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

**FORM 10-K**

- ☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:  
For the fiscal year ended: **December 30, 2018**
- ☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:  
For the transition period from:

**000-50081**  
(Commission File Number)

**Uniroyal Global Engineered Products, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of incorporation or organization)

**65-1005398**  
(I.R.S. employer identification number)

**1800 2nd Street Suite 970  
Sarasota, Florida 34236**  
(Address of principal executive offices)

**(941) 906-8580**  
(Registrant's telephone number)

Securities registered under Section 12(b) of the Act: None.

Securities registered under Section 12(g) of the Act: Common Stock, \$0.001 par value per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or, an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company", in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☐

Accelerated filer ☐

Smaller reporting company ☒

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

As of July 1, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$13,897,014.

As of March 11, 2019, the registrant had 17,070,928 shares of ordinary common stock, \$0.001 par value and 1,619,102 shares of Class B Common Stock, \$0.001 par value, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Uniroyal Global Engineered Products, Inc. definitive 2019 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 30, 2018, are incorporated by reference into Part III of this Form 10-K.

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## PART I

### Note regarding forward-looking statements:

*Except for statements of historical fact, certain information contained herein constitutes forward-looking statements including, without limitation, statements containing the words “believes,” “anticipates,” “intends,” “expects,” and words of similar import, as well as all references to future results. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or achievements of Uniroyal Global Engineered Products, Inc. to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: risks involved in implementing our business strategy, our ability to obtain financing on acceptable terms, competition, our ability to manage growth, pricing and availability of equipment, materials and inventories, performance issues with suppliers, economic growth, the Company’s ability to successfully integrate acquired operations, currency fluctuations, risks of technological change, the effectiveness of cost-reduction plans, our dependence on key personnel, our ability to protect our intellectual property rights, risks of new technology and new products, and government regulation. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update any such forward-looking statements to reflect events, developments or circumstances after the date hereof.*

### ITEM 1. BUSINESS

On November 10, 2014, Uniroyal Global Engineered Products, Inc. (“Uniroyal Global”, the “Company”, “we”, “our”, or “us”) acquired all of the ownership interests in Uniroyal Engineered Products, LLC (“Uniroyal”), a U.S. manufacturer of textured coatings, and all of the ordinary common stock of Engineered Products Acquisition Limited (“EPAL”, now known as Uniroyal Global (Europe) Limited (“UGEL”)), the holding company for Wardle Storeys (Earby) Limited (“Wardle Storeys,” now known as Uniroyal Global Limited), a European manufacturer of textured coatings and polymer films. Management of the acquired entities was not altered in the acquisitions.

Uniroyal Global made the acquisition of Uniroyal through a newly formed subsidiary, UEP Holdings, LLC (“UEPH”), to which it contributed certain of its assets and liabilities as part of the organization of that subsidiary. The aggregate purchase consideration paid for 100% of the outstanding equity of Uniroyal was preferred ownership interests issued by UEPH having an aggregate face value of \$35 million. In a separate transaction, Uniroyal Global also purchased UGEL for aggregate consideration of 100 shares of Uniroyal Global’s Common Stock and Uniroyal Global’s guaranty of outstanding UGEP preferred stock retained by the seller having a face value of £12,518,240 (approximately \$20 million at closing).

We are a manufacturer and seller of vinyl coated fabrics products that have excellent high performance characteristics and capabilities and derive our revenue principally through our subsidiaries Uniroyal and Uniroyal Global Limited. Our coated fabrics products are durable, stain resistant, easily processed, cost-effective and better performing than traditional leather or fabric coverings. Our products are frequently used in applications that require rigorous performance characteristics such as automotive and non-automotive transportation, certain indoor/outdoor furniture, commercial and hospitality seating, healthcare facilities and athletic equipment. In the automotive industry our products are used primarily in seating, door panels, head and arm rests, security shades and trim components, including instrument panels, door casings, seating, gear lever and steering column gaiters, headliners and load space covers. Non-automotive applications include outdoor seating for utility and sports vehicles, and sheeting used in medical and toxic hazard protection, personal protection, moisture barriers, pram and nursery equipment, movie screen and decorative surface applications. Our primary brands names include Naugahyde®, BeautyGard®, Flame Blocker™, Spirit Millennium®, Ambla®, Amblon®, Velbex®, Cirroflex®, Plastolene® and Vynide®.

We are the successor to a long line of businesses that have manufactured vinyl coated fabrics. Our best known brand, Naugahyde, is the product of many improvements on an original rubber-coated fabric developed a century ago in Naugatuck, Connecticut. We design, manufacture and market a wide selection of vinyl coated fabric products under a portfolio of recognized brand names. We believe that our business has continued to be a leading supplier in its marketplace because of our ability to provide specialized materials with high performance characteristics often customized to the end-user specifications and complemented by comprehensive technical and customer support.

### ***Our Principal Products and Their Markets***

Our vinyl coated fabrics products have undergone considerable evolution and today are distinguished by superior performance in a wide variety of applications as alternatives to leather, cloth and other synthetic fabric coverings. Our standard product lines consist of more than 600 SKUs with combinations of colors, textures, patterns and other properties. Our products are differentiated by unique protective top finishes and surface print capabilities. Additional process capabilities include embossing grains and patterns, and rotogravure and registered printing, which imparts five color character prints as well as non-registered prints, lamination and panel cutting.

Our vinyl coated fabrics products have various high performance characteristics and capabilities. They are durable, stain resistant, easily processed, more cost-effective and better performing than traditional leather or fabric coverings. Our products are frequently used in applications that require rigorous performance characteristics such as automotive and non-automotive transportation, certain indoor/outdoor furniture, commercial and hospitality seating, healthcare facilities and athletic equipment. We manufacture materials in a wide range of colors and textures. They can be hand or machine sewn, laminated to an underlying structure, thermoformed to cover various substrates or made into a variety of shapes for diverse end-uses. We are a long-established supplier to the global automotive industry and manufacture products for interior trim components from floor to headliner which are produced to meet specific component production requirements such as cut and sew, vacuum forming/covering, compression molding, and high frequency welding. Some products are supplied with micro perforations, which are necessary on most compression molding processes. Materials can also be combined with polyurethane or polypropylene and foam laminated by either flame or hot melt adhesive for seating, fascia and door applications.

The automotive sector represented approximately 63.3% of our total sales in 2018. Our products are used primarily in the following automotive applications:

- seating
- door panels
- head and arm rests
- security shades
- components

The non-automotive transportation sector represented 16.9% of our 2018 sales and primarily consists of seating products for original equipment manufacturers of non-automotive and light truck vehicles in the following five categories:

- personal watercraft, ATV's, snowmobiles, golf carts
- light and heavy industrial equipment and agricultural equipment (tractors, bulldozers)
- recreational vehicles, vans and motor homes
- heavy and medium trucks
- mass transit (trains, buses)

The distribution market sector represented approximately 9.1% of our 2018 sales and consists primarily of sales of the standard Naugahyde and Ambla product lines to local furniture shops, smaller furniture manufacturers and companies serving the hospitality and marine markets for refurbishing and replacement. The sales organization employed to service this market is a network of approximately 51 distributor locations.

The contract sector, which represented approximately 10.7% of our 2018 sales, includes contract furniture/upholstery, marine, healthcare, child care, and industrial equipment.

Products are developed and marketed based upon the performance characteristics required by end-users. For example, for recreational products used outdoors, such as boats, personal watercraft, golf carts and snowmobiles, a product designed primarily for durability and weatherability is used. We also manufacture a line of products called BeautyGard<sup>®</sup>, with water-based topcoats that contain agents to protect against bacterial and fungal microorganisms and can withstand repeated cleaning, a necessity in the restaurant and health care industries. These topcoats are environmentally friendlier than solvent-based topcoats. The line is widely used in hospitals and other healthcare facilities. Flame and smoke retardant vinyl coated fabrics are used for a variety of commercial and institutional furniture applications, including hospitals, restaurants and residential care centers and seats for school buses, trains and aircraft.

We produce vinyl coated fabrics and laminated composites through a continuous cast or spread coating manufacturing process. The continuous cast method yields a material with a soft finish, deep grain pattern, wide temperature tolerance range and high malleability factor for thermoforming. In addition, we possess plastisol-compounding capability, a variety of proprietary formulations and highly versatile finishing processes. We believe that our products are differentiated in the market by unique protective topcoat finishes and adhesive back coats, as well as five color register and rotogravure printing, which imparts multiple features, character prints and non-registered prints. We also have the in-house capability to perform transfer printing as well as micro-perforation, which provides product breathability.

We seek to ensure that every product fully meets customer requirements of specifications, reliability and performance.

We believe that we maintain our market leadership position through a strong research and development effort that provides strong product development capability. This yields enhanced product characteristics, lower cost of material combinations and new proprietary product formulations. We estimate that approximately 14.8% of our sales relate to products developed to customer specifications.

Our Stoughton, Wisconsin facility achieved ISO 9001:2008 status in 1999 and has renewed it annually since then. In addition, the facility achieved IATF 16949:2016 status in 2018. Our U.K. facility achieved ISO TS 16949 status in 2004 and is approved to the European Council Directive 96/98 EX on Marine Equipment as amended for Module D Production Quality.

We hold no patents but maintain certain of our process technologies as trade secrets.

#### ***Our Distribution Methods***

Products are developed and marketed based upon the performance characteristics required by our end-users. We currently serve customers world-wide with 16 full-time sales persons in offices in Sarasota, Florida, Detroit, Michigan, Nappanee, Indiana and Earby, Lancashire, one exclusive agent in Italy, and an extensive distributor network in the U.S., the United Kingdom, Scandinavia, France, Germany and Hong Kong. 9.1% of our worldwide sales in 2018 were made through distributors. The industrial business is supported mainly from stock and via a catalogue.

We maintain a principal website at [www.uniroyalglobal.com](http://www.uniroyalglobal.com). We maintain websites for our U.S. non-automotive products at [www.naugahyde.com](http://www.naugahyde.com) and for our global/non-U.S. products at [www.uniroyalglobal.co.uk](http://www.uniroyalglobal.co.uk) and [www.ambla.com](http://www.ambla.com).

## Competition

We compete primarily on the basis of design, style, color, product breadth and quality, as well as price and customer service.

The global vinyl coated fabrics market is highly fragmented. The uses of vinyl coated fabrics include automotive, furniture, industrial, protective clothing, wall coverings, book coverings, non-automotive transportation and awnings and tents.

The following table sets forth product applications in the markets in which we actively compete domestically and our primary competitors in those markets.

Markets	Key Uses	Primary Competitors
Automotive	Interior components Seating applications Security shades	Canadian General-Tower Limited Benecke-Kaliko AG Hornschuch Group GmbH Vulcaflex S.p.A. Haartz Corporation Griffine SA Morbern, Inc.
Transportation and Contract	ATV/snowmobile/PWC/golf carts Heavy/light equipment RVs/motor homes	Canadian General-Tower Limited Benecke-Kaliko AG Hornschuch Group GmbH Vulcaflex S.p.A. Morbern, Inc. Spradling International Inc.
Distribution	Approximately 51 distributor and reseller locations	OMNOVA Solutions Inc. Spradling International Inc. Hornschuch Group GmbH Morbern, Inc.
Contract	Office/contract/institutional furniture Restaurant booth Health care Marine	OMNOVA Solutions Inc. Morbern, Inc. Hornschuch Group GmbH Alcor Gislaved Folie AB Griffine Enduction
Other	Home furnishings/dinettes	Spradling International Inc.

## Raw Materials

The principal raw materials for our coated fabrics are casting paper, knit fabric, PVC plastic resins, pigments and plasticizers. We have multiple sources for most of these materials. We believe that in the few instances where we have a sole supplier we can re-engineer around the sole-sourced materials if necessary with minimal effort and cost.

## Concentration of Customers

The only customers that account for approximately ten percent or more of our consolidated revenues are FXI, Inc. and Lear Corporation. Our top 25 customers account for approximately 64.4% of our total global sales. Our largest customer contributed 9.7% to our total sales in 2018.

### ***Trademarks and Material Contracts***

Under the standard Naugahyde and Ambla product lines, we own the following proprietary brands and trademarks among others:

- Naugahyde®
- All-American®
- BeautyGard®
- Chameá™
- Flame Blocker™
- Naugaform®
- NaugaSoft®
- NaugaSylk™
- Spirit Millennium®
- Ambla®
- Amblon®
- Cirroflex®
- Plastolene®
- Velbex®
- Vynide®

### ***Employees***

We believe that we maintain a stable, experienced and productive workforce, currently employing a total of 393 employees.

Most of our employees who are involved in the production process are located at manufacturing facilities in Stoughton, Wisconsin and Earby, England. The production employees at the Stoughton, Wisconsin facility are represented by Local 1207 of the United Steel Workers (formerly P.A.C.E.). The term of the collective bargaining agreement for Stoughton represented employees extends to March 2023. Most of the employees at our Earby facility are represented by UNITE. The collective bargaining agreement with UNITE does not specify a termination date.

Fourteen executive and corporate employees work in our executive office in Sarasota, Florida.

### ***Effect of Existing or Probable Government Regulations on Our Business***

Our manufacturing processes are subject to increasingly stringent regulation by environmental, health and safety authorities. It is difficult to predict future changes in environmental, health and safety regulations on our future financial results. Continued compliance could result in significant increases in capital expenditures and operating costs. Any increase in these costs, or unanticipated liabilities, arising out of a release of regulated material, discovery of previously unknown conditions, more aggressive enforcement actions or new requirements, could adversely affect our financial results.



## ***Research and Development***

We are actively engaged in research and development programs designed to develop new products, manufacturing processes, systems and technologies, while reducing costs to customers and enhancing existing product lines. We believe that investment in research and development has been an important factor in establishing and maintaining our competitive position in many of the specialized niche markets in which our products are sold. Product performance capabilities and characteristics are continually adjusted to meet customer needs.

In-house design and innovative product development are key features of our business. Our in-house design studio enables us to develop new designs, colors and patterns for customers and then deliver them in prototype sample form or by computer-aided design (CAD).

We have access to a vast range of leather and grain styles, prints and surface effects, which are constantly evolving and increasing. Further trends are captured and expressed in our own concept work and exclusive designs are developed from customer requests. Our CAD systems allow fast creation and display of design innovation. “Drape” software enables computer generated designs to be shown *in situ* in interiors of vehicles or other applications before the expense of production is incurred. A silicone cast surface-modeling system permits the transfer of material surface finishes, including leather and fabrics, onto vinyl foils for customer review before investment in tooling. Diverse production systems and equipment create an extensive automotive product range. Anti-stain and anti-squeak finish (ASF) are examples of product developments providing customers with cost reduction and material performance enhancements.

We spent \$1,653,234 in 2018 and \$1,940,671 in 2017 for research and development.

## ***Compliance with Environmental Laws***

We believe that we are in substantial compliance with applicable environmental laws and regulations. We have not needed to make any material expenditure to maintain such compliance during the past two fiscal years. However, during 2018 we invested approximately \$1.7 million at our Earby facility for a regenerative thermal oxidizer (RTO) to enhance the treatment of exhaust air.

We aim to comply with all existing regulatory legislation at European, national and local levels and adopt a positive stance in anticipating future, more stringent regulatory requirements. We endeavor to minimize waste throughout the production facilities with better utilization of raw materials, energy and water and to prevent at the source the emission of pollutants into the environment. We are committed to continual improvements in environmental performance.

## ***The Tax Cuts and Jobs Act***

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which significantly changed existing U.S. tax laws that affect our business. These changes included, but were not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriation of deferred foreign income and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. See Note 11 in Part II, Item 8 of this Form 10-K for further discussion.

## ***Available Information***

The address for the Company’s web site is [www.uniroyalglobal.com](http://www.uniroyalglobal.com) on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. In addition, these reports and documents may be accessed on the SEC’s web site at [www.sec.gov](http://www.sec.gov).

## **ITEM 1A. RISK FACTORS**

Not applicable.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We lease our production facility in Stoughton, Wisconsin (near Madison). The term of the lease extends to October 31, 2033 with an option to renew the lease for an additional five years. This facility consists of an approximately 230,000 square foot building with production, laboratory and administrative office space and a warehouse. Our lease includes several nearby buildings used for storage. Major equipment at the production facility includes two cast coating lines, five rotogravure printers, three paper reconditioning machines, three standard embossers, one GAP embosser, one micro-perforator, nine inspection stations including duplex with automatic data collection, bulk material handling systems and warehouse bar coding and locator systems. Laboratory facilities at the Stoughton facility replicate the production floor capabilities and enhance our research and development capability.

We also lease our production facility in West Craven Business Park, Earby, Barnoldswick, Lancashire, England. The term of the lease extends to March 3, 2039. This facility consists of approximately 250,000 square feet. Major equipment at the production facility includes various compound department mixers and holding tanks, three coating lines, four gravure printers, one water based printer, one embosser, one calender, three laminators, one airing-off/relaxer, one perforating process, two paneling machines, and four inspection frames.

During the fourth quarter of 2018, the Company decided that it would de-commission the equipment used in the calender operations at its U.K. subsidiary and, as a result, recorded a \$510,230 impairment charge for the assets used in these operations. The Company decided that it would no longer offer the calendered product after determining that these operations could not be economically modernized.

Our executive and sales offices occupy approximately 9,010 square feet of premises in Sarasota, Florida under a lease that extends to May 31, 2023.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time we may be a party to or be involved with legal proceedings, governmental investigations or inquiries, claims or litigation that are related to our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business or financial condition.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our Common Stock trades on the NASD OTC BB under the symbol UNIR.OB. The following table sets forth the range of high and low bids to purchase our Common Stock during the last two fiscal years. Such prices represent quotations between dealers, without dealer markup, markdown, or commissions, as reported on NASDAQ.com and may not represent actual transactions.

As of March 4, 2019 there were 750 stockholders of record of our Common Stock.

Quarter	High Bid	Low Bid
First Quarter 2017	\$ 3.80	\$ 2.10
Second Quarter 2017	\$ 3.54	\$ 3.00
Third Quarter 2017	\$ 3.25	\$ 2.25
Fourth Quarter 2017	\$ 2.45	\$ 1.14
First Quarter 2018	\$ 2.00	\$ 1.00
Second Quarter 2018	\$ 2.04	\$ 1.10
Third Quarter 2018	\$ 1.75	\$ 1.17
Fourth Quarter 2018	\$ 1.50	\$ 1.03

On March 11, 2019, the high and low prices for shares of our Common Stock in the over-the-counter market, as reported by NASD.OTC.BB were both \$1.05 per share.

We believe that there are presently approximately seven market makers for our Common Stock. When stock is traded in the public market, characteristics of depth, liquidity and orderliness of the market may depend upon the existence of market makers as well as the presence of willing buyers and sellers. We do not know if these or other market makers will continue to make a market in our Common Stock. Further, the trading volume in our Common Stock has historically been both sporadic and light.

Currently, the payment by the Company of dividends on its Common Stock rests within the sole discretion of its Board of Directors. The payment of dividends will depend upon our earnings, our capital requirements and our financial condition, as well as other relevant factors. The Company has not been required to or declared any cash dividends since its inception, and has no present intention of paying any cash dividends on its Common Stock in the foreseeable future.

**Transfer Agent**

The Transfer Agent for the Common Stock of the Company is Continental Stock Transfer and Trust Company, 17 Battery Place, New York, NY 10004.

**Recent Sales of Unregistered Securities**

None.

There were no repurchases by the Company of its securities during the fourth quarter of fiscal 2018.

**ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Business Description**

We are a leading provider of manufactured vinyl coated fabrics. Our best known brand, Naugahyde, is the product of many improvements on rubber-coated fabrics developed a century ago in Naugatuck, Connecticut. We design, manufacture and market a wide selection of vinyl coated fabric products under a portfolio of recognized brand names. We believe that our business has continued to be a leading supplier in its marketplace because of our ability to provide specialized materials with performance characteristics customized to the end-user specifications, complemented by technical and customer support for the use of our products in manufacturing.

Our vinyl coated fabric products have undergone considerable evolution and today are distinguished by superior performance in a wide variety of applications as alternatives to leather, cloth and other synthetic fabric coverings. Our standard product lines consist of more than 600 SKUs with combinations of colors, textures, patterns and other properties. Our products are differentiated by unique protective top finishes and transfer print capabilities. Additional process capabilities include embossing grains and patterns, and rotogravure printing, which imparts five color character prints and non-registered prints, lamination and panel cutting.

Our vinyl coated fabric products have various high performance characteristics and capabilities. They are durable, stain resistant, easily processed, more cost-effective and better performing than traditional leather or fabric coverings. Our products are frequently used in applications that require rigorous performance characteristics such as automotive and non-automotive transportation, certain indoor/outdoor furniture, commercial and hospitality seating, healthcare facilities and athletic equipment. We manufacture materials in a wide range of colors and textures. They can be hand or machine sewn, laminated to an underlying structure, thermoformed to cover various substrates or made into a variety of shapes for diverse end-uses. We are a long-established supplier to the global automotive industry and manufacture products for interior soft trim components from floor to headliner, which are produced to meet specific component production requirements such as cut and sew, vacuum forming/covering, compression molding, and high frequency welding. Some products are supplied with micro perforations, which are necessary on most compression molding processes. Materials can also be combined with polyurethane or polypropylene foam laminated with either flame or hot melt adhesive for seating, fascia and door applications.

Products are developed and marketed based upon the performance characteristics required by end-users. For example, for recreational products used outdoors, such as boats, personal watercraft, golf carts and snowmobiles, a product designed primarily for water-based durability and weatherability is used. We also manufacture a line of products called BeautyGard<sup>®</sup>, with water-based topcoats that contain agents to protect against bacterial and fungal micro-organisms and can withstand repeated cleaning, a necessity in the restaurant and health care industries. These topcoats are environmentally friendlier than solvent-based topcoats. The line is widely used in hospitals and other healthcare facilities. Flame and smoke retardant vinyl coated fabrics are used for a variety of commercial and institutional furniture applications, including hospitals, restaurants and residential care centers and seats for school buses, trains and aircraft.

We currently conduct our operations in manufacturing facilities that are located in Stoughton, Wisconsin and Earby, England.

## **Overview**

On November 10, 2014, the Company acquired through its subsidiary UEP Holdings LLC (“UEPH”) all of the ownership interests in Uniroyal Engineered Products, LLC (“Uniroyal”), and acquired directly all of the ordinary common stock of Engineered Products Acquisition Limited (“EPAL”, now known as Uniroyal Global (Europe) Limited), the holding company for Wardle Storeys (Earby) Limited (“Wardle Storeys”, now known as Uniroyal Global Limited).

The Company and its subsidiaries have adopted a 52/53-week fiscal year ending on the Sunday nearest to December 31. The years ended December 30, 2018 and December 31, 2017 were both 52-week years.

Our Earby, England operation’s functional currency is the British Pound Sterling and has sales and purchases transactions that are denominated in currencies other than the Pound Sterling, principally the Euro. Approximately 31% of the Company’s global revenues and 33% of its global raw material purchases are derived from these Euro transactions.

The average year-to-date exchange rate for the Pound Sterling to the U.S. Dollar was approximately 3.7% higher and the average exchange rate for the Euro to the Pound Sterling was approximately 1.0% higher in 2018 compared to 2017. These exchange rate changes had the effect of increasing net sales by approximately \$2.2 million for the year ended December 30, 2018. The overall currency effect on the Company’s net loss was a positive amount of approximately \$5,000 for the year ended December 30, 2018.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which significantly changed existing U.S. tax laws that affect our business. These changes included, but were not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriation of deferred foreign income and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. See Note 11 in Part II, Item 8 of this Form 10-K for further discussion.

## Year Ended December 30, 2018 Compared to the Year Ended December 31, 2017

The following table sets forth, for the year ended December 30, 2018 (“year ended 2018”) and December 31, 2017 (“year ended 2017”), certain operations data including their respective percentage of net sales:

	Year Ended					
	December 30, 2018		December 31, 2017		Change	% Change
Net Sales	\$ 99,560,721	100.0%	\$ 98,138,060	100.0%	\$ 1,422,661	1.4%
Cost of Sales	82,622,952	83.0%	79,726,380	81.2%	2,896,572	3.6%
Gross Profit	16,937,769	17.0%	18,411,680	18.8%	(1,473,911)	-8.0%
Operating Expenses:						
Selling	4,697,627	4.7%	5,113,726	5.2%	(416,099)	-8.1%
General and administrative	7,038,725	7.1%	6,812,448	6.9%	226,277	3.3%
Research and development	1,653,234	1.7%	1,940,671	2.0%	(287,437)	-14.8%
Other operating expenses	510,230	0.5%	-	0.0%	510,230	-
Total Operating Expenses	13,899,816	14.0%	13,866,845	14.1%	32,971	0.2%
Operating Income	3,037,953	3.1%	4,544,835	4.6%	(1,506,882)	-33.2%
Interest expense	(1,886,886)	-1.9%	(1,654,719)	-1.7%	(232,167)	14.0%
Other expense	(96,662)	-0.1%	(81,211)	-0.1%	(15,451)	19.0%
Income before Taxes	1,054,405	1.1%	2,808,905	2.9%	(1,754,500)	-62.5%
Tax provision (benefit)	(192,392)	-0.2%	2,916,118	3.0%	(3,108,510)	<-100%
Net Income (Loss)	1,246,797	1.3%	(107,213)	-0.1%	1,354,010	<-100%
Preferred dividends	(3,105,983)	-3.1%	(2,994,917)	-3.1%	(111,066)	3.7%
Net Loss Allocable to Common Shareholders	\$ (1,859,186)	-1.9%	\$ (3,102,130)	-3.2%	\$ 1,242,944	-40.1%

### Revenue

Total revenue for the year ended 2018 increased \$1,422,661 or 1.4% to \$99,560,721 from \$98,138,060 for the year ended 2017. Excluding the positive currency effect of the exchange rates, total revenue would have decreased by approximately \$739,000 or 0.75%. U.S. automotive sales for the year ended 2018 increased 3.3% compared to the year ended 2017. The year ended 2018 results for the U.S. market started out in a negative position compared to 2017 as the U.S. automotive manufacturers had reset their production levels in the later part of 2017 to reduce inventories caused by the softening in the 2017 U.S. automotive market. Our U.S. sales decline over the prior year occurred during the first four months of 2018 and was offset by increases during the last eight months of 2018 as we saw improvements in the revenues of several existing programs as well as revenues from new programs that were ramping up during fiscal 2018. European automotive sales declined by 5.3%, excluding the currency adjustment, as the European automotive market saw a general decline versus the prior year period where sales declines in our established programs were partially offset by increases in new programs introduced in the prior year. Sales for the industrial sector increased 5.3% (4.5% before currency effect) as sales from the non-automotive transportation markets in both the U.S. and European markets saw significant improvements over 2017. The contract sales lead by the U.S. market saw significant improvements over 2017 principally from the addition of new program awards.

### Gross Profit

Total gross profit for the year ended 2018 decreased \$1,473,911 or 8.0% to \$16,937,769 from \$18,411,680 for the year ended 2017. The gross profit percentage was 17.0% of sales for the year ended 2018 compared to 18.8% for the year ended 2017. Gross profit amount and percentage continue to be negatively impacted by rising raw material prices and the effects of product mix as the percentage of higher margin programs had declined compared to the prior year. To offset raw material price increases, the Company increased prices in December 2017 in several of its markets and initiated another increase to go into effect during the first quarter of 2019. The decrease in gross profit was partially offset by a positive net currency effect of \$393,000.

### Operating Expenses

Selling expenses for the year ended 2018 decreased \$416,099 or 8.1% to \$4,697,627 from \$5,113,726 for the year ended 2017. The Company pays commissions only on certain U.K. automotive programs. In conjunction with the decline in total automotive sales in the U.K. for the year ended 2018, there was a decrease in commissionable sales. The decrease in selling expense for the year ended 2018 was principally attributable to the lower commissions related to these sales. This decrease was partially offset by the unfavorable currency effect of \$102,000.

General and administrative expenses for the year ended 2018 increased \$226,277 or 3.3% to \$7,038,725 from \$6,812,448 for the year ended 2017. This increase was attributable to higher employee costs and other administrative expenses for the year ended 2018 compared to the year ended 2017. Also contributing to the increase was the unfavorable currency effect of \$171,000.

Research and development expenses for the year ended 2018 decreased \$287,437 or 14.8% to \$1,653,234 from \$1,940,671 for the year ended 2017. The decrease was principally attributable to a reduction in payroll and other costs. Partially offsetting the decrease was the unfavorable currency effect of \$28,000.

Other operating expenses for the year ended 2018 reflected a \$510,230 impairment charge for assets used in the calender operations at the Company's U.K. subsidiary. During the fourth quarter of 2018, the Company decided that it would de-commission the equipment and no longer offer the calendered product after determining that these operations could not be economically modernized.

### **Operating Income**

Operating income for the year ended 2018 decreased \$1,506,882 or 33.2% to \$3,037,953 from \$4,544,835 for the year ended 2017. The operating income percentage was 3.1% of sales for the year ended 2018 compared to 4.6% for the year ended 2017. Operating income decreased primarily from the decrease in gross profit and the \$510,230 impairment charge for the calender equipment. Excluding the impairment charge, operating expenses would have declined \$477,259 for the year ended 2018 compared to 2017.

### **Interest Expense**

Interest expense for the year ended 2018 increased \$232,167 or 14.0% to \$1,886,886 from \$1,654,719 for the year ended 2017. The increase was primarily due to new equipment purchases and higher interest rates on LIBOR and prime during the year ended 2018 partially offset by debt repayments compared to the year ended 2017.

### **Other Expense**

Other expense for the year ended 2018 increased \$15,451 or 19.0% to \$96,662 from \$81,211 for the year ended 2017. Included in other expense are the currency gains and losses recognized on foreign currency transactions and the change in the fair value of financial assets and liabilities that are denominated in Euros as these currencies fluctuated during the year. In addition, the Company recognizes gains and losses from the change in fair values on its foreign currency exchange contracts. Also included in other expense are other non-operating income and expenses such as dividends received on insurance policies.

### **Tax Provision (Benefit)**

For the year ended 2018, the tax benefit was \$192,392 as compared to a tax provision of \$2,916,118 for the year ended 2017. Included in the tax provision for 2017 was \$1,937,070 related to write-downs of the Company's U.S. deferred tax assets due to a reduction in our marginal tax rate from 34% to 21%. The marginal tax rate was reduced by the Tax Cuts and Jobs Act. Also included in the tax provision for 2017 was \$941,960 in tax expense related to a one-time transition tax on deemed repatriation of deferred foreign income imposed by the Tax Cuts and Jobs Act. Under the Tax Cuts and Jobs Act, an election was available to pay the repatriation tax in eight installments, with 8% due in each of the first five years, 15% in year six, 20% in year seven, and 25% in year eight. However, the Company used a portion of its net operating loss carryforward to offset the repatriation tax owed.

Based on management's review at December 30, 2018 and December 31, 2017, it was determined that a valuation allowance for the Company's deferred tax assets was not required since it was more likely than not that the deferred tax assets would be realized.

### **Preferred Stock Dividend**

The terms of the acquisitions in November 2014 resulted in the issuance of preferred ownership units/stock of UEPH and Uniroyal Global (Europe) Limited (formerly EPAL) to the sellers. These preferred units carried quarterly dividend requirements on a total value of \$55,000,000 at rates ranging from 5% to 7%. The dividend rate on the Series B UEP Holdings preferred units which started at 5.5% increases by 0.5% on the anniversary of the issuance up to a maximum of 8.0%.

## Liquidity and Sources of Capital

Cash, as it is needed, is provided by using the Company's lines of credit. These lines provide for a total borrowing commitment in excess of \$42,000,000 subject to the underlying borrowing base specified in the agreements. Of the total outstanding borrowings of \$19,325,116 at December 30, 2018, \$14.6 million of the lines bears interest at LIBOR or the Eurodollar rate plus a range of 1.95% to 2.45%, depending on the underlying borrowing base, or, at our option, at the bank's prime or base lending rate and \$4.7 million bears interest at the bank's prime or base lending rate which was 5.50% at December 30, 2018. At December 30, 2018, the lines provided an additional availability of approximately \$1.3 million. We plan to use the availability under the lines of credit at year-end 2018 and cash provided by operating activities to finance our cash needs for fiscal 2019. The balances due under the lines of credit are recorded as current liabilities on the Consolidated Balance Sheets.

Given our capital resources in the U.S. and the potential for increased investment and acquisitions in foreign jurisdictions, we did not have a history of repatriating a significant portion of our foreign cash. Accordingly, we had not recognized a deferred tax liability for these unremitted earnings. However, as discussed previously, the Tax Cuts and Jobs Act imposed a one-time transition tax on deemed repatriation of deferred foreign income. For the year ended 2017, the Company recorded \$941,960 in tax expense related to this repatriation tax. In the event that we decide to repatriate these foreign amounts to fund U.S. operations, the Company will not be required to pay any additional U.S. tax related to these amounts.

The ratio of current assets to current liabilities, including the amount due under our lines of credit, was 0.97 at December 30, 2018 and 1.03 at December 31, 2017.

Cash balances decreased \$238,478, after the effects of currency translation of \$(62,365), to \$1,028,841 at December 30, 2018 from \$1,267,319 at December 31, 2017. Of the above noted amounts, \$923,071 and \$1,152,039 were held outside the U.S. by our foreign subsidiaries as of December 30, 2018 and December 31, 2017, respectively.

Cash provided by operations was \$5,224,659 for the year ended 2018 as compared to \$5,562,511 for the year ended 2017. For 2018, cash provided by operations was primarily due to net income of \$1,246,797 and adjustments for non-cash items of \$3,109,868. For 2017, cash provided by operations was primarily due to adjustments for non-cash items of \$4,818,133. The non-cash items were principally the impairment loss and depreciation expense for 2018 and deferred taxes and depreciation expense for 2017. These amounts were further adjusted by cash flows related to changes in working capital of \$1,088,600 and \$925,378 for 2018 and 2017, respectively, and changes in other assets and liabilities of \$(220,606) and \$(73,787) for 2018 and 2017, respectively.

Cash used in investing activities was \$3,856,835 for the year ended 2018 as compared to \$2,894,081 for the year ended 2017. During 2018 and 2017, cash used in investing activities was principally for purchases of machinery and equipment at our manufacturing locations. Included in cash used in investing activities were changes in company owned life insurance. The net change of \$(131,175) for 2018 included a \$134,574 increase in cash surrender value net of proceeds from the sale of a life insurance policy of \$3,339. The net change of \$266,558 for 2017 included a \$395,322 increase in cash surrender value net of proceeds from policy loans of \$661,880.

For the year ended 2018, cash used in financing activities was \$1,543,937 as compared to \$2,821,799 for the year ended 2017. Included in cash used in financing activities were preferred dividend payments of \$3,089,294 and \$2,969,722 during the years ended 2018 and 2017, respectively. During the year ended 2018, we drew \$1,497,696 on an equipment finance commitment from our bank to finance asset purchases made by us in the current and prior year. Also impacting cash used in financing activities for the years ended 2018 and 2017 were net advances on lines of credit of \$1,075,443 and \$1,404,391, respectively.

Our credit agreements contain customary affirmative and negative covenants. We were in compliance with our debt covenants as of December 30, 2018 and through the date of filing of this report.

We currently have several on-going capital projects that are important to our long-term strategic goals. Machinery and equipment will also be added as needed to increase capacity or enhance operating efficiencies in our manufacturing plants. We will use a combination of financing arrangements to provide the necessary capital. We believe that our existing resources, including cash on hand and our credit facilities, together with cash generated from operations and additional bank borrowings, will be sufficient to fund our cash flow requirements through at least the next twelve months. However, there can be no assurance that additional financing will be available on favorable terms, if at all.

We have no material off balance sheet arrangements.



## **Critical Accounting Policies, Judgments and Estimates**

The U.S. Securities and Exchange Commission ("SEC") requires companies to provide additional disclosure and commentary on their most critical accounting policies. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and requires management to make its most significant estimates and judgments in the preparation of its consolidated financial statements. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. Our critical accounting policies are described below.

### **Revenue Recognition**

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied, which includes the control of products transferring to the customer. For Uniroyal, this generally occurs when products are shipped and, for UGL, this generally occurs when the customer accepts delivery either at the Company's U.K. facility or at a mutually agreed upon location. Revenue is measured as the amount of consideration the Company expects to receive in exchange for products transferred to the customer. Based on historical results and analysis, we estimate and calculate provisions for customer rebates and sales returns and allowances and record these estimated amounts as an offset to revenue in the same period the related revenue is recognized.

### **Accounts Receivable**

On an ongoing basis, we evaluate our accounts receivable based on individual customer circumstances, historical write-offs and collections, and current industry and customer credit conditions, and adjust the allowance for doubtful accounts accordingly. Our policy regarding write-offs and collection efforts varies based on individual customer circumstances. Past due accounts receivable are determined based on individual customer credit terms.

### **Inventories**

We value inventory at the lower of cost using the first-in, first-out (FIFO) method, or market. We assess the recoverability of inventory and record a provision for obsolescence based upon specifically identified, discontinued, or obsolete items and a percentage of quantities on hand compared with historical and forecasted usage and sales levels. These assessments, which require management's judgments and estimates, reduce inventories to their estimated net realizable value.

### **Goodwill, Intangible Assets, and Other Long-Lived Assets**

Long-lived assets consist of goodwill, identifiable intangible assets, trademarks, and property and equipment. We have deemed that our trademarks have indefinite useful lives and are not amortized unless we determine their useful lives are no longer indefinite. Other intangible assets, excluding goodwill, and property and equipment are amortized using the straight-line method over their estimated useful life. We review long-lived assets, including property, equipment, and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset.

### **Income Tax**

The Company files income tax returns in the United States as a C-Corporation, and in several state jurisdictions and in the United Kingdom. The Company's subsidiary, Uniroyal, is a limited liability company (LLC) for federal and state income tax purposes and as such, its income, losses, and credits are allocated to its members. The Company made the acquisition of Uniroyal through UEPH, a limited liability company, which issued preferred ownership interests to the sellers that provide for quarterly dividends. Uniroyal's taxable income is allocated entirely to UEPH as its sole member and since it is a pass-through entity, this income less the dividends paid to the sellers of Uniroyal is reported on the Company's tax return. The taxable income applicable to the dividends for the preferred ownership interests is reported to the sellers who report it on their respective individual tax returns.

We follow ASC 740 Income Taxes for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities (temporary differences) using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance would be included in the provision for deferred income taxes in the period of change. We have a federal net operating loss carryforward of approximately \$12.7 million as of December 30, 2018, which expires in years beginning 2022 through 2034. As a result of these loss carryforwards, we have deferred tax assets in the amount of \$2,899,634. Based on management's review at December 30, 2018 and December 31, 2017, it was determined that a valuation allowance was not required since it was more likely than not that the deferred tax assets would be realized.

#### **Foreign Currency Translation**

The financial position and results of operations of our foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of operations denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, while the capital accounts are translated at the historical rate for the date they were recognized. Revenues and expenses are translated at the weighted average exchange rates during the year. The resulting translation gains and losses on assets and liabilities are recorded in accumulated other comprehensive loss, and are excluded from net income until realized through a sale or liquidation of the investment. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of our foreign operations are included in Other Expense in the accompanying Consolidated Statements of Operations.

#### **Fair Value of Financial Instruments**

Our short-term financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and lines of credit. We adjust the carrying value of financial instruments denominated in other currencies such as cash, accounts receivable, accounts payable and lines of credit using the appropriate exchange rates at the balance sheet date. We believe that the carrying values of these short-term financial instruments approximate their estimated fair values.

The fair value of our long-term debt is estimated based on current rates for similar instruments with the same remaining maturities. In determining the current interest rates for similar instruments, we take into account its risk of nonperformance. We believe that the carrying value of our long-term debt approximates its estimated fair value.

#### **Postretirement and Postemployment Benefit Liabilities**

We provide certain health care and life insurance benefits for substantially all employees (active or retired) who were employed prior to February 20, 1987. In calculating our plan obligations and related expense, we make various assumptions and estimates. These assumptions include discount rates, mortality rates, retirement rates, termination rates and other factors. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our obligations and future expense.

#### **Recent Accounting Standards**

See Note 1 to the Consolidated Financial Statements for a discussion on accounting standards that the Company adopted during 2018 and on those recently issued but not yet required to be adopted.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Not applicable

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Uniroyal Global Engineered Products, Inc.  
Sarasota, Florida

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Uniroyal Global Engineered Products, Inc. and subsidiaries (the "Company") as of December 30, 2018 and December 31, 2017, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Frazier & Deeter, LLC  
Tampa, Florida  
March 18, 2019

We have served as the Company's auditor since 2010.

**Uniroyal Global Engineered Products, Inc.**  
**Consolidated Balance Sheets**

ASSETS	December 30, 2018	December 31, 2017
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,028,841	\$ 1,267,319
Accounts receivable, net	12,422,330	15,167,468
Inventories, net	19,460,260	19,769,662
Other current assets	965,520	846,362
Related party receivable	20,118	37,116
Total Current Assets	<u>33,897,069</u>	<u>37,087,927</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>18,878,949</u>	<u>17,289,058</u>
<b>OTHER ASSETS</b>		
Intangible assets	3,217,997	3,295,896
Goodwill	1,079,175	1,079,175
Other long-term assets	3,693,367	3,902,246
Total Other Assets	<u>7,990,539</u>	<u>8,277,317</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 60,766,557</u></u>	<u><u>\$ 62,654,302</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Checks issued in excess of bank balance	\$ 855,210	\$ 686,640
Lines of credit	19,325,116	19,340,468
Current maturities of long-term debt	1,369,967	1,155,490
Current maturities of capital lease obligations	388,862	408,425
Accounts payable	9,335,235	10,358,761
Accrued expenses and other liabilities	3,326,291	3,594,684
Related party obligation	84,154	286,955
Current portion of postretirement benefit liability - health and life	139,095	143,287
Total Current Liabilities	<u>34,823,930</u>	<u>35,974,710</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current portion	3,967,754	2,467,433
Capital lease obligations, less current portion	109,446	531,218
Related party lease financing obligation	2,613,717	2,153,327
Long-term debt to related parties	2,990,655	2,765,655
Postretirement benefit liability - health and life, less current portion	2,101,892	2,547,076
Other long-term liabilities	653,653	822,492
Total Long-Term Liabilities	<u>12,437,117</u>	<u>11,287,201</u>
Total Liabilities	<u>47,261,047</u>	<u>47,261,911</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred units, Series A UEP Holdings, LLC, 200,000 units issued and outstanding (\$100 issue price)	617,571	617,571
Preferred units, Series B UEP Holdings, LLC, 150,000 units issued and outstanding (\$100 issue price)	463,179	463,179
Preferred stock, Uniroyal Global (Europe) Limited, 50 shares issued and outstanding (\$1.51 stated value)	75	75
Common stock, 95,000,000 shares authorized (\$.001 par value) 18,690,030 shares issued and outstanding as of both December 30, 2018 and December 31, 2017	18,690	18,690
Additional paid-in capital	35,244,770	34,944,972
Accumulated deficit	(22,136,130)	(20,276,944)
Accumulated other comprehensive loss	(702,645)	(375,152)
Total Stockholders' Equity	<u>13,505,510</u>	<u>15,392,391</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 60,766,557</u></u>	<u><u>\$ 62,654,302</u></u>

See accompanying notes to the consolidated financial statements.

**Uniroyal Global Engineered Products, Inc.**  
**Consolidated Statements of Operations**

	<b>Years Ended</b>	
	<b>December 30, 2018</b>	<b>December 31, 2017</b>
<b>NET SALES</b>	\$ 99,560,721	\$ 98,138,060
<b>COST OF GOODS SOLD</b>	<u>82,622,952</u>	<u>79,726,380</u>
Gross Profit	16,937,769	18,411,680
<b>OPERATING EXPENSES:</b>		
Selling	4,697,627	5,113,726
General and administrative	7,038,725	6,812,448
Research and development	1,653,234	1,940,671
Other operating expenses	510,230	-
<b>OPERATING EXPENSES</b>	<u>13,899,816</u>	<u>13,866,845</u>
Operating Income	<u>3,037,953</u>	<u>4,544,835</u>
<b>OTHER EXPENSE:</b>		
Interest and other debt related expense	(1,886,886)	(1,654,719)
Other expense	(96,662)	(81,211)
Net Other Expense	<u>(1,983,548)</u>	<u>(1,735,930)</u>
<b>INCOME BEFORE TAX PROVISION</b>	1,054,405	2,808,905
<b>TAX PROVISION (BENEFIT)</b>	<u>(192,392)</u>	<u>2,916,118</u>
<b>NET INCOME (LOSS)</b>	1,246,797	(107,213)
Preferred stock dividend	<u>(3,105,983)</u>	<u>(2,994,917)</u>
<b>NET LOSS ALLOCABLE TO COMMON SHAREHOLDERS</b>	<u>\$ (1,859,186)</u>	<u>\$ (3,102,130)</u>
<b>LOSS PER COMMON SHARE:</b>		
Basic	<u>\$ (0.10)</u>	<u>\$ (0.17)</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ (0.17)</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>		
Basic	<u>18,690,030</u>	<u>18,704,773</u>
Diluted	<u>18,690,030</u>	<u>18,704,773</u>

See accompanying notes to the consolidated financial statements.

**Uniroyal Global Engineered Products, Inc.**  
**Consolidated Statements of Comprehensive Loss**

	<b>Years Ended</b>	
	<b>December 30, 2018</b>	<b>December 31, 2017</b>
<b>NET INCOME (LOSS)</b>	\$ 1,246,797	\$ (107,213)
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
Minimum benefit liability adjustment	271,836	330,880
Foreign currency translation adjustment	(599,329)	972,454
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	(327,493)	1,303,334
<b>COMPREHENSIVE INCOME</b>	919,304	1,196,121
Preferred stock dividend	(3,105,983)	(2,994,917)
<b>COMPREHENSIVE LOSS TO COMMON SHAREHOLDERS</b>	<u>\$ (2,186,679)</u>	<u>\$ (1,798,796)</u>

See accompanying notes to the consolidated financial statements.

**Uniroyal Global Engineered Products, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**For the Years Ended December 30, 2018 and December 31, 2017**

	UEPH Series A		UEPH Series B		UGEL Preferred		Common Stock		Additional		Accumulated	Accumulated Other Comprehensive Income	Total Equity
	Units	Amount	Units	Amount	Shares	Amount	Shares	Amount	Paid In Capital	Deficit	(Loss)		
Balance January 1, 2017	200,000	\$617,571	150,000	\$463,179	50	\$ 75	18,727,782	\$18,728	\$34,653,894	\$(17,174,814)	\$(1,678,486)	\$	16,900,147
Net loss	-	-	-	-	-	-	-	-	-	(107,213)	-	-	(107,213)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	1,303,334	-	1,303,334
Stock-based compensation expense	-	-	-	-	-	-	-	-	405,280	-	-	-	405,280
Treasury shares purchased at cost and retired	-	-	-	-	-	-	(37,752)	(38)	(114,202)	-	-	-	(114,240)
Preferred stock dividend	-	-	-	-	-	-	-	-	-	(2,994,917)	-	-	(2,994,917)
Balance December 31, 2017	200,000	617,571	150,000	463,179	50	75	18,690,030	18,690	34,944,972	(20,276,944)	(375,152)	-	15,392,391
Net income	-	-	-	-	-	-	-	-	-	1,246,797	-	-	1,246,797
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(327,493)	-	(327,493)
Stock-based compensation expense	-	-	-	-	-	-	-	-	299,798	-	-	-	299,798
Preferred stock dividend	-	-	-	-	-	-	-	-	-	(3,105,983)	-	-	(3,105,983)
Balance December 30, 2018	200,000	\$617,571	150,000	\$463,179	50	\$ 75	18,690,030	\$18,690	\$35,244,770	\$(22,136,130)	\$(702,645)	\$	13,505,510

See accompanying notes to the consolidated financial statements.

**Uniroyal Global Engineered Products, Inc.**  
**Consolidated Statements of Cash Flows**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Years Ended</b>	
	<b>December 30, 2018</b>	<b>December 31, 2017</b>
Net income (loss)	\$ 1,246,797	\$ (107,213)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	2,168,101	1,866,322
Stock-based compensation expense	299,798	405,280
Deferred tax expense	165,240	2,515,208
Impairment loss on equipment	510,230	-
Amortization of intangible assets	27,504	20,004
Loss on disposal of property and equipment	58,319	11,319
Noncash postemployment health and life benefit	(119,324)	-
Changes in assets and liabilities:		
Accounts receivable	2,253,452	262,835
Inventories	(218,434)	(2,005,565)
Other current assets	(164,357)	414,281
Related party receivable	16,998	54,538
Other long-term assets	128,505	(18,240)
Accounts payable	(636,595)	2,468,604
Accrued expenses and other liabilities	(162,464)	(269,315)
Postretirement benefit liability - health and life	(58,216)	(20,968)
Other long-term liabilities	(290,895)	(34,579)
Cash provided by operating activities	<u>5,224,659</u>	<u>5,562,511</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(3,725,660)	(3,160,639)
Payments on life insurance policies, net of policy loan activity	(131,175)	266,558
Cash used in investing activities	<u>(3,856,835)</u>	<u>(2,894,081)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in checks issued in excess of bank balance	168,570	7,146
Net advances on lines of credit	1,075,443	1,404,391
Payments on long-term debt	(835,120)	(608,947)
Proceeds from issuance of long-term debt	1,497,696	-
Payments on capital lease obligations	(403,821)	(386,145)
Net change in related party obligation	42,589	(154,282)
Payment of preferred stock dividends	(3,089,294)	(2,969,722)
Purchase and retirement of treasury stock	-	(114,240)
Cash used in financing activities	<u>(1,543,937)</u>	<u>(2,821,799)</u>
Net change in cash and cash equivalents	(176,113)	(153,369)
Cash and cash equivalents - beginning of period	1,267,319	1,321,586
Effects of currency translation on cash and cash equivalents	(62,365)	99,102
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>\$ 1,028,841</u>	<u>\$ 1,267,319</u>

See Note 2 for noncash transactions and supplemental disclosure of cash flow information.

See accompanying notes to the consolidated financial statements.



**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

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**NOTE 1 - Summary of Significant Accounting Policies**

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*Description of the Business*

Uniroyal Global Engineered Products, Inc. (the “Company”) is primarily engaged in the development, manufacturing and distribution of vinyl coated fabrics primarily for use in transportation, residential, hospitality, health care, office furniture and automotive applications. The Company’s customers are located primarily throughout North America and Europe.

On April 29, 2015, the Board of Directors adopted an amendment to the Articles of Incorporation to change the Company’s name from Invisa, Inc. to Uniroyal Global Engineered Products, Inc. On June 25, 2015, the stockholders approved the amendment. The amended and restated Articles of Incorporation were filed with the Nevada Secretary of State and became effective on July 15, 2015.

On November 10, 2014, the Company acquired all of the ownership interests in Uniroyal Engineered Products, LLC (“Uniroyal”), a U.S. manufacturer of textured coatings, and all of the ordinary common stock of Engineered Products Acquisition Limited (“EPAL”), the holding company for Wardle Storeys (Earby) Limited (“Wardle Storeys”), a European manufacturer of textured coatings and polymer films.

The Company made the acquisition of Uniroyal through its newly formed subsidiary, UEP Holdings, LLC (“UEPH”). The aggregate purchase consideration paid for 100% of the outstanding equity of Uniroyal was preferred ownership interests issued by UEPH having a liquidation preference of \$35 million. See Note 13 for a description of the preferred units issued.

In a separate transaction, the Company purchased EPAL for 100 shares of the Company’s Common Stock and the Company’s guaranty of outstanding EPAL preferred stock retained by the seller, having a liquidation preference of £12,518,240 (approximately \$20 million at closing). These preferred shares were entitled to a fixed cumulative preferential dividend of £625,912 per annum payable quarterly (approximately \$1,000,000 at the date of the transaction). On November 24, 2015, the liquidation preference was changed from £12,518,240 to €17,699,314 (approximately \$18,851,539) and the payment of the quarterly dividend from £156,478 to €221,241 (approximately \$235,644). These conversions were based on the exchange rates on November 24, 2015.

As a result of beneficial ownership between the principal owner of the Company and the seller of Uniroyal and EPAL, the seller controls in excess of 80% of the Company’s voting rights in all matters to come before the Company’s shareholders. As a result of this common ownership, the November 10, 2014 transaction was treated as a combination between entities under common control and was accounted for in a manner similar to the pooling-of-interest method. The recognized assets and liabilities were transferred at their carrying amounts at the date of the transaction. Further, the companies were also combined retrospectively for prior year comparative information to the extent permitted.

In December 2016, the Company changed the name of EPAL to Uniroyal Global (Europe) Limited (“UGEL”) and the name of Wardle Storeys to Uniroyal Global Limited (“UGL”).

The Company and its subsidiaries have adopted a 52/53-week fiscal year ending on the Sunday nearest to December 31. The years ended December 30, 2018 and December 31, 2017 were both 52-week years.

*Basis of Presentation*

The consolidated financial statements include the accounts of the Company and its subsidiaries and are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). All intercompany balances have been eliminated. The Company manages its operations on a consolidated, integrated basis in order to optimize its equipment and facilities and to effectively service its global customer base, and concludes that it operates in a single business segment.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

*Cash and Cash Equivalents*

The Company defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

The Company maintains cash in bank accounts which, at times, exceeds federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks.

*Accounts Receivable*

Accounts receivable are recorded net of an allowance for doubtful accounts, returns and discounts of \$283,560 and \$282,289 as of December 30, 2018 and December 31, 2017, respectively. Accounts receivable are recorded when obligations under the terms of a contract with a customer are satisfied, which includes the control of products transferring to the customer. See Note 23 for further discussion.

On an ongoing basis, the Company evaluates its accounts receivable based on individual customer circumstances, historical write-offs and collections, and current industry and customer credit conditions, and adjusts its allowance for doubtful accounts accordingly. The Company's policy regarding write-offs and collection efforts varies based on individual customer circumstances. Past due accounts receivable are determined based on individual customer credit terms.

*Customer Rebates*

The Company records customer rebates as a reduction of net sales. Accounts receivable are recorded net of an allowance for customer rebates of \$90,288 and \$96,044 as of December 30, 2018 and December 31, 2017, respectively.

*Inventories*

Inventories are valued at the lower of cost using the first-in, first-out (FIFO) method, or market. The Company and its subsidiaries have policies which are consistently applied to maintain reserves for obsolescence based on specific identification or a percentage of the amount on hand based on inventory aging.

*Property and Equipment*

Property and equipment are stated at cost. Major expenditures for property and equipment are capitalized. Maintenance, repairs, and minor refurbishments are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight-line method over their estimated useful lives. For income tax reporting purposes, depreciation is calculated using both applicable straight-line methods and accelerated methods or capital allowances based on the various taxing jurisdictions' approved methods.

*Cash Surrender Value of Insurance Policies*

Cash surrender value of insurance policies is valued at the cash surrender value of the contract as determined by the life insurance company. The cash value of the insurance policies totaled \$420,404 and \$864,320 as of December 30, 2018 and December 31, 2017, respectively. During the fourth quarter of 2017, the Company obtained loans against the cash value of certain of these insurance policies. At December 30, 2018 and December 31, 2017, these insurance policy loans totaled \$211,790 and \$661,880, respectively, and had a weighted average interest rate of 3.59% and 3.87%, respectively. Interest is accrued and paid quarterly. Each loan (and applicable accrued interest) can be repaid at any time. Any loan (or interest) outstanding at the time of settlement will reduce the proceeds payable under the policies. The cash value of the insurance policies, net of policy loans, is included in other long-term assets in the accompanying Consolidated Balance Sheets.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

On April 1, 2018, the Company's majority shareholder purchased the company owned life insurance policy on his life. The policy had a net value of \$128,399 based on the cash surrender value of \$578,490 and a policy loan outstanding in the amount of \$450,091. After his assumption of a related party demand note payable in the amount of \$125,000, the balance due of \$3,399 was paid on April 17, 2018.

*Impairment of Finite-Lived Long-Lived Assets*

The Company reviews long-lived assets, including property, equipment, and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. During the fourth quarter of 2018, the Company recorded a \$510,230 impairment charge for assets used in the calender operations at the Company's U.K. subsidiary. The Company decided that it would de-commission the equipment and no longer offer the calendered product after determining that these operations could not be economically modernized.

*Goodwill and Intangible Indefinite-Lived Assets*

Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired. Trademarks are recorded at estimated fair value at the date they were acquired in certain business acquisitions. To the extent it has been determined that the carrying value of goodwill or trademarks is not recoverable and is in excess of its fair value, an impairment loss is recognized. Impairment is reviewed annually. No impairment loss was deemed necessary as of December 30, 2018 or December 31, 2017.

*Income Taxes*

The Company follows ASC 740 Income Taxes for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax bases of assets and liabilities (temporary differences) using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

The tax effects from an uncertain tax position are recognized in the financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company does not believe there is any uncertainty with respect to its tax positions which would result in a material change to the financial statements.

The Company files income tax returns in the United States as a C-Corporation, and in several state jurisdictions and in the United Kingdom. The Company's subsidiary, Uniroyal, is a limited liability company (LLC) for federal and state income tax purposes and as such, its income, losses, and credits are allocated to its members. Uniroyal's taxable income is allocated entirely to UEPH, a limited liability corporation, as its sole member. As the sole member of UEPH, the Company then receives this income allocation less the dividends paid on the preferred ownership interests held by the former owners of Uniroyal.

The Company's tax returns for tax years 2015 and thereafter are subject to examination by taxing authorities. The Company records interest and penalties associated with uncertain tax positions related to these tax filings as interest expense. For the years ended December 30, 2018 and December 31, 2017, the Company has recorded no expense for interest or penalties.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

*Derivatives*

The Company recognizes all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, as to whether the hedge is a cash flow hedge or a fair value hedge.

The Company incurs foreign currency risk on sales and purchases denominated in other currencies, primarily the British Pound Sterling and the Euro. Foreign currency exchange contracts are used by the Company principally to limit the exchange rate fluctuations of the Euro. The Euro risk is partially limited due to natural cash flow offsets. Currency exchange contracts are purchased for approximately 25% of the net risk. These contracts are not designated as cash flow hedges for accounting purposes. Changes in fair value of these contracts are reported in Other Expense in the accompanying Consolidated Statements of Operations.

*Fair Value of Financial Instruments*

The Company's short-term financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company adjusts the carrying value of financial assets denominated in other currencies such as cash, accounts receivable, accounts payable and lines of credit using the appropriate exchange rates at the balance sheet date. The Company believes that the carrying values of these short-term financial instruments approximate their estimated fair values.

The fair value of the Company's long-term debt is estimated based on current rates for similar instruments with the same remaining maturities. In determining the current interest rates for similar instruments, the Company takes into account its risk of nonperformance. The Company believes that the carrying value of its long-term debt approximates its estimated fair value.

The Company uses foreign currency exchange contracts which are recorded at their estimated fair values in the accompanying Consolidated Balance Sheets. The fair values of the contracts at December 30, 2018 and December 31, 2017 were a net liability of \$26,814 included in other current liabilities and a net asset of \$13,292 included in other current assets, respectively. The fair values of the currency exchange contracts are based upon observable market transactions of spot and forward rates.

For the fiscal year ended December 30, 2018, there have been no changes in the application of valuation methods applied to similar assets and liabilities.

The Company follows accounting principles generally accepted in the United States of America for measuring, reporting, and disclosing fair value. These standards apply to all assets and liabilities that are measured, reported, and/or disclosed on a fair value basis.

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 at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Company has the ability to access.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include:

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

- > quoted prices for similar assets or liabilities in active markets;
- > quoted prices for identical or similar assets or liabilities in inactive markets;
- > inputs other than quoted prices that are observable for the asset or liability;
- > inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

*Foreign Currency Translation*

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of operations denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, while the capital accounts are translated at the historical rate for the date they were recognized. Revenues and expenses are translated at the weighted average exchange rates during the year. The resulting translation gains and losses on assets and liabilities are recorded in accumulated other comprehensive loss, and are excluded from net income until realized through a sale or liquidation of the investment. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of our foreign operations are included in Other Expense in the accompanying Consolidated Statements of Operations.

*Estimates*

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 those estimates.

*Revenue Recognition*

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied, which includes the control of products transferring to the customer. For Uniroyal, this generally occurs when products are shipped and, for UGL, this generally occurs when the customer accepts delivery either at the Company's U.K. facility or at a mutually agreed upon location. Revenue is measured as the amount of consideration the Company expects to receive in exchange for products transferred to the customer. Based on historical results and analysis, we estimate and calculate provisions for customer rebates and sales returns and allowances and record these estimated amounts as an offset to revenue in the same period the related revenue is recognized. See Note 23 for further discussion.

*Shipping and Handling Costs*

Shipping and handling costs charged to customers and the costs incurred by the Company are netted. Shipping and handling costs incurred by the Company for purchases are included in cost of goods sold.

*Warranties*

The Company warrants that the materials and workmanship of its products will meet customer specifications. The Company estimates its accrued warranty expenses based upon prior warranty claims experience. Accrued warranty expenses were not material as of December 30, 2018 and December 31, 2017.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

*Advertising*

Advertising costs, other than promotional materials, are charged to expense as incurred. Promotional materials are expensed as they are distributed. Advertising expense was \$185,496 and \$209,865 for the years ended December 30, 2018 and December 31, 2017, respectively. As of December 30, 2018 and December 31, 2017, \$113,927 and \$134,269, respectively, of promotional materials were included in other long-term assets in the accompanying consolidated financial statements.

*Research and Development*

Research and development costs are charged to expense as incurred. Research and development expense was \$1,653,234 and \$1,940,671 for the years ended December 30, 2018 and December 31, 2017, respectively.

*Earnings Per Share*

The Company calculates basic net income per common share by dividing net income after the deduction of preferred stock or preference dividends by the weighted average number of common shares outstanding. The calculation of diluted net income per share is consistent with that of basic net income per common share but gives effect to all potential common shares (that is, securities underlying options, warrants or convertible securities) that were outstanding during the period, unless the effect is anti-dilutive.

*Recent Accounting Standards*

In May 2014, the Financial Accounting Standards Board issued a new standard, Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." Under ASU 2014-09, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard on January 1, 2018 using the modified retrospective method. This required an adjustment to the opening balance of retained earnings to reflect the cumulative effect of initially applying the new standard to contracts that were not complete as of the adoption date. A contract that was not complete is defined as one for which all of the revenue was not recognized as of the adoption date. The Company did not record an adjustment to retained earnings since all of its contracts were considered complete before the adoption date. The Company elected the practical expedient of recognizing the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is one year or less. Generally, the amortization period of the Company's commission expense would be less than one year. The adoption of this standard for the year ended December 30, 2018 did not have a significant effect on the Company's consolidated financial position, results of operations and cash flows.

On February 25, 2016, the Financial Accounting Standards Board issued a new standard, ASU No. 2016-02, "Leases" and on July 30, 2018, it issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements." Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The Company adopted this standard effective December 31, 2018 and elected to recognize leases at the adoption date. The Company did not recognize a cumulative-effect adjustment to the opening balance of retained earnings since its recognition of expenses relating to leases under current GAAP is the same as it was under previous GAAP. The Company continues its process of evaluating how significant the impact of the adoption of this standard will be on the year ending December 29, 2019 as it recognizes lease assets and lease liabilities related to its operating leases. The Company anticipates that its total assets and liabilities will increase by approximately \$5.7 million as it records previously unrecorded operating leases. However, the Company does not anticipate that there will be any significant impact on its results of operations and cash flows.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the Years Ended December 30, 2018 and December 31, 2017

On August 26, 2016, the Financial Accounting Standards Board issued a new standard, ASU No. 2016-15, “Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments.” The new standard applies to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted this standard on January 1, 2018. The adoption of this standard for the year ended December 30, 2018 did not have a significant effect on the Company’s consolidated financial position, results of operations and cash flows.

On January 26, 2017, the Financial Accounting Standards Board issued a new standard, ASU No. 2017-04, “Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment.” The new standard modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. It will be effective for the Company on December 30, 2019. The Company is currently evaluating the effects this standard will have, if any, on its consolidated financial position, results of operations and cash flows.

On May 10, 2017, the Financial Accounting Standards Board issued a new standard, ASU No. 2017-09, “Compensation – Stock Compensation – Scope of Modification Accounting.” The new standard clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. The Company adopted this standard on January 1, 2018. The adoption of this standard for the year ended December 30, 2018 did not have a significant effect on the Company’s consolidated financial position, results of operations and cash flows.

On August 28, 2017, the Financial Accounting Standards Board issued a new standard, ASU No. 2017-12, “Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities.” The objective of this new standard is to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities and to simplify the application of the hedge accounting guidance in current GAAP. The Company adopted this standard effective December 31, 2018. Since the Company currently does not have any derivatives that are a part of a hedging relationship, the adoption of this standard for the year ending December 29, 2019 is not expected to have a significant effect on the Company’s consolidated financial position, results of operations and cash flows.

On August 28, 2018, the Financial Accounting Standards Board issued a new standard, ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” The new standard modifies the disclosure requirements on fair value measurements in Topic 820, “Fair Value Measurement.” Certain requirements were removed such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, certain requirements were modified and certain disclosures were added such as the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period. This standard will be effective for the Company on December 30, 2019. The Company is currently evaluating the effects this standard will have, if any, on its consolidated financial position, results of operations and cash flows.

On August 29, 2018, the Financial Accounting Standards Board issued a new standard, ASU No. 2018-15, “Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” The new standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This includes determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense, and expensing the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The standard also provides guidance on financial statement presentation. This standard will be effective for the Company on December 30, 2019. Since the Company currently does not have any implementation costs associated with internal-use software, the adoption of this standard is not expected to have a significant effect on the Company’s consolidated financial position, results of operations and cash flows.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

On October 25, 2018, the Financial Accounting Standards Board issued a new standard, ASU No. 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." The new standard permits the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. Including the OIS rate based on SOFR provides a preferred alternative reference rate in the United States to the U.S. dollar (USD) London Interbank Offered Rate (LIBOR) swap rate. The Company adopted this standard effective December 31, 2018, concurrently with the amendments in ASU 2017-12. The adoption of this standard for the year ending December 29, 2019 is not expected to have a significant effect on the Company's consolidated financial position, results of operations and cash flows.

*The Tax Cuts and Jobs Act*

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, which significantly changed existing U.S. tax laws that affect the Company's business. These changes included, but were not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%, imposing a one-time transition tax on deemed repatriation of deferred foreign income and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. See Note 11 for further discussion.

*Subsequent Events*

The Company has evaluated subsequent events occurring through the date that the financial statements were issued, for events requiring recording or disclosure in the December 30, 2018 financial statements. There were no material events or transactions occurring during this period requiring recognition or disclosure.



**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended December 30, 2018 and December 31, 2017

**NOTE 2 - Noncash Transactions and Supplemental Disclosure of Cash Flow Information**

During the year ended December 30, 2018, the Company reduced its borrowings on its lines of credit with additional borrowings of \$925,657 on its term loan with Wells Fargo Capital Finance, LLC. During the years ended December 30, 2018 and December 31, 2017, the Company paid down \$395,086 and \$384,792, respectively, of its term loans using available borrowings on its various lines of credit.

During the years ended December 30, 2018 and December 31, 2017, the Company entered into several new equipment leases and financing obligations with fair values of \$1,195,136 and \$1,686,696, respectively, which are accounted for as capital assets. The fair values were added to property and equipment and a corresponding amount to capital lease or financing obligations.

On April 1, 2018, the Company's majority shareholder purchased the company owned life insurance policy on his life. The policy had a net value of \$128,399 based on the cash surrender value of \$578,490 and a policy loan outstanding in the amount of \$450,091. After his assumption of a related party demand note payable in the amount of \$125,000, the balance due of \$3,399 was paid on April 17, 2018.

Supplemental disclosure of cash paid for the years ended:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Interest expense	\$ 1,828,208	\$ 1,664,638
Income taxes	\$ -	\$ 360,850

**NOTE 3 - Inventories**

Inventories consist of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Raw materials	\$ 5,863,762	\$ 5,572,253
Work-in-process	5,040,582	5,342,359
Finished goods	<u>10,049,567</u>	<u>10,377,480</u>
	20,953,911	21,292,092
Less: Allowance for inventory obsolescence	<u>(1,493,651)</u>	<u>(1,522,430)</u>
Total Inventories	\$ 19,460,260	\$ 19,769,662

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 As of and for the Years Ended December 30, 2018 and December 31, 2017

**NOTE 4 - Property and Equipment**

The major categories of property and equipment are summarized as follows:

	Depreciable Lives	December 30, 2018	December 31, 2017
Building and building improvements	8 – 25 yrs.	\$ 1,355,238	\$ 732,086
Machinery and equipment	8 - 10 yrs.	30,106,102	27,244,195
Computer equipment	3 - 10 yrs.	1,469,300	1,399,851
Furniture and fixtures	7 - 10 yrs.	190,601	173,904
Real estate under lease	20 yrs.	2,375,914	2,165,914
Construction-in-progress	-	90,660	97,605
<b>Total Property and Equipment</b>		<b>35,587,815</b>	<b>31,813,555</b>
<b>Less: Accumulated depreciation</b>		<b>(16,708,866)</b>	<b>(14,524,497)</b>
<b>Net Property and Equipment</b>		<b>\$ 18,878,949</b>	<b>\$ 17,289,058</b>

The balance of accumulated depreciation at December 30, 2018 reflected an impairment charge of \$510,230 for assets used in the calender operations at the Company's U.K. subsidiary. During the fourth quarter of 2018, the Company decided that it would de-commission the equipment and no longer offer the calendered product after determining that these operations could not be economically modernized.

**NOTE 5 - Intangible Assets**

Intangible assets are summarized as follows:

	Amortizable Lives	December 30, 2018	December 31, 2017
Trademarks and trade names	Indefinite	\$ 3,148,830	\$ 3,274,225
Other	5 years	69,167	21,671
<b>Total Intangible Assets</b>		<b>\$ 3,217,997</b>	<b>\$ 3,295,896</b>

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

### **NOTE 6 – Other Long-term Assets**

Other long-term assets consist of the following:

	December 30, 2018	December 31, 2017
Deferred tax asset	\$ 2,899,634	\$ 3,167,092
Other	793,733	735,154
Total Other Long-term Assets	<u>\$ 3,693,367</u>	<u>\$ 3,902,246</u>

### **NOTE 7 – Other Long-term Liabilities**

Other long-term liabilities consist of the following:

	December 30, 2018	December 31, 2017
Deferred tax liability	\$ 640,219	\$ 793,145
Other	13,434	29,347
Total Other Long-term Liabilities	<u>\$ 653,653</u>	<u>\$ 822,492</u>

### **NOTE 8 – Lines of Credit**

The Company's Uniroyal subsidiary has available a \$30,000,000 revolving line of credit financing agreement with Wells Fargo Capital Finance, LLC, which matures on June 15, 2023. Interest is payable monthly at the Eurodollar rate plus 2.25% or Wells Fargo Capital Finance, LLC's prime rate at the Company's election on outstanding balances up to \$6,000,000 and prime rate on amounts in excess of \$6,000,000. The line of credit weighted average interest rate including unused facility fees was approximately 5.30% as of December 30, 2018. Borrowings on the line of credit are subject to the underlying borrowing base specified in the agreement. The underlying borrowing base is currently determined based upon eligible accounts receivable, inventories and equipment. The line of credit is secured by substantially all of Uniroyal's assets and includes certain financial and restrictive covenants. The Company was in compliance with these covenants as of December 30, 2018.

The outstanding balance on the line of credit ("Uniroyal Line of Credit") was \$10,713,318 and \$10,376,881 as of December 30, 2018 and December 31, 2017, respectively. The Company has classified the outstanding balance on this line of credit within current liabilities in the accompanying Consolidated Balance Sheets.

The Company's U.K. subsidiary has available a £10,000,000 (approximately \$12.7 million) revolving line of credit financing agreement with Lloyds Bank Commercial Finance Limited ("U.K. Line of Credit") which is subject to a six-month notice by either party. The line has several tranches based on currency or underlying security. Interest is payable monthly at the base rate (U.K. LIBOR or Lloyds Bank Base Rate as published) plus 1.95% to 2.45% depending on the tranche. The line of credit weighted average interest rate was approximately 2.55% as of December 30, 2018. Borrowings on the line of credit are subject to the underlying borrowing base specified in the agreement. The underlying borrowing base is currently determined based upon eligible accounts receivable and inventories. The line of credit is secured by substantially all of the subsidiary's assets and includes certain financial and restrictive covenants. The Company was in compliance with these covenants as of December 30, 2018.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 As of and for the Years Ended December 30, 2018 and December 31, 2017

The outstanding balance on the U.K. Line of Credit was £6,787,260 and £6,631,172 (\$8,611,798 and \$8,963,587) as of December 30, 2018 and December 31, 2017, respectively. The Company has classified the outstanding balance on this line of credit within current liabilities in the accompanying Consolidated Balance Sheets.

**NOTE 9 - Long-term Debt**

Long-term debt consists of the following:

	December 30, 2018	December 31, 2017
Uniroyal term loans with Wells Fargo Capital Finance, LLC, monthly interest only payments at the Eurodollar rate plus 2.25% or Wells Fargo Bank, National Association's prime rate. The term loans' weighted average interest rate was approximately 5.30% as of December 30, 2018. Monthly principal balances are reduced by \$26,183 each month, resulting in a conversion, or increase, of the same amount in the line of credit each month (see Note 2). Term loans mature in June 2023 and are secured by substantially all of the Company's assets and include certain financial and restrictive covenants.	\$ 1,413,898	\$ 792,525
Term loan with Lloyds Bank Commercial Finance Limited; issued to the Company's U.K. subsidiary, at £340,000 (approximately \$431,400); payable in 60 monthly payments of £5,667 (approximately \$7,190). Interest is payable monthly at the rate of 3.15% above the base rate (U.K. LIBOR); monthly, the principal is reduced by required payment resulting in an increase of the same amount in the line of credit (see Note 2). The loan matures in February 2019 and is secured by substantially all of the subsidiaries' assets and includes certain financial and restrictive covenants.	14,380	107,238
Financing obligation to Kennet Equipment Leasing payable in monthly installments of £16,636 (\$21,108) including interest and principal at a rate of 10.9%. The loan matures in May 2021 and is secured by certain equipment.	451,173	691,830
Note payable to Balboa Capital Corporation; assigned to Wells Fargo, payable in quarterly installments of \$37,169 including interest and principal at a rate of 5.72% with the remaining principal due May 2018. The note was secured by certain equipment.	-	73,113

# UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

Notes payable to Regents Capital Corporation; payable in monthly installments of \$3,256-\$10,805 including interest and principal at rates of 6.20%-7.41% with the remaining principal due December 2019 – October 2023. The notes are secured by certain equipment.	1,058,305	984,073
Note payable to De Lage Landen Financial Services payable in monthly installments of \$2,658 including interest and principal at a rate of 7.35% with the remaining principal due May 2021. The note is secured by certain equipment.	68,208	96,123
Note payable to Ford Motor Credit payable in monthly installments of \$849 including interest and principal at a rate of 4.31% with the remaining principal due November 2021. The note is secured by certain equipment.	27,881	36,662
Note payable to Byline Financial Group, payable in monthly installments of \$1,999 including interest and principal at a rate of 8.55% with the remaining principal due March 2019. The note is secured by certain equipment.	5,913	28,344
Notes payable to BB&T Equipment Finance Corporation; payable in monthly installments of \$4,691-\$15,445 including interest and principal at rates of 4.02%-5.12% with the remaining principal due October 2022-May 2023. The notes are secured by certain equipment.	879,600	813,015
Financing obligation to Lloyds Bank Commercial Finance Limited; payable in 60 monthly installments including interest and principal at a rate of 3.50% above the base rate (U.K. LIBOR) beginning one month after construction of the financed equipment is complete. The loan is secured by certain equipment.	1,344,801	-
Note payable to Lloyds Bank Commercial Finance Limited; payable in monthly installments of £1,148 (\$1,456) including interest and principal at a rate of 4.23% with the remaining principal due August 2023. The loan is secured by certain equipment.	73,562	-
Totals	5,337,721	3,622,923
Less: Current portion	(1,369,967)	(1,155,490)
Long-Term Portion	\$ 3,967,754	\$ 2,467,433

In January 2018, the Company signed an agreement with Lloyds Bank Commercial Finance Limited (“Lloyds”) whereby Lloyds would advance funds in three tranches to finance the construction and purchase of a regenerative thermal oxidizer to be used in the Company’s U.K. manufacturing facility, with the final tranche to be advanced after the completion of the equipment. The maximum amount of this financing obligation is £1,177,650 or approximately \$1,494,200. The balance of this financing obligation at December 30, 2018 was £1,059,885 (\$1,344,801), which reflected the first two tranches of funds advanced. Monthly payments will begin one month after the completion of the equipment and will continue over a 60-month period at 3.50% above the base rate (LIBOR).

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 As of and for the Years Ended December 30, 2018 and December 31, 2017

Principal requirements on long-term debt for years ending after December 30, 2018 are as follows:

	Totals
2019	\$ 1,369,967
2020	1,311,444
2021	1,133,958
2022	953,930
2023	501,182
Thereafter	67,240
Total	<u>\$ 5,337,721</u>

**NOTE 10 - Related Party Obligations**

Long-term debt to related parties consists of the following:

	December 30, 2018	December 31, 2017
Senior subordinated promissory notes issued to the Company's majority shareholder; monthly interest only payments at 9.25%; principal payment of \$2,000,000 due on January 15, 2021. The senior subordinated promissory notes are secured by substantially all assets of the Company subject to the notes' subordination to the line of credit and term loans with Wells Fargo Capital Finance, LLC.	\$ 2,000,000	\$ 2,000,000
Senior secured promissory note issued to the Company's majority shareholder; quarterly interest payments at 10%; principal payment of \$765,655 due on January 15, 2021. The note is secured by substantially all the assets of the Company.	765,655	918,786
Subordinated secured promissory note issued to the Company's majority shareholder; quarterly interest payments at 8%; principal payment of \$225,000 due on January 15, 2021. The note is secured by substantially all the assets of the Company.	225,000	-
Totals	2,990,655	2,918,786
Less: Current portion	-	(153,131)
Total Long-term Debt to Related Parties	<u>\$ 2,990,655</u>	<u>\$ 2,765,655</u>

On December 15, 2018, the Company amended its senior subordinated promissory note to the Company's majority shareholder to change the maturity date to January 15, 2021. Additionally, on December 15, 2018, the Company amended its senior secured promissory note and its subordinated secured promissory note to the Company's majority shareholder to defer all principal payments to January 15, 2021. No other terms of the notes were changed at that time. The changes became effective December 15, 2018.

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** As of and for the Years Ended December 30, 2018 and December 31, 2017

The Company has a lease financing obligation under which it leases its main U.S. manufacturing facility and certain other property from a related party lessor entity, owned by the Company's majority shareholder. The lease financing obligation accrues interest at 15.64% and currently requires monthly principal and interest payments of \$41,357, which are adjusted annually based on the consumer price index. The balance of the related party lease financing obligation at December 30, 2018 reflected changes made to the lease agreement during 2018 in recognition of \$565,000 of improvements to the leased facility. The lease financing obligation matures on October 31, 2033. The Company has security deposits aggregating \$267,500 held by the lessor entity. The lease financing obligation is shown in the accompanying Consolidated Balance Sheets as Related Party Lease Financing Obligation which consists of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Related party lease financing obligation	\$ 2,697,871	\$ 2,162,151
Less: Current portion	<u>(84,154)</u>	<u>(8,824)</u>
Long-Term Portion	<u>\$ 2,613,717</u>	<u>\$ 2,153,327</u>

The current portions of the long-term debt to related parties and the related party lease financing obligation are combined and are shown in current liabilities as related party obligation. The \$125,000 subordinated secured promissory note that was outstanding at December 31, 2017 was paid during the first quarter of 2018.

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Current portion of long-term debt to related parties	\$ -	\$ 153,131
Current portion of related party lease financing obligation	84,154	8,824
Related party subordinated secured promissory note	<u>-</u>	<u>125,000</u>
Related Party Obligation	<u>\$ 84,154</u>	<u>\$ 286,955</u>

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

Principal payments on the lease financing obligation, subordinated secured promissory note and the aforementioned long-term debt to related parties for years ending after December 30, 2018 are as follows:

	Totals
2019	\$ 84,154
2020	89,560
2021	3,093,357
2022	117,850
2023	127,202
Thereafter	2,176,403
Total	<u>\$ 5,688,526</u>

**NOTE 11 – Income Taxes**

The Company files income tax returns in the United States as a C-Corporation, and in several state jurisdictions and in the United Kingdom. The Company's subsidiary, Uniroyal, is a limited liability company (LLC) for federal and state income tax purposes and as such, its income, losses, and credits are to its members. The Company made the acquisition of Uniroyal through UEPH, a limited liability corporation, which issued preferred ownership interests to the sellers that provide for quarterly dividends. Uniroyal's taxable income is allocated entirely to UEPH as its sole member and since it is a pass-through entity, this income less the dividends paid to the sellers of Uniroyal is reported on the Company's tax return. The taxable income applicable to the dividends for the preferred ownership interests is reported to the sellers who report it on their respective individual tax returns.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"), which significantly changed existing U.S. tax laws that affect the Company's business. These changes included, but were not limited to, reducing the U.S. federal corporate tax rate, imposing a one-time transition tax on deemed repatriation of deferred foreign income and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. The Tax Act required the Company to incur a one-time transition tax on deferred foreign income not previously subject to U.S. income tax at a rate of 15.5% for foreign accumulated earnings held in cash, cash equivalents and certain other net current assets, and 8% on the remaining accumulated earnings. The Tax Act also reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018.

Based on guidance issued by the SEC, the Company was required to reflect the income tax effects of those aspects of the Tax Act for which the accounting was known, record a provisional estimate for those aspects of the Tax Act for which the accounting was incomplete but a reasonable estimate was determinable or, if a reasonable estimate was not determinable, continue to apply the tax laws that were in effect immediately before the enactment of the Tax Act.

For the year ended December 31, 2017, the Company reported provisional amounts for the income tax effects of the Tax Act for which the accounting was incomplete but a reasonable estimate could be determined, including applying the lower corporate tax rate to deferred tax assets and provisioning for the one-time transition tax on deferred foreign income. Based on a continued analysis of the estimates and further guidance and interpretations on the application of the law, additional revisions may occur throughout the allowable measurement period, which is no more than one year beyond the Tax Act enactment date. No material revisions were made to the amounts reported for the income tax effects of the Tax Act for the year ended December 31, 2017.



**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 As of and for the Years Ended December 30, 2018 and December 31, 2017

The provision (benefit) for income taxes for the years ended December 30, 2018 and December 31, 2017 were:

	December 30, 2018	December 31, 2017
Current		
Federal	\$ -	\$ -
State	5,796	38,044
Foreign	(363,428)	362,866
Total current income tax provision (benefit)	(357,632)	400,910
Deferred		
Federal	266,925	2,559,887
State	8,057	(37,979)
Foreign	(109,742)	(6,700)
Total deferred income tax provision	165,240	2,515,208
Total income tax provision (benefit)	\$ (192,392)	\$ 2,916,118

The provision (benefit) for income taxes differs from the amount computed by applying the federal statutory income tax rate to income before income taxes. The Company's effective income tax rate, computed as the total of federal, state and foreign taxes as a percentage of income before taxes, was a negative 18.2% and 103.8% for the years ended December 30, 2018 and December 31, 2017, respectively. The effective tax rate for the year ended December 31, 2017 reflected expenses related to the Tax Act, which included \$1,937,070 due to write-downs of the Company's U.S. deferred tax assets from the reduction in the marginal tax rate and \$941,960 due to the one-time transition tax on deemed repatriation of deferred foreign income. The Company used a portion of its net operating loss carryforward to offset the transition tax owed.

The following is a reconciliation of the income tax at the U.S. federal statutory tax rate with the income tax at the effective tax rate for the years ended December 30, 2018 and December 31, 2017:

	December 30, 2018	December 31, 2017
Income tax at statutory rates	\$ 221,425	\$ 955,028
Transition tax	-	941,960
Foreign tax rate differential	35,417	(429,227)
UEPH preference dividend	(326,376)	(284,767)
Research and development credit	(163,903)	(142,832)
Effect of change in tax rate on deferred items	13,214	1,929,167
Other	13,978	(53,276)
State tax provisions	13,853	65
Income tax expense (benefit)	\$ (192,392)	\$ 2,916,118
Effective income tax rate	(18.2)%	103.8%

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

The following table summarizes the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities:

	December 30, 2018	December 31, 2017
Deferred tax assets:		
Net operating loss carryforward	\$ 3,174,952	\$ 3,226,999
Total deferred tax assets	<u>3,174,952</u>	<u>3,226,999</u>
Deferred tax liabilities:		
Trademarks	(326,200)	(324,635)
Deferred gain	(161,104)	(171,632)
Capital allowances	(428,233)	(356,785)
Total deferred tax liabilities	<u>(915,537)</u>	<u>(853,052)</u>
Net deferred tax assets	<u>\$ 2,259,415</u>	<u>\$ 2,373,947</u>

Deferred tax assets as of December 30, 2018 and December 31, 2017 include \$2,899,634 and \$3,167,092, respectively, of carryforwards related to U.S. net operating losses and \$275,318 and \$59,907, respectively, of carryforwards resulting from U.K. losses. The \$2,899,634 and \$3,167,092 of deferred tax assets for U.S. losses are included in other long-term assets. The \$275,318 and \$59,907 of deferred tax assets for U.K. losses are netted with deferred tax liabilities, which are all related to U.K. tax. Total net deferred tax liabilities of \$640,219 and \$793,145 are included in other long-term liabilities, as of December 30, 2018 and December 31, 2017, respectively.

The Company has a federal net operating loss carryforward of approximately \$12.7 million as of December 30, 2018, which expires in years beginning 2022 through 2034. As a result of these loss carryforwards, the Company has deferred tax assets in the amount of \$2,899,634. Based on evidence available at December 30, 2018 and December 31, 2017, it was determined that a valuation allowance was not required since it was more likely than not that the deferred tax assets would be realized.

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### **NOTE 12 - Postretirement and Postemployment Benefit Liabilities**

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#### *Postretirement Benefit Liability - Health and Life*

The Company provides certain health care and life insurance benefits for substantially all employees (active or retired) who were employed prior to February 20, 1987. Accounting standards for postretirement benefits require an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**As of and for the Years Ended December 30, 2018 and December 31, 2017**

The accumulated postretirement benefit obligation, plan assets and accrued postretirement liability as of the plan's measurement date are as follows:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Postretirement Benefit Liability - Health and Life	\$ 3,077,580	\$ 3,255,120
Less: Plan assets	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost	3,077,580	3,255,120
Less: Unrecognized net gain	<u>(836,593)</u>	<u>(564,757)</u>
Accumulated postretirement benefit obligation	2,240,987	2,690,363
Less: Current portion	<u>(139,095)</u>	<u>(143,287)</u>
Long-Term Portion	<u>\$ 2,101,892</u>	<u>\$ 2,547,076</u>

Net postretirement benefit (income) expense for the plan is comprised of the following:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Service cost	\$ -	\$ -
Interest cost on projected benefit obligation	84,585	108,740
Amortization of prior service cost	-	-
Amortization of net gain	<u>(119,324)</u>	<u>-</u>
Net postretirement benefit (income) expense	<u>\$ (34,739)</u>	<u>\$ 108,740</u>

Reconciliation of gains in other comprehensive loss is as follows:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Net actuarial gain	\$ 391,160	\$ 330,880
Amortization of prior service credit and actuarial gain	<u>(119,324)</u>	<u>-</u>
Postretirement benefit liability adjustment in other comprehensive loss	<u>\$ 271,836</u>	<u>\$ 330,880</u>

The amount in accumulated other comprehensive loss at December 30, 2018 that has not yet been recognized as a component of net periodic benefit costs is \$836,593 and consists of unrecognized net actuarial gains. The amount in accumulated other comprehensive income at December 30, 2018 that is expected to be recognized as a component of net periodic benefit costs during 2019 is \$294,468 and consists of net actuarial gains.

# UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

The significant assumptions used in determining the accumulated postretirement benefit obligation and net periodic benefit cost are as follows:

	December 30, 2018	December 31, 2017
Health Care Cost Trend Rates:		
2018	4.00%	4.00%
Thereafter	4.00%	4.00%
Discount rate	3.82%	3.23%
Measurement Date	December 30, 2018	December 31, 2017

In addition to the significant assumptions listed above, other assumptions used in determining the accumulated postretirement benefit obligation and net periodic benefit cost are retirement and termination probabilities and mortality estimates. The Company assumes that employees participating in the plan will continue to participate during retirement. The Company also assumes that employees not participating in the plan will not participate in the plan prior to or during retirement.

Employer and employee contributions to the plan were \$147,358 and \$16,237, respectively, during the year ended December 30, 2018 and \$140,243 and \$10,535, respectively, during the year ended December 31, 2017. Contributions to the plan are made each year based on estimated benefit payments to be paid out of the plan. Estimated benefit payments from the plan for each of the next five years, and in the aggregate for the five years thereafter, are as follows:

2019	\$ 139,092
2020	142,737
2021	147,630
2022	148,793
2023	148,887
2024 - 2028	733,267
Total	<u>\$ 1,460,406</u>

### *Postemployment Benefit Liability - Severance*

The Company provides certain severance benefits for substantially all union employees who began their employment prior to 1986. Accounting standards for postemployment benefits require the Company to accrue the estimated cost of future severance payments during the years the employees provide services. The accrued postemployment benefit liability as of December 30, 2018 and December 31, 2017 was \$13,434 and \$28,162, respectively, and is included in other long-term liabilities in the accompanying Consolidated Balance Sheets. The accrued postemployment benefit liability was determined using discount rates of 3.82% and 3.23% as of December 30, 2018 and December 31, 2017, respectively.

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** As of and for the Years Ended December 30, 2018 and December 31, 2017

### **NOTE 13 – Equity**

The following table summarizes the Company's common stock outstanding by class:

	December 30, 2018	December 31, 2017
Ordinary Common Stock	17,070,928	17,070,928
Class B Common Stock	1,619,102	1,619,102
<b>Total</b>	<b>18,690,030</b>	<b>18,690,030</b>

The Company's Class B Common Stock ("Class B") has the same entitlement to dividends as may be declared for the ordinary common stock. The holder of Class B was the holder of UGEP preferred stock that was converted to Class B on December 30, 2015. The Class B does not have any preference with respect to holders of other equity interests in the Company in the event of any liquidation, dissolution or winding up of the Company. Each share of Class B has the right to 22 votes on matters that come before the shareholders. Each share of Class B is convertible into one share of ordinary common stock at any time. The shares of Class B are not registered and do not trade in the open market.

#### *Acquisition*

On November 10, 2014, the Company acquired Uniroyal and UGEL (previously EPAL), the holding company for UGL (previously Wardle Storeys). Pursuant to the acquisition of Uniroyal, 200,000 units of Series A preferred units and 150,000 units of Series B preferred units of UEPH Holdings LLC, a wholly-owned subsidiary of the Company, were issued to the former owners of Uniroyal. Each of the UEP Holdings Series A and Series B preferred units have an issue price of \$100 per unit or a total face value of \$20,000,000 and \$15,000,000, respectively. The UEPH Series A preferred units are entitled to a preferred return of an amount per annum equal to five percent (5.00%) of the issue price of such UEPH Series A preferred unit. The UEPH Series B preferred units are entitled to a preferred return of an amount per annum equal to five and one half percent (5.50%) of the issue price of such UEPH Series B preferred unit, increasing by one half percent (0.50%) on the first anniversary of the effective date and by an additional one half percent (0.50%) on each successive anniversary of the effective date thereafter, up to a maximum of eight percent (8.00%) on the fifth anniversary of the effective date. As of December 30, 2018, the preferred return percentage of the UEPH Series B preferred units is 7.5%.

In a separate transaction, the Company also purchased all the outstanding 50 common shares of UGEL, a U.K. limited company, for 100 shares of its common stock and its guaranty of outstanding UGEL preferred stock retained by the seller, having a liquidation preference of €17,699,314 (approximately \$20,272,794). As part of the transaction, 50 shares of the UGEL common stock held by the seller had been converted and reclassified as preferred shares. These preferred shares are entitled to a quarterly dividend payment of €221,241 (approximately \$253,409).

### **NOTE 14 – Stock-Based Compensation**

On June 25, 2015, the Company's stockholders approved the adoption of the 2015 Stock Option Plan. This plan provides for the granting of options to purchase the Company's common stock to employees and directors. The options granted are subject to a vesting schedule as set forth in each individual option agreement. Each option expires on the tenth anniversary of its date of grant unless an earlier termination date is provided in the grant agreement. The maximum aggregate number of shares of common stock that may be optioned and sold under the plan shall be 6% of the shares outstanding on the date of grant. The shares that may be optioned under the plan may be authorized but unissued or may be treasury shares.

Compensation expense is recognized on a straight-line basis over a three-year vesting period from date of grant.

On a quarterly basis, the Company assesses changes to its estimate of expected option award forfeitures based on its review of recent forfeiture activity and expected future employee turnover. The Company recognizes the effect of adjustments made to the forfeiture rates, if any, in the period that it changes the forfeiture estimate. For the year ended December 30, 2018, there were no forfeiture rate adjustments and future adjustments are not expected to be significant.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

Stock option activity for the years ended December 30, 2018 and December 31, 2017 is as follows:

	Stock Options					
	Total	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price	Non- Vested	Weighted Average Exercise Price
Outstanding at January 1, 2017	997,750	\$ 2.80	217,501	\$ 2.37	780,249	\$ 2.92
Granted	-	-	-	-	-	-
Vested	-	-	330,913	\$ 2.80	(330,913)	\$ 2.80
Exercised	-	-	-	-	-	-
Forfeited or cancelled	(36,250)	\$ 2.83	(21,249)	\$ 2.63	(15,001)	\$ 3.10
Outstanding at December 31, 2017	961,500	\$ 2.80	527,165	\$ 2.63	434,335	\$ 3.00
Granted	-	-	-	-	-	-
Vested	-	-	315,504	\$ 2.80	(315,504)	\$ 2.80
Exercised	-	-	-	-	-	-
Forfeited or cancelled	(15,000)	\$ 2.77	(8,334)	\$ 2.61	(6,666)	\$ 2.97
Outstanding at December 30, 2018	<u>946,500</u>	\$ 2.80	<u>834,335</u>	\$ 2.69	<u>112,165</u>	\$ 3.57
Aggregate Intrinsic Value December 31, 2017	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>	
Aggregate Intrinsic Value December 30, 2018	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>	

Option expense recognized was \$299,798 and \$405,280 for the years ended December 30, 2018 and December 31, 2017, respectively. As of December 30, 2018, there was \$44,167 in unrecognized compensation cost related to the options granted under the 2015 Stock Option Plan. The Company expects to recognize those costs over the remaining vesting term of three months.

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

**NOTE 15 – Earnings Per Share**

The following table sets forth the computation of earnings per common share - basic and earnings per common share – diluted for the years ended December 30, 2018 and December 31, 2017:

	December 30, 2018	December 31, 2017
Numerator		
Net loss allocable to common shareholders	\$ (1,859,186)	\$ (3,102,130)
Denominator		
Denominator for basic earnings per share - weighted average shares outstanding	18,690,030	18,704,773
Weighted average effect of dilutive securities	-	-
Denominator for dilutive earnings per share - weighted average shares outstanding	18,690,030	18,704,773
Basic and Diluted Net Loss Per Share		
Net loss allocable to common shareholders	\$ (0.10)	\$ (0.17)
Effect of dilutive securities	(0.00)	(0.00)
Net loss allocable to common shareholders	\$ (0.10)	\$ (0.17)

Due to the net loss for each of the years ended December 30, 2018 and December 31, 2017, the calculations of basic and diluted loss per share were the same since including options to purchase shares of the Company's common stock in the calculations of diluted loss per share would have been anti-dilutive. However, if diluted earnings per share had been reported for the year ended December 30, 2018, the calculation would have excluded options to purchase 946,500 shares of common stock because the options' exercise prices of \$2.37 and \$3.57 per share were greater than the average market price of the common shares. If diluted earnings per share had been reported for the year ended December 31, 2017, the calculation would have excluded options to purchase 341,500 shares of common stock because the options' exercise price of \$3.57 per share was greater than the average market price of the common shares.

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

### **NOTE 16 – Capital Leases**

The Company has several equipment capital leases which expire from January 2019 through March 2021 with monthly lease payments ranging from approximately \$1,520 to \$26,619 per month. The capital lease obligations are secured by the related equipment. Assets recorded under capital leases are included in property and equipment in the accompanying Consolidated Balance Sheets. Amortization of items under capital lease obligations has been included with depreciation expense on owned property and equipment in the accompanying Consolidated Statements of Operations. Interest rates on these obligations range from 4.09% to 19.15%.

Capital lease obligations consist of the following:

	December 30, 2018	December 31, 2017
Capital lease obligations	\$ 498,308	\$ 939,643
Less: Current portion	(388,862)	(408,425)
Long-term Portion	\$ 109,446	\$ 531,218

Principal requirements on capital leases for years ending after December 30, 2018 are as follows:

2019	\$ 404,685
2020	105,026
2021	7,605
2022	-
2023	-
	517,316
Less: Interest	(19,008)
	498,308
Less: Current portion	(388,862)
Total Long-term Portion	\$ 109,446

### **NOTE 17 – Operating Leases**

The Company leases office facilities and equipment under various lease agreements which expire from January 2019 through March 2039. The agreements include payments ranging from approximately \$38 to \$32,382 per month. Total operating lease expense was approximately \$1,104,500 and \$1,055,200 for the years ended December 30, 2018 and December 31, 2017, respectively.

Aggregate minimum rental expense under operating lease obligations for years ending after December 30, 2018 are as follows:

2019	\$ 1,004,172
2020	875,815
2021	761,386
2022	715,627
2023	527,977
2024 and thereafter	5,925,719
Total	\$ 9,810,696



**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

**NOTE 18 – Accumulated Other Comprehensive Income (Loss)**

The changes in accumulated other comprehensive income (loss) were as follows:

	Minimum Benefit Liability Adjustments	Foreign Currency Translation Adjustment	Total
Balance at January 1, 2017	\$ 233,877	\$ (1,912,363)	\$ (1,678,486)
Other comprehensive gains before reclassifications	330,880	972,454	1,303,334
Reclassification adjustment for gains included in net income	-	-	-
Balance at December 31, 2017	564,757	(939,909)	(375,152)
Other comprehensive gains (losses) before reclassifications	391,160	(599,329)	(208,169)
Reclassification adjustment for gains included in net income	(119,324)	-	(119,324)
Balance at December 30, 2018	\$ 836,593	\$ (1,539,238)	\$ (702,645)

The gains reclassified from accumulated other comprehensive income (loss) into income is recorded to the following income statement line items:

Other Comprehensive Income Component	Income Statement Line Item
Minimum Benefit Liability Adjustments	General and administrative expense

**NOTE 19 - Retirement Plans**

The Company has a 401(k) plan which covers substantially all non-union U.S. employees. The Company contributions to this plan included in expense totaled approximately \$75,000 for the year ended December 30, 2018. The Company did not make any contributions to the plan during the year ended December 31, 2017.

The U.K. employees are covered by a separate plan which meets the statutory minimum requirements and provides that the Company will contribute a percentage of the employee's compensation based on the percentage contributed to the plan by the employee. These statutory minimum requirements for both the employees and the Company are being phased in over time. Employees may opt out of the plan if they do not want to contribute the minimum required amount. Generally, for salaried employees hired prior to July 2015, the schedule of minimum required contributions is as follows:

Phase in Period	Employee	Company
Prior to April 2018	2%	6%
April 2018 to April 2019	3%/4%	7%/7 ½%
After April 2019	5%	8%

**UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended December 30, 2018 and December 31, 2017

For all salaried employees hired after June 2015 and all wage employees, the schedule of minimum required contributions is as follows:

Phase in Period	Employee	Company
Prior to April 2018	1%	1%
April 2018 to April 2019	3%	2%
After April 2019	5%	3%

The Company made contributions of £410,009 (\$547,512) and £375,175 (\$483,288) to the U.K. plan for the years ended December 30, 2018 and December 31, 2017, respectively.

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**NOTE 20 - Concentrations**

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*Labor Union*

The United Steel Workers International Union AFL-CIO, CLC Local #1207 represents the Company's manufacturing employees in the U.S. The current union contract expires on March 12, 2023. The contract will continue from year-to-year thereafter, unless notice terminating the agreement is given by either party sixty days prior to March 12th in any year after March 12, 2023. Employees at the U.K. facility can be represented by UNITE although participation is not required. The collective bargaining agreement with UNITE does not specify a termination date.

*Major Customers*

Sales to ten automotive industry suppliers accounted for 46.8% and 46.2% of total Company sales during the years ended December 30, 2018 and December 31, 2017, respectively. Accounts receivables from these customers totaled 52.2% and 54.2% of total receivables as of December 30, 2018 and December 31, 2017, respectively.

*Major Suppliers*

The Company purchases a significant quantity of its raw materials from certain major suppliers. Management believes this concentration does not pose a significant risk to the Company's operations as other suppliers are readily available.

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**NOTE 21 - Related Party Transactions**

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The Company has debt and a lease financing obligation to a related party. See Note 10 for further discussion.

Related party receivable of \$20,118 and \$37,116 at December 30, 2018 and December 31, 2017, respectively, were short-term advances to employees that were repaid after December 30, 2018 and December 31, 2017, respectively.

The Company's chief financial officer, who is also on the Company's Board of Directors, does not have a written employment agreement and works on a part-time basis for the Company. The Company expensed \$24,000 as a consulting fee to a company controlled by him in each of the years ended December 30, 2018 and December 31, 2017. There was \$46,500 in prepaid expenses relating to this fee at December 30, 2018.

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**NOTE 22 - Employment Agreements**

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The Company has employment agreements with three management employees as of December 30, 2018. The initial term of the employment agreements is three years. The term can be renewed or extended as provided for in the employment agreements. The agreements include various benefits to be provided to the employees including salary, bonus, life insurance and severance benefits.

# **UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended December 30, 2018 and December 31, 2017

### **NOTE 23 – Revenue**

The Company recognizes revenue and related accounts receivable when obligations under the terms of a contract with a customer are satisfied, which includes the control of products transferring to the customer. For Uniroyal, this generally occurs when products are shipped and, for UGL, this generally occurs when the customer accepts delivery either at the Company's U.K. facility or at a mutually agreed upon location. Revenue is measured as the amount of consideration the Company expects to receive in exchange for products transferred to the customer. A contract asset occurs when an entity transfers products to a customer before payment is due while a contract liability occurs when an entity has an obligation to transfer products to a customer for which the entity has already received payment (or payment is due) from the customer. Remaining performance obligations exist when an entity expects to record future revenue on partially completed contracts. The Company does not have contract assets or contract liabilities and has no remaining performance obligations since it does not recognize revenue until a contract is complete.

The following table sets forth revenue disaggregated by the Company's automotive and industrial sectors for the years ended December 30, 2018 and December 31, 2017:

	Years Ended	
	December 30, 2018	December 31, 2017
Revenue by product sector:		
Automotive	\$ 65,946,489	\$ 66,325,277
Industrial	33,614,232	31,812,783
Total Revenue	<u>\$ 99,560,721</u>	<u>\$ 98,138,060</u>

The following table sets forth revenue disaggregated by the geographic locations of the Company's customers for the years ended December 30, 2018 and December 31, 2017:

	Years Ended	
	December 30, 2018	December 31, 2017
Revenue by customer location:		
North America	\$ 47,046,038	\$ 44,953,623
Europe	46,466,159	47,229,480
Asia	5,476,345	5,368,374
Other	572,179	586,583
Total Revenue	<u>\$ 99,560,721</u>	<u>\$ 98,138,060</u>

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains “disclosure controls and procedures” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 30, 2018 and concluded that our disclosure controls and procedures were effective as of December 30, 2018.

**Management’s Annual Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 30, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework published in 2013. Based on this assessment, and on those criteria, management concluded that the Company’s internal control over financial reporting was effective as of December 30, 2018.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

## **Changes in Internal Controls over Financial Reporting**

During the year ended December 30, 2018, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

### **Directors and Executive Officers of the Company**

Information required by this Item concerning the Company's directors and all persons nominated for election as directors at the Company's Annual Meeting of Stockholders (the "2019 Annual Meeting") will be included in the section of the Company's Definitive Proxy Statement in connection with our 2019 Annual Meeting (the "2019 Proxy Statement"), which will be filed with the SEC within 120 days after our fiscal year end of December 30, 2018, entitled "Election of Directors" and is incorporated herein by reference. Information required by this Item concerning the Company's executive officers will be set forth in the section of our 2019 Proxy Statement entitled "Executive Officers and Significant Employees" and is incorporated herein by reference.

### **Corporate Governance**

Information required by this Item concerning the Audit Committee and the Audit Committee's financial expert will be included in the section of our 2019 Proxy Statement entitled "Committees of the Board of Directors" and is incorporated herein by reference.

### **Section 16(a) Compliance**

Information required by this Item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, will be included in the section of our 2019 Proxy Statement entitled "Compliance with Section 16(a) of the Exchange Act" and is incorporated herein by reference.

### **Code of Ethics**

Our board of directors has adopted a Code of Business Conduct and Ethics and Compliance Program, which is applicable to the Company and to all our directors, officers and employees, including our principal executive officer and principal financial officer, principal accounting officer or controller, or other persons performing similar functions.

A copy of the Company's Code of Ethics may be obtained free of charge by making the request to the Company in writing or on the Company's website at <http://uniroyalglobal.com/company-profile/business-conduct-and-ethics-policy/>.

### **Compensation Committee Interlocks and Insider Participation**

Not applicable.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item will be included in the sections of our 2019 Proxy Statement entitled “Director Compensation,” “Compensation Discussion and Analysis” and “Executive Compensation” and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information concerning the security ownership of certain beneficial owners and management will be included in the section of our 2019 Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management” and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this Item concerning certain relationships and related transactions and director independence will be included in the section of our 2019 Proxy Statement entitled “Certain Relationships and Related Transactions” and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this Item concerning principal accounting fees and services will be included in the section of our 2019 Proxy Statement entitled “Fees Paid to Independent Registered Public Accounting Firm” and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS, AND FINANCIAL STATEMENT SCHEDULES**

**Exhibits**

The exhibits filed or furnished with this annual report are shown on the Exhibit Index that follows the signatures to this annual report, which index is incorporated herein by reference.

**Financial Statement Schedules**

None.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**UNIROYAL GLOBAL ENGINEERED  
PRODUCTS, INC.**

Dated: March 18, 2019

By: /s/ Howard R. Curd  
Howard R. Curd  
Chief Executive Officer

Dated: March 18, 2019

By: /s/ Edmund C. King  
Edmund C. King  
Chief Financial Officer



**KNOW ALL PERSONS BY THESE PRESENTS**, that each of the undersigned hereby constitutes and appoints Edmund C. King as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and on his behalf to sign, execute and file this annual report on Form 10-K and any or all amendments without limitation to this annual report, and to file the same, with all exhibits thereto and any and all documents required to be filed with respect therewith, with the Securities and Exchange Commission or any regulatory authority, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises in order to effectuate the same as fully to all intents and purposes as he might or could do if personally present, hereby ratifying and confirming all that such attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done.

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 18, 2019

/s/ Howard R. Curd  
Howard R. Curd, Chief Executive Officer, Co-Chairman

Dated: March 18, 2019

/s/ Edmund C. King  
Edmund C. King, Chief Financial Officer, Co-Chairman

Dated: March 18, 2019

/s/ John E. Scates  
John E. Scates, Director

## EXHIBIT INDEX

Exhibit No.	Description
2.1	<a href="#"><u>Agreement of Merger and Plan of Reorganization dated 2/25/02 by and among SmartGate Inc., SmartGate/RadioMetrix Acquisition Corp. and Radio Metrix Inc., Letter of Clarification, and Amendment dated as of April 24, 2003 (Incorporated by reference to Form 10-KSB filed on June 23, 2003.)</u></a>
3.1	<a href="#"><u>Amended and Restated Articles of Incorporation of Invisa, Inc. (Incorporated by reference to Form 8-K filed on July 16, 2015.)</u></a>
3.2	<a href="#"><u>Amended and Restated Articles of Incorporation of Uniroyal Global Engineered Products, Inc. (Incorporated by reference to Form 8-K filed on July 16, 2015)</u></a>
3.3	<a href="#"><u>Amended and Restated Bylaws of Invisa, Inc. (Incorporated by reference to Form 10-K filed on March 30, 2015.)</u></a>
4.1	<a href="#"><u>Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock dated August 16, 2004 (Incorporated by reference to Form 10-OSB filed on August 23, 2004.)</u></a>
4.2	<a href="#"><u>Amended and Restated Certificate of Designations of Preferences and Rights of Series B of Convertible Preferred Stock of Invisa, Inc. dated January 11, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
4.3	<a href="#"><u>Certificate of Designations of Preferences and Rights of Series C Convertible Stock dated December 22, 2008 (Incorporated by reference to Form 8-K filed on January 13, 2009.)</u></a>
4.4	<a href="#"><u>Second Amended and Restated Certificate of Designations and Preferences and Rights of Series A Convertible Preferred Stock dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
4.5	<a href="#"><u>Second Amended and Restated Certificate of Designations and Preferences and Rights of Series B Convertible Preferred Stock dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
4.6	<a href="#"><u>Amended and Restated Certificate of Designations and Preferences and Rights of Series C Convertible Preferred Stock dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
4.7	<a href="#"><u>Third Amended and Restated Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock (Incorporated by reference to w Form 8-K filed on May 5, 2014.)</u></a>
4.8	<a href="#"><u>Third Amended and Restated Certificate of Designations of Preferences and Rights of Series B Convertible Preferred Stock (Incorporated by reference to w Form 8-K filed on May 5, 2014.)</u></a>
4.9	<a href="#"><u>Second Amended and Restated Certificate of Designations of Preferences and Rights of Series C Convertible Preferred Stock (Incorporated by reference to w Form 8-K filed on May 5, 2014.)</u></a>
4.10	<a href="#"><u>Uniroyal Global Engineered Products, Inc. 2015 Stock Option Plan (Amended and Restated effective July 30, 2015) (Incorporated by reference to Form 10-O filed on August 5, 2015)</u></a>
10.1	<a href="#"><u>SDR Metro Inc. letter extension agreement (Incorporated by reference to Form 10-KSB filed on April 14, 2004.)</u></a>
10.2	<a href="#"><u>SDR Metro Inc. confirmation letter agreement (Incorporated by reference to Form 10-KSB filed on April 14, 2004.)</u></a>
10.3	<a href="#"><u>Subscription Agreement for issuance of 22,000 shares of Series A Convertible Preferred Stock and Common Stock Warrants (Incorporated by reference to Form 10-OSB filed on August 23, 2004.)</u></a>
10.4	<a href="#"><u>Registration Rights Agreement (Incorporated by reference to Form 10-OSB filed on August 23, 2004.)</u></a>
10.5	<a href="#"><u>Opinion of counsel regarding legality of Common Stock (Incorporated by reference to Form S-8 filed on August 14, 2006.)</u></a>
10.6	<a href="#"><u>UCC Financing Statements (Incorporated by reference to Form 8-K/A filed on October 18, 2006.)</u></a>
10.7	<a href="#"><u>Schedule of Advances: Permitted Payments (Incorporated by reference to Form 8-K/A filed on October 18, 2006.)</u></a>
10.8	<a href="#"><u>Forbearance and Modification agreement dated July 27, 2007 (Incorporated by reference to Form 10-OSB filed on November 14, 2007.)</u></a>
10.9	<a href="#"><u>Senior Secured Promissory Note dated November 9, 2007 (Incorporated by reference to Form 10-OSB filed on November 14, 2007.)</u></a>
10.10	<a href="#"><u>Senior Secured Promissory Note dated February 28, 2007 (Incorporated by reference to Form 8-K filed on March 12, 2007.)</u></a>
10.11	<a href="#"><u>General Security Agreement dated February 28, 2007 (Incorporated by reference to Form 8-K filed on March 12, 2007.)</u></a>
10.12	<a href="#"><u>Agreement dated February 28, 2007 with creditors agreeing to delivery of Senior Secured Promissory Note (Incorporated by reference to Form 8-K filed on March 12, 2007.)</u></a>
10.13	<a href="#"><u>Forbearance and Modification Agreement (Incorporated by reference to Form 10-OSB filed on November 14, 2007.)</u></a>
10.14	<a href="#"><u>Audit Committee Charter (Incorporated by reference to Form 10-KSB filed on April 14, 2008.)</u></a>
10.15	<a href="#"><u>Senior Secured Promissory Note date March 28, 2008 (Incorporated by reference to Form 10-KSB filed on April 14, 2008.)</u></a>

10.16	<a href="#"><u>Forbearance and Modification Agreement dated March 28, 2008 (Incorporated by reference to Form 10-KSB filed on April 14, 2008.)</u></a>
10.17	<a href="#"><u>Extension of Promissory Note dated April 11, 2008 (Incorporated by reference to Form 10-KSB filed on April 14, 2008.)</u></a>
10.18	<a href="#"><u>Senior Secured Promissory Note dated July 1, 2008 (Incorporated by reference to Form 8-K filed on July 30, 2008.)</u></a>
10.19	<a href="#"><u>Forbearance and Modification Agreement dated June 1, 2008 (Incorporated by reference to Form 8-K filed on July 30, 2008.)</u></a>
10.20	<a href="#"><u>Note and Share Exchange Agreement dated July 31, 2008 (Incorporated by reference to Form 8-K filed on January 13, 2009.)</u></a>
10.21	<a href="#"><u>Senior Secured Promissory Note dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.22	<a href="#"><u>Senior Secured Promissory Note (Line of Credit) dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.23	<a href="#"><u>Note Extension Agreement dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.24	<a href="#"><u>Note Extension Agreement dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.25	<a href="#"><u>Note Extension Agreement dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.26	<a href="#"><u>Note Extension Agreement dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.27	<a href="#"><u>Note Extension Agreement dated March 24, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.28	<a href="#"><u>Terms of Exchange dated January 11, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.29	<a href="#"><u>Letter Term Sheet and Consent Documents dated January 11, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.30	<a href="#"><u>Share Exchange Agreement dated January 11, 2010 (Incorporated by reference to Form 10-K filed on March 31, 2010.)</u></a>
10.31	<a href="#"><u>Debt Conversion Agreement dated November 4, 2010 (Incorporated by reference to Form 10-O filed on November 5, 2010.)</u></a>
10.32	<a href="#"><u>Maturity Extension Agreement dated November 4, 2010 (Incorporated by reference to Form 10-O filed on November 5, 2010.)</u></a>
10.33	<a href="#"><u>Note Extension Agreement (note 4) dated December 31, 2011 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.34	<a href="#"><u>Note Extension Agreement (note 5) dated December 31, 2011 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.35	<a href="#"><u>Note Extension Agreement (note 6) dated December 31, 2011 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.36	<a href="#"><u>Note Extension Agreement (note 7) dated December 31, 2011 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.37	<a href="#"><u>Senior Secured Promissory Note (note 8) dated December 31, 2011 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.38	<a href="#"><u>Senior Secured Line of Credit Promissory Note (note 9) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on March 30, 2012.)</u></a>
10.39	<a href="#"><u>Senior Secured Promissory Note (note 10 ) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.40	<a href="#"><u>Note Extension Agreement (note 4) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.41	<a href="#"><u>Note Extension Agreement (note 5) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.42	<a href="#"><u>Note Extension Agreement (note 6) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.43	<a href="#"><u>Note Extension Agreement (note 7) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.44	<a href="#"><u>Note Extension Agreement (note 9) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.45	<a href="#"><u>Note Extension Agreement (note 8) dated December 31, 2012 (Incorporated by reference to Form 10-K filed on February 21, 2013.)</u></a>
10.46	<a href="#"><u>Agreement dated March 7, 2014 to extend maturity date of Senior Secured Notes (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.47	<a href="#"><u>Agreement to Extend Line of Credit dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.48	<a href="#"><u>Note Extension Agreement (Note 4) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.49	<a href="#"><u>Note Extension Agreement (Note 5) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>

10.50	<a href="#"><u>Note Extension Agreement (Note 6) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.51	<a href="#"><u>Note Extension Agreement (Note 7) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.52	<a href="#"><u>Note Extension Agreement (Note 8) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.53	<a href="#"><u>Note Extension Agreement (Note 10) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.54	<a href="#"><u>Note Extension Agreement (Note 11) dated March 7, 2014 (Incorporated by reference to Form 8-K filed on March 10, 2014.)</u></a>
10.55	<a href="#"><u>Share Contribution Agreement, dated November 10, 2014, by and between Invisa, Inc. and Howard R. Curd (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.56	<a href="#"><u>Asset Contribution Agreement, dated November 10, 2014, between Invisa, Inc. and UEP Holdings, LLC (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.57	<a href="#"><u>Contribution Agreement, dated November 10, 2014, by and among Invisa, Inc., a Nevada corporation, UEP Holdings, LLC, a Delaware limited liability company, Howard R. Curd, Howard F. Curd, George Sanchez, Mark Kunz and Ted Torres (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.58	<a href="#"><u>Certificate of Formation of UEP Holdings, LLC, dated November 10, 2014 (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.59	<a href="#"><u>Limited Liability Company Agreement for UEP Holdings, LLC, dated November 10, 2014 (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.60	<a href="#"><u>Amended and Restated Limited Liability Company Agreement, dated November 10, 2014, among UEP Holdings, LLC, Invisa, Inc., Howard R. Curd, Howard F. Curd, George Sanchez, Mark Kunz and Ted Torres (Incorporated by reference to Form 8-K filed on November 10, 2014.)</u></a>
10.61	<a href="#"><u>Guaranty in favor of Lloyds Bank Commercial Finance Limited (Incorporated by reference to Form 8-K filed on January 20, 2015.)</u></a>
10.62	<a href="#"><u>Agreement dated December 31, 2014 with Centurian Investors, Inc. to consolidate loan (Incorporated by reference to Form 10-K filed on March 30, 2015)</u></a>
10.63	<a href="#"><u>Senior Secured Promissory Note dated December 31, 2014 (Incorporated by reference to Form 10-K filed on March 30, 2015)</u></a>
10.64	<a href="#"><u>Amendment to General Security Agreement dated December 31, 2014 (Incorporated by reference to Form 10-K filed on March 30, 2015)</u></a>
10.65	<a href="#"><u>Amendment to Senior Secured Promissory Note dated October 1, 2017</u></a>
10.66 *	<a href="#"><u>Amendment to Senior Secured Promissory Note dated December 15, 2018</u></a>
14.1	<a href="#"><u>Uniroyal Global Engineered Products, Inc. Code of Business Conduct and Ethics (Incorporated by reference to Form 8-K filed July 1, 2015)</u></a>
21.1 *	<a href="#"><u>Subsidiaries of the Company</u></a>
23.1 *	<a href="#"><u>Consent of Frazier &amp; Deeter, LLC</u></a>
31.1 *	<a href="#"><u>Chief Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2 *	<a href="#"><u>Chief Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1 *	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350.</u></a>
32.2 *	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350.</u></a>
101.INS *	XBRL Instance Document **
101.SCH *	XBRL Taxonomy Extension Schema Document **
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document **

\* Filed herewith.

\*\* In accordance with Rule 406T of Regulation S-T, this information is deemed not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**PROMISSORY NOTE SECOND AMENDMENT AGREEMENT**

THIS PROMISSORY NOTE SECOND AMENDMENT AGREEMENT (this "Agreement") is entered into as of the 15th day of December, 2018 by and between Uniroyal Global Engineered Products, Inc., a Nevada corporation (the "Company"), and Howard R. Curd, an individual residing at 1111 Ritz Carlton Drive, Apartment 1703, Sarasota, Florida 34236 ("Lender").

WHEREAS, the Company issued a Senior Secured Promissory Note dated December 31, 2014 to Lender in the aggregate principal amount of One Million Four Hundred Seventy Thousand Fifty-Seven and 27/100 Dollars (\$1,470,057.27) (the "Note"), any capitalized terms not defined in this Agreement having the meanings set forth in the Note; and

WHEREAS, Lender holds the Note; and

WHEREAS, the Company and the Lender entered into a Promissory Note Amendment Agreement dated October 1, 2017 (the "First Amendment"), whereby the Lender agreed to the Company's deferral until October 1, 2018 of principal payments with quarterly principal payments in the amount of \$153,130.97 plus accrued interest starting October 1, 2018; and

WHEREAS, the principal balance of the Note as of December 15, 2018 is \$765,654.83; and

WHEREAS, the Company desires to amend the Note on the terms set forth in this Second Amendment Agreement;

NOW THEREFORE, in consideration of the premises and the terms of this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Section 2 of the Note is hereby amended by adding at the end the following sentence:, all other terms of the Note continuing unchanged:

Lender agrees to the Company's deferral of principal payments, but not interest. Borrower shall pay accrued interest on or before January 15, 2019 and before the fifteenth day of each calendar quarter thereafter. The principal is due in a single payment together with accrued interest on January 15, 2021.

2. Except as hereby amended, all other terms of the Note shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first set forth above.

UNIROYAL GLOBAL ENGINEERED PRODUCTS, INC  
(the "Company")

By: /s/ George Sanchez  
George Sanchez  
Executive Vice President

/s/ Howard R. Curd  
Howard R. Curd ("Lender")

## Uniroyal Global Engineered Products, Inc.

## Subsidiaries of the Registrant as of December 30, 2018

Name	Jurisdiction of Organization	Status at December 30, 2018
UEP Holdings, LLC	Delaware	Active
Uniroyal Engineered Products, LLC (1)	Delaware	Active
Uniroyal Global (Europe) Limited	England and Wales	Active
Wardle Storeys (Group) Limited (2)	England and Wales	Active
Uniroyal Global Limited (3)	England and Wales	Active
Wardle Storeys (Services) Limited (3)	England and Wales	Active

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(1) 100% owned by UEP Holdings, LLC.

(2) 100% owned by Uniroyal Global (Europe) Limited

(3) 100% owned by Wardle Storeys (Group) Limited

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Uniroyal Global Engineered Products, Inc.  
Sarasota, FL

We hereby consent to the incorporation by reference in Registration Statement Number 333-207197 on Form S-8 of Uniroyal Global Engineered Products, Inc. (formerly known as Invisa, Inc.), of our report dated March 18, 2019 relating to the consolidated balance sheets of Uniroyal Global Engineered Products, Inc. and subsidiaries as of December 30, 2018 and December 31, 2017 and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flow for the years then ended which appear in this Annual Report on Form 10-K.

*/s/ Frazier & Deeter, LLC*  
Tampa, Florida  
March 18, 2019

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## CERTIFICATION

I, Howard R. Curd, certify that:

1. I have reviewed this Annual Report on Form 10-K of Uniroyal Global Engineered Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of and for the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 18, 2019

/s/ Howard R. Curd  
Howard R. Curd

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## CERTIFICATION

I, Edmund C. King, certify that:

1. I have reviewed this Annual Report on Form 10-K of Uniroyal Global Engineered Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of and for the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 18, 2019

/s/ Edmund C. King  
Edmund C. King

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Uniroyal Global Engineered Products, Inc. (the “Company” or “Uniroyal Global”) on Form 10-K for the period ending December 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Howard R. Curd, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 18, 2019

/s/ Howard R. Curd

Howard R. Curd  
Chief Executive Officer

*A signed original of this written statement required by Section 906 has been provided to Uniroyal Global Engineered Products, Inc. and will be retained by Uniroyal Global Engineered Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.*

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Uniroyal Global Engineered Products, Inc. (the “Company” or “Uniroyal Global”) on Form 10-K for the period ending December 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edmund C. King, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 18, 2019

/s/ Edmund C. King

Edmund C. King  
Chief Financial Officer

*A signed original of this written statement required by Section 906 has been provided to Uniroyal Global Engineered Products, Inc. and will be retained by Uniroyal Global Engineered Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.*

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