

**FAFCO, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH INDEPENDENT ACCOUNTANTS'  
REVIEW REPORT**

**Years Ended December 31, 2017 and 2016**

**Tittle & Company, LLP**

**FAFCO, INC.**

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Years Ended December 31, 2017 and 2016

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TIMOTHY A. TITTLE, CPA ■ HEIDI M. COPPIN, CPA ■ CHANDESE D. MEGHDADI, CPA

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors  
FAFCO, Inc.  
Chico, California

We have reviewed the accompanying financial statements of FAFCO, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Tittle & Company, LLP*

May 9, 2018

**FAFCO, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2017 and 2016

(Rounded to the Nearest Hundred Dollars)	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 352,900	\$ 734,500
Accounts receivable, net of allowance	268,800	450,000
Current portion of notes receivable	1,000	12,600
Inventories	785,800	800,500
Prepaid expenses and other current assets	65,400	104,900
Deferred tax asset	338,000	333,000
<b>Total Current Assets</b>	<b>1,811,900</b>	<b>2,435,500</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Net of accumulated depreciation	3,352,500	3,501,400
<b>NOTES RECEIVABLE, less current portion</b>	<b>-</b>	<b>4,100</b>
<b>DEFERRED TAX ASSET</b>	<b>3,304,000</b>	<b>3,149,000</b>
<b>Total Assets</b>	<b>\$ 8,468,400</b>	<b>\$ 9,090,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 157,100	\$ 168,100
Accounts payable and other accrued expenses	654,700	687,500
Accrued compensation and benefits	148,500	195,900
Accrued warranty expense	453,100	453,100
Deferred revenue	63,300	63,300
<b>Total Current Liabilities</b>	<b>1,476,700</b>	<b>1,567,900</b>
<b>DEFERRED REVENUE</b>	<b>154,600</b>	<b>179,400</b>
<b>LONG-TERM DEBT</b>		
Net of current maturities	6,292,100	6,350,900
<b>Total Liabilities</b>	<b>7,923,400</b>	<b>8,098,200</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock - \$.125 par value; 10,000,000 shares authorized, 136,762 shares issued and outstanding	15,300	15,000
Additional paid in capital	7,252,300	7,048,100
Accumulated deficit	(6,722,600)	(6,071,300)
<b>Total Stockholders' Equity</b>	<b>545,000</b>	<b>991,800</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 8,468,400</b>	<b>\$ 9,090,000</b>

*The accompanying notes and independent accountants' review report should be read with these financial statements.*

**FAFCO, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years Ended December 31, 2017 and 2016

(Rounded to the Nearest Hundred Dollars)	2017	2016
Net sales	\$ 5,318,600	\$ 5,864,100
Other income, net	209,900	79,800
<b>Total Revenues</b>	<b>5,528,500</b>	<b>5,943,900</b>
Cost of goods sold	4,221,600	4,773,500
Marketing and selling expense	667,400	528,500
General and administrative expense	1,100,800	1,275,300
Research and development expense	114,100	249,200
Net interest expense	226,900	256,400
<b>Total Costs and Expenses</b>	<b>6,330,800</b>	<b>7,082,900</b>
<b>Loss Before Income Taxes</b>	<b>(802,300)</b>	<b>(1,139,000)</b>
Benefit from Income Taxes	(151,000)	(565,200)
<b>Net Loss</b>	<b>\$ (651,300)</b>	<b>\$ (573,800)</b>

*The accompanying notes and independent accountants' review report should be read with these financial statements.*

**FAFCO, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

Years Ended December 31, 2017 and 2016

	<b>Common Stock</b>		<b>Additional Paid in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Number of Shares</b>	<b>Amount</b>			
<b>Balance, December 31, 2015</b>	4,642	\$ 600	\$ 5,326,500	\$ (5,497,500)	\$ (170,400)
Shareholder note conversion	104,082	13,000	1,187,000	-	1,200,000
Stock purchase	11,418	1,400	534,600	-	536,000
Stock issued under anti-dilution agreement	14,050	-	-	-	-
Net loss	-	-	-	(573,800)	(573,800)
<b>Balance, December 31, 2016</b>	134,192	15,000	7,048,100	(6,071,300)	991,800
Stock purchase	2,490	300	204,200	-	204,500
Stock issued under anti-dilution agreement	80	-	-	-	-
Net loss	-	-	-	(651,300)	(651,300)
<b>Balance, December 31, 2017</b>	136,762	\$ 15,300	\$ 7,252,300	\$ (6,722,600)	\$ 545,000

*The accompanying notes and independent accountants' review report should be read with these financial statements.*

**FAFCO, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2017 and 2016

(Rounded to the Nearest Hundred Dollars)	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (651,300)	\$ (573,800)
Adjustments to reconcile net loss to net cash provided (used) in operating activities		
Depreciation and amortization	323,500	406,000
(Gain) loss on disposition of assets	(5,300)	-
Bad debt provision	(35,500)	12,000
Deferred income taxes	(160,000)	(566,000)
Changes in operating assets and liabilities		
Accounts receivable	257,700	120,200
Inventories	14,700	430,200
Prepaid expenses and other assets	39,500	(51,000)
Accounts payable and accrued expenses	(121,200)	(94,500)
Deferred revenue	(24,800)	(26,300)
<b>Net Cash Used by Operating Activities</b>	<b>(362,700)</b>	<b>(343,200)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(59,800)	(99,000)
Proceeds from sale of assets	5,300	-
Collections on notes receivable	15,700	14,900
<b>Net Cash Used by Investing Activities</b>	<b>(38,800)</b>	<b>(84,100)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from new long-term debt	-	750,000
Repayment of long-term debt	(184,600)	(176,600)
Stock purchases	204,500	535,000
<b>Net Cash Provided by Financing Activities</b>	<b>19,900</b>	<b>1,108,400</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(381,600)</b>	<b>681,100</b>
<b>Cash at Beginning of Year</b>	<b>734,500</b>	<b>53,400</b>
<b>Cash at End of Year</b>	<b>\$ 352,900</b>	<b>\$ 734,500</b>

*The accompanying notes and independent accountants' review report should be read with these financial statements.*

**FAFCO, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2017 and 2016

(Rounded to the Nearest Hundred Dollars)	2017	2016
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Stock purchases	\$ 204,500	\$ 1,736,000
Note receivable issued	-	(1,000)
Notes payable converted to stock	-	(1,200,000)
<b>Net Cash Received for Stock Purchases</b>	<b>\$ 204,500</b>	<b>\$ 535,000</b>
Acquisition of property and equipment	\$ (174,600)	\$ (99,000)
Less debt used to acquire equipment	114,800	-
<b>Net Cash Used</b>	<b>\$ (59,800)</b>	<b>\$ (99,000)</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 231,200	\$ 250,900
Cash Paid for Income Taxes	\$ -	\$ 1,600

*The accompanying notes and independent accountants' review report should be read with these financial statements.*



**FAFCO, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2017 and 2016

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Organization**

FAFCO, Inc. (the Company) designs, develops, manufactures, and sells polymer heat exchangers for use in a variety of solar heating applications and for thermal energy storage systems that are used for commercial and industrial cooling. The Company's products are primarily sold around the United States and in China, Korea, Taiwan, and Japan. The Company sells direct to dealers and to distributors and has license agreements around the world for our thermal energy storage business.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation. The subsidiary currently has no ongoing business activities.

**Revenue Recognition**

Revenue on sales of products or services is recognized when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sale price is fixed or determinable, and collectability is reasonably assured. Product is considered delivered, and revenue is recognized when title and risk of loss have been transferred to the customer. Under the terms and conditions of the sale, this may occur either at the time of shipment or when product is delivered to the customer. Product revenue consists mainly of revenue from solar products. Service revenue consists mainly of revenue from time and material contracts which are recognized as services are rendered.

**Use of 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 disclosure 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.

**Cash and Cash Equivalents**

The Company considers highly liquid investments, such as money market accounts, as "cash equivalents." It is customary for the Company to have cash balances in excess of the FDIC insured amounts.

**FAFCO, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2017 and 2016

**Accounts Receivable**

The provision for doubtful accounts represents the Company's best estimate of the doubtful accounts for each period. Management specifically analyzes accounts receivable, historical bad debts, customer credit – worthiness and customer payment trends when evaluating the adequacy of the allowance for doubtful accounts. The allowance for doubtful accounts was \$118,000 and \$153,400 at December 31, 2017 and 2016, respectively.

**Inventories**

Inventories are stated at the lower of cost or market applied on a first-in, first-out (FIFO) basis.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using accelerated and straight-line methods. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus or minus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs totaled \$48,900 and \$43,000 for the years ended December 31, 2017 and 2016, respectively, and are included in marketing and selling expenses.

**Sales Tax**

The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed on sales are recorded as accrued liabilities on the balance sheet until remitted to state agencies.

**Shipping and Handling Costs**

Shipping and handling costs related to incoming purchases are included in cost of goods sold. Outgoing shipping and handling costs are included in marketing and selling expense.

**FAFCO, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

**Warranties**

In the normal course of business, the Company makes certain warranties as to workmanship and materials. Product warranty periods range from three to fifteen years for full coverage. The estimated future expense of these warranties is accrued at the time of sale. The estimates inherent in accounting for such warranties are reviewed and revisions to previous estimates are made as required reflecting the most current information available.

**Stock-Based Compensation**

The Company accounts for share-based compensation in accordance with *Compensation-Stock Compensation* (FASB ASC 718-10). Compensation cost for all share-based payments is based on the intrinsic value based method.

**Subsequent Events**

Management has evaluated subsequent events through May 9, 2018, the date the financial statements were available to be issued.

**FAFCO, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

**NOTE 2. INVENTORIES**

Inventories consisted of the following:

	2017	2016
Raw materials	\$ 522,900	\$ 525,700
Work in progress	52,100	50,500
Finished goods	210,800	224,300
<b>Inventories</b>	<b>\$ 785,800</b>	<b>\$ 800,500</b>

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following:

	2017	2016
Building	\$ 3,679,000	\$ 3,679,000
Land and improvements	556,700	556,700
Machinery and equipment	4,387,400	4,233,400
Office and computer equipment	313,400	313,400
Leasehold improvements	636,100	636,100
Vehicles	86,400	86,400
<b>Subtotal</b>	<b>9,659,000</b>	<b>9,505,000</b>
Less accumulated depreciation	6,306,500	6,003,600
<b>Property, Plant and Equipment - Net</b>	<b>\$ 3,352,500</b>	<b>\$ 3,501,400</b>

Depreciation expense charged to income was \$323,500 and \$406,000 for the years ended December 31, 2017 and 2016, respectively.

**FAFCO, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2017 and 2016

**NOTE 4. NOTES RECEIVABLE**

Notes receivable consisted of the following:

	2017	2016
Note receivable in semi-annual installments of \$8,126 with 5.00% interest. The note is unsecured.	\$ -	\$ 15,700
Note receivable due on demand with 2.00% interest. The note is secured by common stock.	1,000	1,000
<b>Subtotal</b>	1,000	16,700
Less current maturities	1,000	12,600
<b>Notes Receivable - Net</b>	\$ -	\$ 4,100

**FAFCO, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2017 and 2016

**NOTE 5. LONG-TERM DEBT**

Long-term debt consisted of the following:

	<b>2017</b>	<b>2016</b>
Mortgage note payable to Rabobank with monthly principal and interest payments, including an interest rate of 3.0%. Principal balance is due July 10, 2020. The note is secured by real estate.	\$ 3,867,600	\$ 3,961,200
Note payable to Rabobank with monthly principal and interest payments, including an interest rate of 3.0%. Principal balance is due July 10, 2017. The note is secured by equipment.	-	38,000
Notes payable which are subordinated to Rabobank. The notes include interest at 7.5% payable semi-annually and include issuance of shares of stock based on outstanding loan balances.	900,000	900,000
Non-revolving note payable to Rabobank with monthly principal and interest payments, including an interest rate of 3.0%. Principal balance is due July 10, 2020. The note is secured by inventory, accounts receivable, and equipment.	1,130,200	1,169,800
Notes payable which are subordinated to Rabobank. The notes include interest at 2.0% payable quarterly and include purchase of stock warrants based on principal loaned and conversion to common stock.	450,000	450,000
Note payable with monthly principal and interest payments of \$1,913, including interest at 1.83% through June 2022. The note is secured by equipment.	101,400	-
<b>Subtotal</b>	<b>6,449,200</b>	<b>6,519,000</b>
Less current maturities	157,100	168,100
<b>Long-Term Debt - Net</b>	<b>\$ 6,292,100</b>	<b>\$ 6,350,900</b>

**FAFCO, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

Maturities of long-term debt in each of the next five years are as follows:

	Amount
2018	\$ 157,100
2019	\$ 161,300
2020	\$ 176,100
2021	\$ 180,600
2022	\$ 162,300

**NOTE 6. WARRANTY OBLIGATIONS**

Changes in the Company's warranty liability were as follows:

	2017	2016
Warranty accrual, beginning of year	\$ 453,100	\$ 453,700
Additions to reserve	484,000	597,400
Actual warranty expenditures	(484,000)	(598,000)
Warranty accrual, end of year	\$ 453,100	\$ 453,100

**NOTE 7. STOCK APPRECIATION RIGHTS**

During 2012, the Company entered into Stock Appreciation Rights (SAR) Agreements with certain employees. The agreements provide for the rights to the monetary equivalent of the increase in the value of a specified number of shares over a specified period of time. Payment of any deferred compensation amount payable to employee attributable to the stock appreciation rights units shall occur only upon the occurrence of a change in control of the Company provided further that the employee's rights to any deferred compensation payable hereunder shall only vest as long as the change in control of the Company occurs prior to the twentieth anniversary of the earlier of the effective date of the employee's death, disability or termination of employment with the Company.

The agreements are forfeited by the employee if the employee is terminated for cause. If an employee is not terminated for cause but leaves the Company in good standing, the agreement rights survive for twenty years after the employee's departure date. If there has not been a liquidity event within the twenty year time period, then the agreements expire.

Freeman Ford's conversion of debt to equity in June 2016 caused a material change of control of the Company which triggered payment of deferred compensation per section 3.B to all SAR holders. The terms of the payment are being negotiated between SAR holders and the Company and have not been reflected in these financial statements. The liability is not expected to be a material amount.

**FAFCO, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

**NOTE 8. STOCK OPTION PLANS**

The Company has a 2002 Stock Option Plan under which 500,000 pre-split shares of common stock were reserved for issuance to employees and consultants. The number of reserved shares increases each year by 3% of the outstanding shares of common stock.

Options to purchase common stock are also outstanding under the Company's 1991 Stock Option Plan. No new grants may be made under this plan.

The Company has a 1991 Director's Stock Option Plan under which 50,000 pre-split shares of common stock are reserved for issuance. No new grants may be made under this plan.

Options under these plans become exercisable at a rate of 20% per year for five years from date of grant and expire six years or ten years from date of grant. Pursuant to the terms of the stock option plan agreements, the number of shares of common stock covered by each outstanding option and the price per share of common stock covered by each outstanding option have been proportionately adjusted for a decrease in the number of issued shares of common stock resulting from the reverse stock split that occurred in previous years.

The Company has a 2012 Equity Incentive Plan under which 500 shares of common stock were reserved for employees, directors, and consultants. Options expire five or ten years from date of grant.

The Company is preparing a 2017 Equity Incentive Plan under which 7,000 shares of common stock will be reserved for employees, directors, and consultants. Options expire five or ten years from date of grant.

The following is a summary of activity under the plans during the year ended December 31, 2017:

	Shares Subject to Option	Exercise Price Per Share
Outstanding, 12/31/16	405.0	\$62.13
Issued	-	-
Expired	-	-
Outstanding, 12/31/17	405.0	\$62.13



**FAFCO, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

Following is a summary of the status of the options outstanding at December 31, 2017:

Outstanding				Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$62.13	405.0	6	\$62.13	-	\$ -

**NOTE 9. STOCKHOLDERS' EQUITY**

On January 1, 2016, the Company issued 500 shares of common stock at a purchase price of \$2.00 per share to the President of the Company. 14,050 shares of common stock were subsequently issued pursuant to the anti-dilution clause of his stock purchase agreement. The anti-dilution clause provides that the shareholder's ownership percentage be maintained at ten percent of the outstanding shares of the common stock of the Company. The anti-dilution clause expires on June 30, 2017.

During the year ended December 31, 2016, shareholder notes payable in the amount of \$1,200,000 were converted to 104,082 shares of common stock. The convertible promissory notes consisted of \$1,000,000 payable to the majority shareholder and \$200,000 to a minority shareholder.

**NOTE 10. INCOME TAXES**

The provision for income taxes consisted of the following:

	2017	2016
Current		
Federal	\$ -	\$ -
State	800	800
Deferred	(151,800)	(566,000)
<b>Provision (Benefit) for Income Taxes</b>	<b>\$ (151,000)</b>	<b>\$ (565,200)</b>

**FAFCO, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Years Ended December 31, 2017 and 2016

Deferred income taxes are comprised of the following:

	2017	2016
Deferred tax assets	\$ 3,973,000	\$ 3,779,000
Deferred tax liabilities	(331,000)	(297,000)
<b>Net Deferred Tax Assets</b>	<b>\$ 3,642,000</b>	<b>\$ 3,482,000</b>

The deferred tax asset results primarily from a difference in inventory basis due to overhead costs capitalized in accordance with tax law, allowance for bad debts, accrued vacation expense, accrued warranty costs that are not deductible for tax purposes until paid, and net operating loss carryovers.

Utilization of the deferred tax asset disclosed above is dependent on future taxable profits in excess of existing taxable temporary differences.

The Company has approximately \$7,782,800 in federal net operating loss carry forwards expiring in years beginning in 2028 available to offset income subject to federal income taxes. The Company also has approximately \$6,502,000 in California net operating loss carry forwards expiring in years beginning in 2028 available to offset income subject to California income taxes.

The Company's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, as well as the state of Florida, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns. For the state of California, the tax returns remain open for a period of four years after the respective filing deadlines of those returns.

**NOTE 11. RELATED PARTY TRANSACTIONS**

The Company paid airplane expenses for business travel to FAFORD, a majority shareholder owned company. The amount incurred for expenses to FAFORD during the years ended December 31, 2017 and 2016, was \$-0- and \$32,300, respectively.

Included in subordinated debt notes payable owed by the Company is amounts owed to related parties totaling \$550,000 and \$550,000 at December 31, 2017 and 2016, respectively.

**NOTE 12. EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) retirement savings plan for all eligible employees who have completed one year of service and are at least 21 years of age. Eligible employees have the option to contribute up to 25% of their eligible salary. The Company discontinued the employer match during the year ended December 31, 2012.

**FAFCO, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

**NOTE 13. OPERATING LEASES**

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The Company leases certain equipment under long-term operating leases. Rent expense charged to income was \$79,900 and \$94,600 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the future minimum lease payments due under these operating leases are as follows:

2018	\$	18,900
2019	\$	18,900
2020	\$	14,800
2021	\$	600
2022	\$	-