in assets and liabilities net of acquisitions:			
(Increase) decrease in:			
Accounts receivable	**(1,677)**	211	(156)
Inventories	**(9,995)**	(456)	5,628
Prepaid expenses and other	**(667)**	188	(251)
Other assets	**(139)**	(369)	(117)
Increase (decrease) in:			
Accounts payable	**2,921**	453	(360)
Accrued liabilities	**611**	(1,058)	(325)
Net cash provided by (used in) operating activities	**(9,131)**	2,557	6,802
Cash flows from investing activities:			
Purchases of property and equipment	**(629)**	(520)	(323)
Purchase of available-for-sale securities	**-**	(898)	-
Payments for business combinations	**(6,753)**	(504)	-
Net cash used in investing activities	**(7,382)**	(1,922)	(323)
Cash flows from financing activities:			
Repurchase of common stock	**-**	(225)	(225)
Proceeds from long-term revolving line of credit	**-**	-	-
Repayment of long-term obligations	**(2,506)**	(6)	(5)
Proceeds from long-term obligations	**4,000**	-	-
Proceeds from exercise of stock options	**-**	63	-
Net cash provided by (used in) financing activities	**1,494**	(168)	(230)
Effect of exchange rate changes on cash	**(323)**	257	68
Increase (decrease) in cash and cash equivalents	**(15,342)**	724	6,317
Cash and cash equivalents:			
Beginning	**17,316**	16,592	10,275
Ending	**$ 1,974**	$ 17,316	$ 16,592

(Continued)

Boss Holdings, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended December 29, 2018, December 30, 2017 and December 31, 2016
(Dollars in Thousands)

	2018	2017	2016
Supplemental disclosures of cash flows information, cash payments for:			
Interest	**$ 53**	$ 59	$ 62
Income taxes	**$ 37**	$ 425	$ 684
Supplemental disclosure of noncash investing activities, increase in accounts payable in connection with construction in progress additions	**$ -**	$ 11	$ -

Supplemental schedule of noncash investing activities from business combinations, see Note 9.

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 and by direct marketing to consumers through an ecommerce website.

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) comprised of Boss Manufacturing Company, Boss Tech Products, Inc., Galaxy Balloons, Inc., Boss Canada Holdings LLC, Boss Pet Products, Inc. and Ponte Pet Inc. (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 2018, 2017, and 2016 contained 52, 52, and 53 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 $26, $(5) and $(39) for the periods ended 2018, 2017 and 2016, respectively.

Revenue recognition: The Company recognizes revenue from product sales when control of the products are transferred to its customers. Control is generally transferred when the Company has a present right to payment and the significant risks and rewards of ownership are transferred. For most of the Company's net sales, control transfers when products are shipped. The Company has elected to treat shipping and handling performed after control has transferred to customers as a fulfillment activity. Due to the nature of its business, contracts with customers are generally entered into for a period of less than one year.

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

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 and pet supplies segment.

These programs include the following:

- Rebates and other volume-based incentives—The Company provides rebates and other volume based incentives to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Company records a revenue reduction and associated accrued liability each period based on the estimated rebate total. Rebates paid then reduce the accrued liability. To estimate the variable consideration for the expected future rebates and incentives, the Company applies the expected value method for the contracts.

- Terms discounts—The Company offers cash discounts to certain customers, recorded as revenue reductions in each period with an associated accounts receivable allowance. To estimate the variable consideration for the expected future cash discounts, the Company applies the expected value method for the contracts.

- Cooperative advertising and marketing allowances—The Company supports certain customer advertising and marketing initiatives to promote product sales primarily at retail sites. This consideration payable to customers is determined on a per contract basis and recorded as a reduction of the transaction price upon the latter of (a) when revenue for the related products transferred to the customers is recognized or (b) when consideration is paid or promised to the customer.

- 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. This consideration payable to customers is determined on a per contract basis and recorded as a reduction of the transaction price upon the latter of (a) when revenue for the related products transferred to the customers is recognized or (b) when consideration is paid or promised to the customer.

As of December 29, 2018 and December 30, 2017, the Company's accrual for customer advertising and promotional activities totaled $1,281 and $968, 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.

The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded within other current liabilities until remitted to the relevant government authority.

(Dollars in Thousands, Except Per Share Data)

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

Disaggregated revenue: Net sales disaggregated by significant product segments for the respective periods were as follows:

	Periods Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Work gloves and protective wear	$ 32,295	$ 30,749	$ 32,042
Pet supplies	22,054	6,203	4,695
Cell phone accessories, custom imprinting and promotional products	22,711	25,360	25,457
	$ 77,060	$ 62,312	$ 62,194

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 assurance-type 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.

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 (loss). 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. The Company's available for sale portfolio was in an unrealized loss position of approximately $(658) as of December 29, 2018.

Property and equipment and depreciation: Property and equipment is recorded at historical cost, net of accumulated depreciation. Property and equipment acquired in business combinations is stated at fair value at the date of acquisition and is depreciated over their remaining useful lives. 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 $882, $519 and $551 for 2018, 2017 and 2016, respectively.

(Dollars in Thousands, Except Per Share Data)

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

Business combination: Identifiable assets acquired and liabilities assumed in a business combination are recorded at fair value at the acquisition date. Management estimates fair value based on assumptions they believe to be reasonable. These estimates are based on historical experience and information obtained from management of the acquired entities. Acquisition-related costs are expensed as operating expenses when incurred and when the related services have been received. Acquisition-related costs totaled approximately $277, $45 and none for the periods ended December 29, 2018, December 30, 2017 and December 31, 2016, 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 lives (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.

The cost and accumulated amortization of other intangible assets as of December 29, 2018 and December 30, 2017, are as follows:

	2018			
	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
Customer lists	5	$ 526	$ 144	$ 382
Customer lists	2	580	193	387
Noncompete	5	41	1	40
Trademarks	5	349	301	48
Product certifications	5	722	275	447
Product certifications	4	18	18	-
		$ 2,236	$ 932	$ 1,304

	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

(Dollars in Thousands, Except Per Share Data)

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

Estimated future amortization of intangible assets is as follows:

Periods ending:		
December 28, 2019	$	566
December 26, 2020		353
December 25, 2021		225
December 31, 2022		140
December 30, 2023		20
	$	1,304

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.

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.

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

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 2018, 2017 and 2016 was $1,848, $1,576 and $1,633, 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.

Subsequent events: The Company has evaluated subsequent events through May 31, 2019, the date on which the financial statements were issued, in preparing the financial statements and notes thereto.

New and pending accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (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 replaced most existing revenue recognition guidance in U.S. GAAP when it became 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. Effective December 31, 2017, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all relating amendments, using the modified retrospective method. Upon adoption of ASU 2014-09, the Company determined there was no adjustment to accumulated (deficit) as of December 31, 2017.

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

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. In September 2017, the FASB issued ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs*, which rescinds certain SEC Observer comments and staff announcements from the lease guidance and incorporates SEC staff announcements on the effect of a change in tax law on leveraged leases from ASC 840 into ASC 842. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which amends the new lease guidance to add an optional transition practical expedient that permits an entity to continue applying its current accounting policy for land easements that exist or expire before the ASC 842 effective date. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company expects to adopt the guidance retrospectively at the beginning of the period of adoption, December 30, 2018, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented. The new standard provides a number of practical expedients. Management of the Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. ASU 2017-04 will be effective for the Company beginning on December 27, 2020. ASU 2017-04 must be applied prospectively with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated 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 29, 2018.

Available for sale securities consist of common shares in a 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 was 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 and December 29, 2018, 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 were classified as Level 2 in the fair value hierarchy given the restriction on the ability to trade these securities. There were no transfers of assets or liabilities between Levels 1, 2 and 3 of the fair value hierarchy during the year ended December 30, 2017. Due to one of restrictions under the Act expiring during 2018, approximately 80 percent of the available for sale securities were transferred to Level 1 of the fair value hierarchy. The remaining 20 percent of the available for sale securities are classified as Level 2 given the restriction on the ability to trade these securities.

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 29, 2018 and December 30, 2017, is as follows:

	2018	2017
Land	$ 410	$ 410
Machinery and equipment	3,352	2,833
Buildings and improvements	2,756	2,740
Office furniture and equipment	6,075	3,950
Construction in progress	91	305
	12,684	10,238
Less accumulated depreciation	8,464	7,591
	$ 4,220	$ 2,647

Note 4. Long-Term Debt and Subsequent Event

Long-term debt as of December 29, 2018 and December 30, 2017, is as follows:

	2018	2017
BHI revolving line of credit. (A)	$ -	$ 2,500
BHI term note (A)	4,000	-
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.	3	9
	4,003	2,509
Less current maturities	202	2,506
	$ 3,801	$ 3

(A) Effective September 14, 2018, the Company amended and restated its loan and security agreement (Credit Agreement) with a commercial bank. The revised Credit Agreement provides a revolving credit facility up to $7,500 and matures September 30, 2019. Interest is payable monthly at the bank's prime rate (effective rate of 5.50 percent as of December 29, 2018) or, at the Company's option, the applicable LIBOR plus 1.00 percent on tranches requested. The Company incurs an unused line fee of 1/8 percent per annum on the unused portion of the credit facility.

As of December 29, 2018 and December 30, 2017, the Company had borrowings of none and $2,500, respectively, on the revolving credit facility. As of December 29, 2018, the remaining availability under the Credit Agreement is $7,437, reduced by a letter of credit issued in favor of a supplier in the amount of $63. There were no amounts drawn against this letter as of December 29, 2018.

The Company entered into a three-year swap agreement on July 31, 2015, to hedge against interest rate increases on the line of credit. The swap agreement expired in 2018.

(Dollars in Thousands, Except Per Share Data)

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

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 five-year term of the note, with all remaining unpaid principal maturing in September 2023. Interest is payable monthly at the bank's prime rate less 1.50 percent (effective rate of 4.00 percent as of December 29, 2018) or, at the Company's option, the applicable LIBOR plus 1.00 percent on tranches requested.

The amended and restated Credit Agreement includes certain restrictive covenants and requires maintenance of certain financial ratios including a total debt to EBITDA ratio and fixed charge coverage ratio. As of December 29, 2018, the Company is in compliance with these restrictive covenants. The Company's accounts receivable and inventories secure the credit facility.

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

Periods ending:		
December 28, 2019	$	202
December 26, 2020		601
December 25, 2021		800
December 31, 2022		800
December 30, 2023		1,600
	$	4,003

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 $1,124, $445 and $446 for 2018, 2017 and 2016, respectively.

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

Periods ending:		
December 28, 2019	$	969
December 26, 2020		583
December 25, 2021		422
December 31, 2022		267
December 30, 2023		67
Total minimum lease payments	$	2,308

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 $642, $579 and $657 in 2018, 2017 and 2016, respectively. The Company has extended the agreement with provisions for the payment of royalties through 2019, with minimum obligations of $625 in 2019.

(Dollars in Thousands, Except Per Share Data)

Note 5. Commitments and Contingencies (Continued)

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:

	Periods Ended					
	December 29, 2018		December 30, 2017		December 31, 2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	2,500	$ 12.12	12,500	$ 7.39	10,000	$ 6.21
Granted	-		-	-	2,500	12.12
Exercised	-		(10,000)	15.00	-	-
Expired	-		-	-	-	-
Outstanding, ending	2,500		2,500	12.12	12,500	7.39
Options exercisable, end of year	2,500	$ -	2,500	$ 12.12	12,500	$ 7.39

(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 29, 2018	December 30, 2017	December 31, 2016
Numerator, earnings (loss) attributable to common stockholders	$ (2,083)	$ 2,910	$ 1,635
Denominator:			
Basic-weighted average common shares outstanding	1,986,118	1,987,447	1,997,809
Dilutive effect of employee stock options	691	1,507	5,160
Diluted outstanding shares	1,986,809	1,988,954	2,002,969
Basic earnings, per common share	$ (1.05)	$ 1.46	$ 0.82
Diluted earnings, per common share	(1.05)	1.46	0.82

Note 8. Related-Party Transactions

During 2018, 2017 and 2016, compensation, fees and expense reimbursements paid to directors or their affiliates totaled $1,536, $685 and $465, respectively.

Note 9. Business Combinations

In March 2018, the Company acquired certain assets of a third-party manufacturer and distributor of novelty sunglasses in connection with the advertising specialties business segment in exchange for cash consideration of approximately $159.

In April 2018, the Company acquired substantially all assets of a third-party pet products distributor through an assignment for the benefit of creditors (ABC) proceeding in which the Company paid cash consideration of approximately $6,334 to acquire the assets. In addition, the Company assumed certain specified liabilities incurred during the ABC administration period.

In November 2018, the Company acquired certain assets of a third-party marketer and distributor of personalized drinkware for the advertising specialties segment for cash consideration of approximately $180.

(Dollars in Thousands, Except Per Share Data)

Note 9. Business Combinations (Continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition dates:

	A	B	C	Total
Consideration, cash	$ 159	$ 6,334	$ 180	$ 6,673
Fair value of total consideration transferred	$ 159	$ 6,334	$ 180	$ 6,673
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Accounts receivable	$ 6	$ 1,874	$ -	$ 1,880
Inventories	33	2,580	-	2,613
Prepaid expenses and other	37	256	-	293
Property and equipment	2	1,706	119	1,827
Customer lists	81	580	20	681
Noncompete	-	-	41	41
Accounts payable	-	(434)	-	(434)
Accrued expenses	-	(228)	-	(228)
	$ 159	$ 6,334	$ 180	$ 6,673

The fair value of financial assets acquired includes accounts receivable for which fair value was estimated at the net realizable value of the receivables.

In July 2017, the Company 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. The initial purchase price installment of $504 was paid, in cash, at closing while the remaining balance of $80 was paid subsequent to December 30, 2017.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Consideration:	
Cash	$ 504
Purchase liability	80
Fair value of total consideration transferred	$ 584
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Inventories	$ 159
Customer lists	425
	$ 584

(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 29, 2018, December 30, 2017 and December 31, 2016 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 29, 2018, 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 29, 2018	December 30, 2017	December 31, 2016
Current income tax expense (benefit):			
Federal	$ -	$ (194)	$ 722
State and local	23	45	113
	23	(149)	835
Deferred income tax expense (benefit):			
Federal	(552)	554	116
State and local	(62)	(31)	16
	(614)	523	132
Total income tax expense (benefit)	$ (591)	$ 374	$ 967

(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 29, 2018	December 30, 2017	December 31, 2016
Income tax expense (benefit) computed at the U.S. corporate tax rate	$ (561)	$ 1,117	$ 885
Adjustments attributable to:			
State income taxes, net of the federal benefit	(30)	9	89
Effect of foreign operations	-	(948)	8
Deferred tax expense resulting from enacted rate changes	-	197	-
Other	-	(1)	(15)
Total income tax expense (benefit)	$ (591)	$ 374	$ 967

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

	December 29, 2018	December 30, 2017
Deferred income tax assets:		
Accounts receivable	$ 55	$ 56
Accruals	54	47
Compensation related	129	125
Inventories	473	387
Intangibles	409	-
Net operating loss carryforward	272	58
Tax credit carryforwards	36	36
Gross deferred tax assets	1,428	709
Less valuation allowance	36	36
Deferred income tax assets	1,392	673
Deferred income tax liabilities:		
Intangibles	-	13
Property and equipment	327	209
Net deferred income tax assets	$ 1,065	$ 451

As of December 29, 2018, the Company had net operating loss carryforwards for federal income tax purposes of approximately $972. The operating loss carryforwards may be carried forward indefinitely, and may reduce taxable income up to eighty percent in any given tax year.

Note 11. Income Taxes (Continued)

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 2018, 2017 and 2016, 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 2014, and no longer subject to U.S. federal income tax examinations for years prior to 2015. 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 reduced the U.S. corporate tax rate from the 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, which resulted in a reduction of net deferred tax assets.

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 29, 2018, December 30, 2017 and December 31, 2016 with the Company's single major customer were $7,851, $10,805 and $10,636, respectively. The trade receivable amounts due from the same customer as of December 29, 2018, December 30, 2017 and December 31, 2016 were $3,080, $2,202 and $2,794, respectively.

RSM