

SAVARIA CORPORATION

ANNEXE 51-102F4

DÉCLARATION D'ACQUISITION D'ENTREPRISE

RUBRIQUE 1 IDENTIFICATION DE LA SOCIÉTÉ

1.1 Dénomination et adresse de la Société

Savaria Corporation (« Savaria »)
4350 autoroute 13
Laval (Québec)
H7R 6E9

1.2 Membre de la haute direction

Pour obtenir de plus amples renseignements :

Hélène Bernier
Vice-présidente Finance
450-624-1851
heleneb@savaria.com

RUBRIQUE 2 DÉTAILS DE L'ACQUISITION

2.1 Nature de l'entreprise acquise

Le 16 juin 2017, Savaria a acquis de *Span-America Medical Systems Inc.* (« Span ») au moyen d'une offre publique d'achat de toutes les actions émises et en circulation de la société qui est cotée sur la bourse NASDAQ.

Span fabrique et commercialise une gamme complète de surfaces de soutien thérapeutique et autres produits de gestion de la pression pour le marché médical, des lits médicaux pour le marché des soins de longue durée ainsi que des surmatelas et oreillers en mousse pour le marché de la consommation et certains produits pour le marché industriel, principalement des produits de mousse.

2.2 Date d'acquisition

La date d'acquisition de Span est le 16 juin 2017.

2.3 Contrepartie

L'acquisition des actions de Span a été conclue par le versement d'une contrepartie en espèces de 29 \$ US par action de Span. La contrepartie totale versée s'est élevée à 107,2 millions \$ (81 millions \$ US) payée en partie à même la trésorerie de Savaria et en partie à l'aide d'un prélèvement sur une nouvelle ligne de crédit rotatif mise en place au

cours du deuxième trimestre de 2017 ainsi que par l'émission de 2 760 000 actions ordinaires de Savaria à un prix de 13,90 \$ par action, par l'entremise d'un placement privé par prise ferme.

2.4 Effets sur la situation financière

Savaria n'a actuellement aucun projet ou proposition de changement important dans ses activités d'affaires ou les activités d'affaires de la compagnie acquise qui peuvent avoir un impact significatif sur la performance financière ou la situation financière de Savaria.

2.5 Évaluations antérieures

Sans objet.

2.6 Parties à l'opération

Aucune personne informée ou ayant des liens avec Savaria n'était partie à l'acquisition.

2.7 Date de la déclaration

Le 30 août 2017.

RUBRIQUE 3 ÉTATS FINANCIERS

Les états financiers suivants sont inclus comme partie intégrante de cette déclaration d'acquisition d'entreprise :

- Annexe A États consolidés de la situation financière audités de Span au 1^{er} octobre 2016 et au 3 octobre 2015 (en dollars US et disponibles en anglais seulement) et les états consolidés du résultat, des variations des capitaux propres et des flux de trésorerie pour chaque exercice inclus dans la période de trois ans close le 1^{er} octobre 2016, ainsi que les notes afférentes;
- Annexe B États financiers consolidés non audités de Span pour le deuxième trimestre de l'exercice 2017, incluant les états consolidés de la situation financière au 1^{er} avril 2017 et au 1^{er} octobre 2016, les états consolidés du résultat pour les périodes de trois et six mois closes le 1^{er} avril 2017 et le 2 avril 2016, les états consolidés des flux de trésorerie pour les périodes de six mois closes les 1^{er} avril 2017 et 2 avril 2016, ainsi que les notes afférentes;
- Annexe C (i) États consolidés du résultat net pro forma non audités pour la période de six mois close le 30 juin 2017 et pour l'exercice clos le 31 décembre 2016 ainsi que les notes afférentes, préparés comme si l'acquisition avait eu lieu le 1^{er} janvier 2016. (ii) Résultat pro forma par action basé sur les états financiers pro forma référés en (i) ci-dessus.

Les auditeurs de Span n'ont pas donné leur consentement d'inclure leur rapport d'auditeurs contenu dans les états financiers inclus à l'annexe A de cette déclaration d'acquisition d'entreprise.

ANNEXE A

SPAN-AMERICA MEDICAL SYSTEMS INC.
ÉTATS FINANCIERS CONSOLIDÉS AUDITÉS
Pour les périodes closes les 1^{er} octobre 2016 et 3 octobre 2015

SPAN-AMERICA MEDICAL SYSTEMS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
As at October 1, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Span-America Medical Systems, Inc.
Greenville, South Carolina

We have audited the accompanying consolidated balance sheets of Span-America Medical Systems, Inc. as of October 1, 2016, and October 3, 2015, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended October 1, 2016. Our audits also include the financial statement schedule of Span-America Medical Systems, Inc. listed in Item 15(c). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Span-America Medical Systems, Inc. as of October 1, 2016, and October 3, 2015, and the results of its operations and its cash flows for each of the years in the three year period ended October 1, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material aspects the information set forth therein.

/s/ ELLIOTT DAVIS DECOSIMO, LLC

Greenville, South Carolina
December 23, 2016

Consolidated Statements of Comprehensive Income

	Years Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Net sales	\$ 67,627,170	\$ 64,314,996	\$ 55,857,375
Cost of goods sold	45,345,994	42,679,013	37,067,737
Gross profit	22,281,176	21,635,983	18,789,638
Selling and marketing expenses	10,504,813	10,789,150	10,088,400
Research and development expenses	1,134,547	1,137,334	1,071,583
General and administrative expenses	4,559,552	4,452,047	4,019,075
	16,198,912	16,378,531	15,179,058
Operating income	6,082,264	5,257,452	3,610,580
Non-operating income (expense):			
Foreign currency gain	4,508	401,000	29,868
Interest expense	(5,144)	(6,285)	(12,639)
Other	(7,297)	13,231	958
Net non-operating (expense) income	(7,933)	407,946	18,187
Income before income taxes	6,074,331	5,665,398	3,628,767
Provision for income taxes - Note 13	1,827,000	1,672,000	1,038,000
Net income	4,247,331	3,993,398	2,590,767
Other comprehensive income (loss), after tax:			
Foreign currency translation gain (loss)	44,562	(1,539,111)	(794,177)
Comprehensive income	\$ 4,291,893	\$ 2,454,287	\$ 1,796,590
Net income per share of common stock - Note 14:			
Basic	\$ 1.55	\$ 1.34	\$ 0.88
Diluted	\$ 1.54	\$ 1.33	\$ 0.87
Dividends per common share (1)	\$ 0.64	\$ 1.61	\$ 0.57
Weighted average shares outstanding:			
Basic	2,734,862	2,978,107	2,948,992
Diluted	2,758,119	3,006,082	2,993,333

The accompanying notes are an integral part of these consolidated financial statements.

(1) Dividends per share for fiscal year 2015 include a special dividend of \$1.00 per share paid on January 7, 2015.

Consolidated Balance Sheets

	October 1, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,752,945	\$ 1,224,026
Accounts receivable, net of allowances of \$140,000 (2016) and \$148,000 (2015)	8,079,500	7,813,773
Inventories - Note 3	7,437,442	8,746,039
Deferred income taxes - Note 13	459,159	351,452
Prepaid expenses	879,108	411,528
Total current assets	20,608,154	18,546,818
Property and equipment, net - Note 4	4,116,070	4,536,104
Goodwill - Note 5	3,937,676	3,930,282
Intangibles, net - Note 6	1,989,899	2,214,762
Other assets - Note 7	2,909,740	2,953,656
	<u>\$ 33,561,539</u>	<u>\$ 32,181,622</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,410,376	\$ 4,035,333
Accrued and sundry liabilities - Note 8	3,583,457	3,120,111
Total current liabilities	5,993,833	7,155,444
Deferred income taxes - Note 13	266,715	348,479
Deferred compensation - Note 11	289,394	375,939
Total long-term liabilities	556,109	724,418
Total liabilities	6,549,942	7,879,862
Commitments and contingencies - Notes 19 and 20		
Shareholders' equity - Note 12		
Common stock, no par value, 20,000,000 shares authorized; issued and outstanding shares 2,755,625 (2016) and 2,737,468 (2015)	373,803	-
Additional paid-in capital	6,025	-
Retained earnings	29,133,746	26,848,299
Accumulated other comprehensive loss	(2,501,977)	(2,546,539)
Total shareholders' equity	27,011,597	24,301,760
	<u>\$ 33,561,539</u>	<u>\$ 32,181,622</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
OPERATING ACTIVITIES:			
Net income	\$ 4,247,331	\$ 3,993,398	\$ 2,590,767
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	854,940	865,003	864,356
Amortization	325,092	356,775	424,169
Provision for losses on accounts receivable	(9,007)	38,776	128,925
Provision for deferred income taxes	(182,934)	123,435	50,703
Loss (Gain) on sale and disposal of property and equipment	7,704	(13,591)	(73)
Loss on disposal of other assets	3,863	-	-
Increase in cash value of life insurance	(154,273)	(49,528)	(174,943)
Deferred compensation	(86,545)	(81,517)	(76,783)
Stock compensation expense	-	9,041	26,637
Changes in operating assets and liabilities:			
Accounts receivable	(247,145)	(2,255,207)	1,692,566
Inventories	1,321,441	(1,703,567)	(1,106,616)
Prepaid expenses and other assets	(97,928)	199,486	164,708
Accounts payable and accrued and sundry liabilities	(1,156,563)	2,779,176	(927,407)
Net cash provided by operating activities	4,825,976	4,261,680	3,657,009
INVESTING ACTIVITIES:			
Purchases of property and equipment	(439,693)	(654,865)	(670,845)
Proceeds from sale of property and equipment	-	47,745	914
Payments for other assets	(99,074)	(82,280)	(80,593)
Net cash used for investing activities	(538,767)	(689,400)	(750,524)
FINANCING ACTIVITIES:			
Dividends paid	(1,752,004)	(4,780,572)	(1,683,011)
Proceeds of long-term debt	2,900,000	-	-
Repayment of long-term debt	(2,900,000)	-	-
Purchase and retirement of common stock	(209,880)	(4,437,251)	-
Proceeds from exercise of options for common stock	204,423	180,708	273,397
Net cash used for financing activities	(1,757,461)	(9,037,115)	(1,409,614)
Effect of exchange rates on cash	(829)	(177,070)	(55,461)
Increase (Decrease) in cash and cash equivalents	2,528,919	(5,641,905)	1,441,410
Cash and cash equivalents at beginning of year	1,224,026	6,865,931	5,424,521
Cash and cash equivalents at end of year	\$ 3,752,945	\$ 1,224,026	\$ 6,865,931

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Income/(Loss)	
Balance at September 28, 2013	2,927,416	\$ 2,626,526	\$ 872,494	\$ 26,828,012	\$ (213,251)	\$ 30,113,781
Net income for the 2014 fiscal year				2,590,767		2,590,767
Foreign currency translation loss					(794,177)	(794,177)
Common stock issued to Directors	8,500	164,735				164,735
Common stock issued on exercise of stock options	26,091	273,397				273,397
Stock option compensation expense			26,637			26,637
Tax benefits for stock options exercised			7,703			7,703
Cash dividends paid or declared (\$0.57 per share)				(1,683,011)		(1,683,011)
Balance at September 27, 2014	2,962,007	3,064,658	906,834	27,735,768	(1,007,428)	30,699,832
Net income for the 2015 fiscal year				3,993,398		3,993,398
Foreign currency translation loss					(1,539,111)	(1,539,111)
Common stock issued to Directors	9,500	175,715				175,715
Common stock issued on exercise of stock options	19,685	180,708				180,708
Stock repurchases	(253,724)	(3,421,081)	(915,875)	(100,295)		(4,437,251)
Stock option compensation expense			9,041			9,041
Cash dividends paid or declared (\$1.61 per share) (1)				(4,780,572)		(4,780,572)
Balance at October 3, 2015	2,737,468	-	-	26,848,299	(2,546,539)	24,301,760
Net income for the 2016 fiscal year				4,247,331		4,247,331
Foreign currency translation gain					44,562	44,562
Common stock issued to Directors	9,000	169,380				169,380
Common stock issued on exercise of stock options	21,157	204,423				204,423
Stock repurchases	(12,000)			(209,880)		(209,880)
Tax benefits for stock options exercised			6,025			6,025
Cash dividends paid or declared (\$0.64 per share)				(1,752,004)		(1,752,004)
Balance at October 1, 2016	2,755,625	\$ 373,803	\$ 6,025	\$ 29,133,746	\$ (2,501,977)	\$ 27,011,597

The accompanying notes are an integral part of these consolidated financial statements.

(1) Dividends per share for fiscal year 2015 include a special dividend of \$1.00 per share paid on January 7, 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 1, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Span-America Medical Systems, Inc. (the “Company,” “we,” or “Span-America”), located in Greenville, SC, manufactures and distributes therapeutic support surfaces, mattress overlays, patient positioners, seating cushions, skin care products and fall prevention products for the medical market and pillows, mattress pads and various foam products for the custom products market throughout the United States and Canada. Our wholly-owned subsidiary, Span Medical Products Canada Inc. (“Span-Canada”), located in Beamsville, Ontario, Canada, manufactures and sells medical bed frames and distributes related in-room furnishing products, including bedside furniture, chairs, tables and over-bed tables for use in the long-term care market. We are operating Span-Canada under the registered business name M.C. Healthcare Products (“M.C. Healthcare”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and Span-Canada, its wholly-owned subsidiary. Significant inter-entity accounts and transactions have been eliminated.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity when purchased of three months or less to be cash equivalents. Depending on market conditions, we may maintain a centralized cash management program whereby our excess cash balances are invested in commercial paper and are considered cash equivalents. Cash balances in our accounts usually exceed federally insured limits.

Accounts Receivable

We provide credit in the normal course of business and perform ongoing credit evaluations on certain of our customers, but we generally do not require collateral to support these receivables. We also establish an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

Inventories

Our inventories are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment is stated at cost. Maintenance, repairs and minor replacements that do not improve or extend the useful lives of assets are expensed when incurred. Depreciation is computed using the straight-line method. Estimated useful lives for buildings and land improvements range from 5 to 35 years. The estimated useful lives of all other property and

equipment range from 3 to 10 years. For income tax purposes, substantially all depreciation is computed using accelerated methods.

Goodwill and Intangibles

Intangible assets are amortized using the straight-line method. Costs of patents are amortized over 17 years, and trademarks are amortized over 10 years. Trade names, non-competition agreements and customer relationships associated with the asset acquisition of M.C. Healthcare are being amortized over periods of 2.0 to 11.8 years, which represent the estimated remaining useful lives of the identifiable intangible assets at the time of the acquisition. Goodwill, or costs in excess of the fair value of net assets, was acquired from three separate acquisitions. Annually as of the end of our fiscal year, we review goodwill for impairment. We also review long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. See Note 5 - Goodwill and Note 6 - Intangibles.

Foreign Currency Translation

Span-Canada uses the Canadian dollar as its functional currency. The assets and liabilities of Span-Canada are translated into U.S. dollars at the year-end exchange rate. Revenues and expenses are translated at weighted average exchange rates. The resulting translation adjustments are recorded as a separate component of shareholders' equity in "Accumulated Other Comprehensive Loss."

Revenue Recognition

We recognize revenue when title and risk of loss pass to the customer and collection is reasonably assured. Our sales prices are fixed at the time revenue is recognized. There are no customer acceptance provisions, and the right to return exists only in cases of damaged product, non-compliance with customer specifications or warranty claims. Taxes collected from customers and remitted to government authorities are recorded on a net basis (excluded from revenues).

We have applied the accounting and disclosure requirements of Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104.

Advertising Costs

Advertising costs are expensed as incurred.

Shipping and Handling Costs

Shipping and handling costs that are not reimbursed by customers are charged to selling and marketing expenses and were approximately \$2,215,000 in fiscal 2016, \$2,113,000 in fiscal 2015, and \$2,123,000 in fiscal 2014.

Customer Rebates

We offer rebates to our distributors based on predetermined sales targets. These rebates vary by the type of product sold and by distributor and are based on a percentage of the applicable sales target. The rebate expense is charged as a reduction of gross sales. Rebate expense and

the associated liability are calculated and recorded as the rebate-related revenue is recognized.

Earnings Per Share of Common Stock

Earnings per share of common stock are computed based on the weighted average number of shares outstanding during each period.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants. We grant options to purchase common stock to some of our employees under various plans at prices equal to the market value of the stock on the dates the options are granted. New shares of stock are issued upon share option exercise. We do not have treasury stock.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants made in fiscal 2011: risk-free interest rate of 2.54%; dividend yield of 2.50%; volatility factor of the expected market price of our common stock of 43.02%; and a weighted average expected life of the options of 9.0 years. We have not made any stock option grants since fiscal year 2011.

Fiscal Year

Our fiscal year ends on the Saturday nearest to September 30. Fiscal year 2016 was a 52-week year. Fiscal years 2015 and 2014 were 53-week and 52-week years, respectively. Fiscal year 2017 will be a 52-week year.

Income Taxes

The liability method is used in accounting for federal and state income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are projected to be in effect when the differences are expected to reverse. The Company's practice is to recognize interest and penalties, if any, related to income tax matters as part of income tax expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes and the disclosure of contingent assets and liabilities. Although these estimates are based on our knowledge of current events and actions planned for the future, the estimates may ultimately differ from actual results.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued a standard on revenue recognition that supersedes previously issued revenue recognition guidance. This standard provides a five-step approach to be applied to all contracts with customers and

requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued a standard to delay the effective date by one year. In accordance with this delay, the new standard is effective for us beginning in the first quarter of fiscal 2019. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We are currently assessing the impact this standard will have on our consolidated financial statements as well as the method by which we will adopt the new standard.

In July 2015, the FASB issued a new standard regarding the measurement of inventory. Under this standard, inventory that is measured using the first-in, first-out ("FIFO") or average cost methods is required to be measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This standard does not impact inventory measured on a last-in, last-out ("LIFO") method. It will be effective for us beginning in fiscal 2017. We are currently assessing the impact this standard will have on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, "Balance Sheet Classification of Deferred Taxes (Topic 740)." Current guidance requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position; however, the new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. We are currently assessing the potential impact of this new accounting pronouncement on the Company's statement of financial position.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This standard modifies how entities measure equity investments and present changes in the fair value of financial liabilities; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; changes presentation and disclosure requirements, and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted. We do not expect that the adoption of this ASU will have any impact on the Company's statement of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, the standard also requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Company to adopt the standard using a modified retrospective approach and adoption for reporting periods beginning after December 15, 2018. We are currently evaluating the impact that ASU 2016-02 will have on the Company's financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09 that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election for forfeitures as they occur. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. We are currently evaluating the impact ASU 2016-09 will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which provides guidance for the accounting for credit losses on instruments within its scope. The amendments provide guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The amendments require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments also require that credit losses on available-for-sale debt securities be presented as an allowance. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)," which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. We are currently assessing the impact of the future adoption of this standard on our consolidated Statements of Cash Flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

Subsequent Events

In preparing these consolidated financial statements, we have evaluated events and transactions for potential recognition or disclosure through the issuance of the financial statements.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company accounts for the fair value measurements for financial assets and liabilities measured on a recurring basis as required by the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification (“ASC”). This guidance establishes a framework for measuring fair value and expands disclosure about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Following is a brief description of these three levels:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level (with “3” being the lowest) 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Cash value of life insurance policy: Valued at the cash surrender value of the life insurance policy as of the last business day of the fiscal year, as determined by the issuer of the insurance policy, which approximates fair value.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although we believe our valuation method is appropriate and consistent with methods used by other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes information on the fair value measurement of the Company's assets as of October 1, 2016 and October 3, 2015, grouped by the categories described above:

		Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash value of life insurance policies	2016	\$ 2,697,465	-	\$2,697,465	-
	2015	\$ 2,543,192	-	\$ 2,543,192	-

3. INVENTORIES

	2016	2015
Raw materials	\$ 5,476,393	\$ 5,455,942
Work in process	678,753	338,296
Finished goods	1,807,296	3,521,801
Reserve for obsolescence	(525,000)	(570,000)
	<u>\$ 7,437,442</u>	<u>\$ 8,746,039</u>

4. PROPERTY AND EQUIPMENT

	2016	2015
Land	\$ 469,718	\$ 469,718
Land improvements	486,698	486,698
Buildings	7,003,652	6,941,084
Machinery and equipment	9,563,061	9,241,581
Furniture and fixtures	506,277	487,856
Construction in process	36,637	85,329
Automobiles	23,853	9,520
	18,089,896	17,721,786
Less accumulated depreciation	13,973,826	13,185,682
	\$ 4,116,070	\$ 4,536,104

5. GOODWILL

As of October 1, 2016 and October 3, 2015, we had goodwill of \$3,937,676 and \$3,930,282, respectively. These amounts include goodwill from three reporting units, all of which are part of our medical segment.

On December 9, 2011, we acquired, through Span Medical Products Canada Inc., our wholly-owned subsidiary, substantially all of the assets of M.C. Healthcare Products Inc. (“old M.C. Healthcare”). The carrying value of goodwill was increased by \$7,394 for fiscal 2016 and reduced by \$361,561 and \$195,703 for fiscal 2015 and 2014, respectively, as a result of changes in the foreign currency exchange rate. Under Canadian tax law, a portion of goodwill acquired in connection with an asset acquisition may be amortized for tax purposes. We expect 75%, or approximately \$2,000,000, of the goodwill associated with Span-Canada to be amortizable and deductible for tax purposes.

For the fiscal year ended October 1, 2016, we tested each of our three reporting units for goodwill impairment in accordance with ASC 350-20-35 Intangibles – Goodwill and Other. We determined that the fair value of each of our reporting units was greater than its respective carrying value, and therefore no impairment charges were recognized in fiscal 2016.

We calculate the estimated fair value of our reporting units by using an income approach, which includes internally developed discounted cash flow models. To determine fair value, we make assumptions about a number of internal and external factors. Significant assumptions used in the impairment analysis include financial projections of sales, expenses, profit margins, working capital requirements, capital expenditures, tax rates and discount rates. These assumptions are based on our historical operating results for each of our reporting units, our detailed operating plan for fiscal year 2017 and our financial forecasts for fiscal years 2018 through 2021. There is significant uncertainty about the various assumptions made in the analysis. Our estimates of cash flows may differ from actual cash flows due to, among other things, changes in our estimated sales and expense growth rates,

other changes in our financial forecasting models, economic conditions in the U.S. and Canadian medical markets, Medicare reimbursement changes, government budget changes in the Canadian healthcare market and other risks referenced from time to time in our Securities and Exchange Commission filings. See Part 1, Item 1A. “Risk Factors” earlier in this report for more information on factors that could affect our assumptions used in the impairment analysis. These factors increase the risk of differences between projected and actual performance that could impact future estimates of the fair values of all reporting units. Significant differences between these estimates and actual cash flows could result in impairment charges in future periods.

6. INTANGIBLES

	2016	2015
Patents and trademarks	\$ 2,268,402	\$ 2,203,673
Trade names	343,678	342,416
Non-competition agreements	150,601	150,048
Customer relationships	2,526,230	2,516,952
	5,288,911	5,213,089
Less accumulated amortization	(3,299,012)	(2,998,327)
Net intangibles	\$ 1,989,899	\$ 2,214,762

On December 9, 2011, we acquired, through a new wholly-owned subsidiary, substantially all of the assets of old M.C. Healthcare and acquired intangibles of approximately \$3,980,000. At October 1, 2016 and October 3, 2015 we had intangibles associated with the asset acquisition of M.C. Healthcare of trade names, non-competition agreements and customer relationships (net of accumulated amortization of \$1,367,399 and \$1,115,246, respectively) of \$1,653,110 and \$1,894,170, respectively. Changes in the balances shown for trade names, non-competition agreements and customer relationships result solely from foreign currency fluctuations.

In addition, we had patents and trademarks (net of accumulated amortization) of \$336,789 as of October 1, 2016 and \$320,592 as of October 3, 2015. We reviewed the useful lives of individual patents and trademarks and determined that the useful lives did not require any material changes. The intangibles and the patents and trademarks are primarily associated with the medical segment.

Amortization expense for intangibles, patents and trademarks during fiscal years 2016, 2015 and 2014 was \$295,092, \$326,775 and \$394,169, respectively. Estimated amortization expense for the next five fiscal years based on existing intangibles is as follows:

Fiscal Years	Estimated Amortization Expense
2017	\$ 285,000
2018	278,000
2019	276,000
2020	276,000
2021	273,000

7. OTHER ASSETS

	2016	2015
Cash value of life insurance policies - Note 2	\$ 2,697,465	\$ 2,543,192
Other	212,275	410,464
	<u>\$ 2,909,740</u>	<u>\$ 2,953,656</u>

8. ACCRUED AND SUNDRY LIABILITIES

	2016	2015
Salaries and other compensation	\$ 1,805,557	\$ 1,448,935
Federal and state income taxes and sales taxes	301,045	567,295
Payroll taxes accrued and withheld	129,562	98,184
Property taxes	176,139	172,337
Medical insurance	249,245	273,403
Warranty reserve - Note 9	306,488	291,980
Customer rebates	601,876	247,137
Other	13,545	20,840
	<u>\$ 3,583,457</u>	<u>\$ 3,120,111</u>

9. PRODUCT WARRANTIES

We offer warranties of various lengths to our customers, depending on the specific product sold. The warranties require us to repair or replace non-performing products during the warranty period at no cost to the customer. At the time revenue is recognized for products covered by warranties, we record a liability for estimated costs that may be incurred under our warranties. The costs are estimated based on historical experience, any specific warranty problems that have been identified and recovery of secondary warranty cost from component suppliers. The amounts shown below are presented net of any expected cost recovery from suppliers. Although historical warranty costs have been within our expectations, there can be no assurance that future warranty costs will not exceed historical amounts. We regularly evaluate the adequacy of the warranty liability and adjust the balance as necessary.

Changes in our product warranty liability for the years ended October 1, 2016 and October 3, 2015 are as follows:

	2016	2015
Accrued liability at beginning of year	\$ 291,980	\$ 257,860
Increase in reserve	208,615	256,754
Expenses	(194,107)	(222,634)
Accrued liability at end of year	<u>\$ 306,488</u>	<u>\$ 291,980</u>

10. REVOLVING CREDIT FACILITY

In May 2015, we renewed our revolving credit facility from a bank. As part of the renewal, we extended the line for three years until April 30, 2018. At our request, the maximum principal amount we can borrow at any one time was reduced to \$5.0 million. There is no longer an unused commitment fee charged for the credit facility. The previously included covenant that restricted dividend payments to 50% of net income was eliminated.

The credit agreement is unsecured and accrues interest at a variable rate equal to 30-day LIBOR plus a margin ranging from 85 to 165 basis points, depending on our leverage ratio (as defined in the credit agreement). The interest rate, including the margin of 85 basis points, was 1.2795% in January 2016, which was the last time we had an outstanding balance due on the line of credit. Interest-only payments are required monthly. We have pledged to grant the bank a security interest in our accounts, instruments, and chattel paper upon its request in the event of a default as defined in the credit agreement. Our obligations under the credit agreement are guaranteed by Span-Canada.

The credit facility includes financial covenants relating to tangible net worth and leverage ratios, and restricts mergers and acquisitions, assets sales, indebtedness, liens and capital expenditures without prior written consent of or waiver by the lending bank. Also, our

subsidiary is not restricted in its ability to pay dividends or make distributions to us. Violation of loan covenants could result in the acceleration of the term of the credit agreement. The lending bank waived any event of default in connection with (1) our regular quarterly dividend payments of \$1.8 million during fiscal year 2015, which represented 46% of our net income for the fiscal year and (2) the special dividend of \$1.00 per share declared in November 2014 and paid on January 7, 2015. The bank also granted a consent dated September 29, 2015 to our repurchase of an aggregate of 261,310 shares of Company common stock at a price of \$17.49 per share from Robert Johnston, a former director of the Company, and his affiliate, The Jerry Zucker Revocable Trust.

We paid approximately \$5,000, \$6,000 and \$13,000 of interest expense in 2016, 2015 and 2014, respectively. No amounts were outstanding under the credit facility at October 1, 2016.

11. DEFERRED COMPENSATION

We are obligated to make fixed payments of approximately \$114,000 per year to our founder and former chief executive officer and his ex-wife pursuant to a retirement agreement. The payments will be made for the longer of the executive's remaining life or his ex-wife's remaining life, if she survives him. We have fully accrued the present value of the expected payments due over the combined life expectancy of the executive and his ex-wife. We recognized expenses of approximately \$27,000 in 2016, \$32,000 in 2015 and \$37,000 in 2014, related to this agreement.

12. EQUITY COMPENSATION

In January 2007, the Board adopted the 2007 Equity Incentive Plan ("2007 Plan"), which was approved by our shareholders in February 2007. The 2007 Plan authorizes the Board to grant stock-based compensation awards to our officers, directors and key employees for up to 250,000 shares of Company common stock. Awards may be in the form of restricted stock, non-restricted stock, restricted stock units, options or stock appreciation rights (SARs). Total awards under the 2007 Plan may not exceed 250,000 shares, of which no more than 75,000 shares may be in the form of restricted stock, non-restricted stock or restricted stock units. The per share exercise prices of options or SARs granted under the 2007 Plan must be no less than the fair market value of a share on the grant date. The terms and conditions of each award may be set by the Board or a committee of the Board. The 2007 Plan will expire on December 31, 2016 unless terminated earlier in accordance with the 2007 Plan.

In March 1997, the Board adopted the 1997 Stock Option Plan ("1997 Plan"). The 1997 Plan authorized the Board to grant options to our key officers and employees for up to 200,000 shares of our common stock. Options granted under the 1997 Plan were generally granted at the fair market value on the date of grant. These options become exercisable and vest at the greater of 1,000 shares per year or 20% of the grant. Options expire 10 years from the date of grant for continuing employees, or three months after termination of employment for employees who leave the Company. The 1997 Plan expired by its terms on October 20,

2007. The expiration of the 1997 Plan does not affect options outstanding under the 1997 Plan, but no further options can be granted under the 1997 Plan.

Shown below is a summary of activity under the Company's two stock option plans.

	Outstanding			Exercisable	
	Shares Available	Number of Shares	Weighted Average Ex. Price Per Share	Number of Shares	Weighted Average Ex. Price Per Share
Balance at 9/28/13	190,500	119,405	\$ 11.30	107,605	\$ 10.90
Fiscal Year 2014					
Granted					
Exercised		(26,091)			
Forfeited					
Expired Unexercised		(322)			
Balance at 9/27/14	190,500	92,992	11.53	89,592	11.40
Fiscal Year 2015					
Granted					
Exercised		(19,685)			
Forfeited					
Balance at 10/3/15	190,500	73,307	12.16	73,307	12.16
Fiscal Year 2016					
Granted					
Exercised		(21,157)			
Forfeited					
Balance at 10/1/16	190,500	52,150	\$ 13.18	52,150	\$ 13.18

Shown below is a summary of stock options outstanding and exercisable at fiscal year-end 2016.

	Outstanding			Exercisable	
	Number of Shares	Weighted Average Ex. Price Per Share	Weighted Average Remaining Contract Life (yrs)	Number of Shares	Weighted Average Ex. Price Per Share
Ranges of Exercise Prices					
\$ 9.34 - \$ 9.34	16,150	\$ 9.34	2.4	16,150	\$ 9.34
14.90 - 14.90	36,000	14.90	4.1	36,000	14.90
\$ 9.34 - \$14.90	52,150	\$ 13.18	3.6	52,150	\$ 13.18

13. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax liabilities and assets as of October 1, 2016 and October 3, 2015 are as follows:

	2016	2015
Deferred tax liabilities:		
Depreciation	\$ (280,000)	\$ (383,000)
Amortization	(88,000)	(99,000)
Total deferred tax liabilities	<u>(368,000)</u>	<u>(482,000)</u>
Deferred tax assets:		
Deferred compensation	101,000	131,000
Accrued expenses	364,000	302,000
Inventory	74,000	62,000
Other	21,000	(10,000)
Total deferred tax assets	<u>560,000</u>	<u>485,000</u>
Net deferred tax assets	<u>\$ 192,000</u>	<u>\$ 3,000</u>

We made cash income tax payments, net of refunds, of approximately \$2,267,000, \$524,000 and \$1,904,000 in fiscal years 2016, 2015 and 2014, respectively.

Federal, state and foreign income tax provisions consist of the following:

	2016	2015	2014
Current:			
Federal	\$ 1,706,000	\$ 1,166,000	\$ 1,125,000
State	99,000	34,000	20,000
Foreign	210,000	349,000	(150,000)
	<u>2,015,000</u>	<u>1,549,000</u>	<u>995,000</u>
Deferred:			
Federal	(132,000)	102,000	(11,000)
State	(6,000)	8,000	1,000
Foreign	(50,000)	13,000	53,000
	<u>(188,000)</u>	<u>123,000</u>	<u>43,000</u>
Income tax expense	<u>\$ 1,827,000</u>	<u>\$ 1,672,000</u>	<u>\$ 1,038,000</u>

Income tax expense differs from the amounts computed by applying the statutory U.S. federal tax rate to income before income taxes as follows:

	2016	2015	2014
Computed tax at the U.S. statutory rate	\$ 2,065,000	\$ 1,926,000	\$ 1,234,000
Increases (decreases):			
State income taxes, net of federal tax benefit	61,000	27,000	13,000
Differences between U.S. and foreign tax rates	(98,000)	(191,000)	(27,000)
Officer's life insurance	(50,000)	(15,000)	(57,000)
Domestic production deduction	(168,000)	(115,000)	(116,000)
Other, net	17,000	40,000	(9,000)
Income tax expense	<u>\$ 1,827,000</u>	<u>\$ 1,672,000</u>	<u>\$ 1,038,000</u>

We have adopted the provisions under ASC Topic 740, "Income Taxes" ("ASC 740") which require that a position taken or expected to be taken in a tax return be recognized in the consolidated financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. We recognize accrued interest and penalties related to uncertain tax positions as a component of income tax expense in our consolidated financial statements. We are not aware of any uncertain tax positions as of October 1, 2016 and October 3, 2015. In the normal course of business, we are subject to examination by taxing authorities. We do not expect to be subject to U.S. federal, state or local income tax examinations by tax authorities in filing jurisdictions for the years before tax year 2012 and Canadian tax examinations before the tax year 2012.

Span-America files income tax returns in the U.S. and various state and local jurisdictions. Span-Canada files separate income tax returns in Canada on an annual basis. The resulting foreign income taxes and any applicable U.S. or foreign tax implications of intercompany transactions will be accounted for within the consolidated financial reporting of income taxes, per the requirements of ASC Topic 740.

A provision has not been made for U.S. or additional foreign taxes on \$2,718,000 of undistributed earnings of our foreign subsidiary. Those earnings have been and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to Span-America or a U.S. affiliate, or if we sold our stock in the Span-Canada subsidiary. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

14. EARNINGS PER SHARE OF COMMON STOCK

The following table sets forth the computation of basic and diluted earnings per share of common stock.

	2016	2015	2014
Numerator for basic and diluted earnings per share:			
Net income	<u>\$ 4,247,331</u>	<u>\$ 3,993,398</u>	<u>\$ 2,590,767</u>
Denominator:			
Denominator for basic earnings per share:			
Weighted average shares	2,734,862	2,978,107	2,948,992
Effect of dilutive securities:			
Employee stock options	<u>23,257</u>	<u>27,975</u>	<u>44,341</u>
Denominator for diluted earnings per share:			
Adjusted weighted average shares and assumed conversions	<u>2,758,119</u>	<u>3,006,082</u>	<u>2,993,333</u>
Net income per share:			
Basic	\$ 1.55	\$ 1.34	\$ 0.88
Diluted	\$ 1.54	\$ 1.33	\$ 0.87

15. EMPLOYEE BENEFITS AND INCENTIVE PLANS

We have a 401(k) plan available to employees meeting eligibility requirements. We match a percentage of employee contributions, with certain limitations. Our 401(k) matching contributions amounted to approximately \$205,000, \$188,000 and \$184,000, for the 2016, 2015 and 2014 fiscal years, respectively.

16. RELATED-PARTY TRANSACTIONS

The company repurchased 249,310 shares of its common stock for approximately \$4.36 million on October 1, 2015 from The Jerry Zucker Revocable Trust, an affiliate of former director Robert B. Johnston. On October 9, 2015, in fiscal year 2016, we repurchased 12,000 shares of our common stock for approximately \$210,000 from former director Robert B. Johnston. The total repurchase of 261,310 shares represented approximately 9% of the outstanding shares prior to the transaction. Our lending bank granted a consent dated September 29, 2015 to these repurchases.

17. MAJOR CUSTOMERS

The largest of our medical customers are distributors who sell our products to acute care hospitals and long-term care facilities throughout the United States and Canada. Sales to one

customer were 17% of total net sales in fiscal 2016 and 2014 and 18% of total net sales in fiscal 2015.

We have a business relationship with other customers to distribute certain of our consumer products, which are part of our custom products segment. Sales to a former customer amounted to 6% of total net sales in 2016 and 10% of total net sales in fiscal 2015. Sales to another consumer customer amounted to 18%, 7% and 16% of total net sales in fiscal 2016, 2015 and 2014, respectively.

See Note 18 for further information about sales to major customers.

18. OPERATIONS AND INDUSTRY SEGMENTS AND GEOGRAPHIC AREAS

For management and reporting purposes, we divide our business into two segments: medical and custom products. This industry segment information corresponds to the markets in the United States, Canada and other countries for which we manufacture and distribute our various products. The following table summarizes certain information on industry segments:

	2016	2015	2014
Net sales:			
Medical	\$ 46,345,525	\$ 47,810,988	\$ 42,334,896
Custom products	21,281,645	16,504,008	13,522,479
	<u>\$ 67,627,170</u>	<u>\$ 64,314,996</u>	<u>\$ 55,857,375</u>
Operating profit:			
Medical	\$ 6,040,202	\$ 6,342,253	\$ 3,966,605
Custom products	801,548	(234,948)	257,997
	<u>6,841,750</u>	<u>6,107,305</u>	<u>4,224,602</u>
Corporate expense	(759,486)	(849,853)	(614,022)
Other income (expense)	(7,933)	407,946	18,187
Income before income taxes	<u>\$ 6,074,331</u>	<u>\$ 5,665,398</u>	<u>\$ 3,628,767</u>
Identifiable assets:			
Medical	\$ 22,299,011	\$ 20,886,470	\$ 22,221,526
Custom products	4,344,914	7,172,290	3,991,467
Corporate	6,917,614	4,122,862	9,633,841
	<u>\$ 33,561,539</u>	<u>\$ 32,181,622</u>	<u>\$ 35,846,834</u>

	2016	2015	2014
Depreciation and amortization expenses:			
Operating:			
Medical	\$ 909,972	\$ 977,922	\$ 1,069,882
Custom products	269,405	243,342	218,234
Corporate	655	514	409
	<u>\$ 1,180,032</u>	<u>\$ 1,221,778</u>	<u>\$ 1,288,525</u>
Capital expenditures:			
Medical	\$ 322,310	\$ 428,206	\$ 595,002
Custom products	117,383	226,659	75,843
	<u>\$ 439,693</u>	<u>\$ 654,865</u>	<u>\$ 670,845</u>

Geographic Areas:	2016	2015	2014
Net sales:			
United States	\$ 60,850,466	\$ 56,470,245	\$ 49,804,659
Canada	5,798,244	7,704,410	5,922,543
Other	978,460	140,341	130,173
	<u>\$ 67,627,170</u>	<u>\$ 64,314,996</u>	<u>\$ 55,857,375</u>

Property and equipment, net:			
United States	\$ 3,541,623	\$ 3,927,018	\$ 4,181,361
Canada	574,447	609,086	706,735
	<u>\$ 4,116,070</u>	<u>\$ 4,536,104</u>	<u>\$ 4,888,096</u>

Goodwill:			
United States	\$ 1,924,131	\$ 1,924,131	\$ 1,924,131
Canada	2,013,545	2,006,151	2,367,712
	<u>\$ 3,937,676</u>	<u>\$ 3,930,282</u>	<u>\$ 4,291,843</u>

Intangibles, net:			
United States	\$ 308,710	\$ 309,164	\$ 303,456
Canada	1,681,189	1,905,598	2,556,804
	<u>\$ 1,989,899</u>	<u>\$ 2,214,762</u>	<u>\$ 2,860,260</u>

Total sales by industry segment include sales to unaffiliated customers as reported in our statements of income. In calculating operating profit, non-allocable general corporate expenses, interest expense, other income and income taxes are not included, but certain corporate operating expenses incurred for the benefit of all segments are included on an allocated basis.

Identifiable assets are those assets that are used in the operations of each segment on an allocated basis. Amounts shown for corporate assets consist primarily of cash and cash surrender value of life insurance.

Included in the consolidated balance sheet at October 1, 2016 and October 3, 2015, are the net assets of Span-Canada's operations located in a single facility in Canada, which totaled approximately \$11,000,000 and \$10,000,000, respectively. See Item 1A. "Risk Factors" above for more information on risks involved in our international operations.

We have several customers whose sales represent significant portions of sales in their respective business segments. Sales to one of our medical customers were 24% of net medical sales in fiscal 2016 and fiscal 2015 and 22% of net medical sales in fiscal 2014. Sales to another medical customer accounted for 11% of net medical sales in fiscal years 2016, 2015 and 2014. In the custom products segment, sales to one customer accounted for 57% of net custom products sales in fiscal 2016, 29% in fiscal 2015 and 66% in fiscal 2014. Sales to a former custom products customer were 19% of net custom products sales in fiscal 2016 and 40% of net custom products sales in fiscal 2015.

The manufacturing employees of our Span-Canada subsidiary, representing 18% of our workforce, are subject to a Collective Agreement with a union that expires October 31, 2018.

19. OPERATING LEASES

We lease truck equipment in South Carolina. In addition, we lease a 15,000 square foot distribution facility in Utah for \$7,500 a month. The Utah facility lease is cancellable by either party with 60 days' notice. Both leases require us to pay certain insurance and maintenance costs.

Rental expense for all operating leases was \$404,000 in fiscal 2016, \$373,000 in fiscal 2015, and \$375,000 in fiscal 2014.

We have a five-year commitment to lease old M.C. Healthcare's 50,000 square foot manufacturing and showroom facility in Beamsville, Ontario at CAD \$278,000 for the first two years and then increasing ratably to CAD \$295,000 for the final year ending in December 2021.

20. COMMITMENTS AND CONTINGENCIES

We are committed to minimum purchases of \$700,000 of Selan® skin care products per calendar year for each calendar year through 2020. For the fiscal years ended 2016, 2015, and 2014, purchases under this commitment were \$829,000, \$823,000 and \$898,000, respectively. In addition to the minimum purchase requirements, we are required to pay a fee of \$30,000 per year to license the Selan products.

From time to time we are defendants in legal actions involving claims arising in the normal course of business. We believe that, as a result of legal defenses and insurance arrangements with parties we believe to be financially capable, none of these actions, if determined adversely, should have a material adverse effect on our operations or financial condition.

21. QUARTERLY FINANCIAL DATA (Unaudited)

Quarterly Financial Data (Unaudited) (Amounts in thousands, except per share data)

	First	Second	Third	Fourth	Year
For Fiscal 2016					
Net sales	\$ 21,452	\$ 14,853	\$ 15,347	\$ 15,975	\$ 67,627
Gross profit	5,483	5,191	5,654	5,953	22,281
Operating income	1,556	1,160	1,486	1,879	6,082
Net income	1,143	758	935	1,412	4,247
Earnings per share					
Basic	0.42	0.28	0.34	0.51	1.55
Diluted	0.42	0.28	0.34	0.51	1.54
For Fiscal 2015					
Net sales	\$ 15,721	\$ 15,034	\$ 15,813	\$ 17,747	\$ 64,315
Gross profit	5,449	4,982	5,441	5,765	21,636
Operating income	1,344	925	1,318	1,670	5,257
Net income	970	773	963	1,287	3,993
Earnings per share					
Basic	0.33	0.26	0.32	0.43	1.34
Diluted	0.32	0.26	0.32	0.43	1.33

ANNEXE B

SPAN-AMERICA MEDICAL SYSTEMS INC.

ÉTATS FINANCIERS CONSOLIDÉS non audités

Pour les périodes de six mois closes les 1^{er} avril 2017 et 2 avril 2016

SPAN-AMERICA MEDICAL SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

As at April 1, 2017

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Span-America Medical Systems, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales	\$ 15,225,876	\$ 14,852,629	\$ 30,448,505	\$ 36,304,811
Cost of goods sold	9,365,049	9,661,793	19,021,175	25,630,674
Gross profit	5,860,827	5,190,836	11,427,330	10,674,137
Selling and marketing expenses	2,729,712	2,618,800	5,363,018	5,146,132
Research and development expenses	282,551	275,220	538,381	569,164
General and administrative expenses	1,445,499	1,136,626	2,731,626	2,242,196
Total operating expenses	4,457,762	4,030,646	8,633,025	7,957,492
Operating income	1,403,065	1,160,190	2,794,305	2,716,645
Non-operating income (expense):				
Foreign currency (loss) gain	(7,066)	(49,917)	28,093	67,435
Interest expense	-	(60)	-	(5,144)
Gain from insurance policies	731,623	-	731,623	-
Other	12,853	(3,464)	11,346	(7,435)
Net non-operating income (expense)	737,410	(53,441)	771,062	54,856
Income before income taxes	2,140,475	1,106,749	3,565,367	2,771,501
Provision for income taxes	427,000	349,000	889,000	871,000
Net income	1,713,475	757,749	2,676,367	1,900,501
Other comprehensive income (loss), after tax:				
Foreign currency translation gain (loss)	94,212	585,187	(134,616)	123,561
Comprehensive income	\$ 1,807,687	\$ 1,342,936	\$ 2,541,751	\$ 2,024,062
Net income per share of common stock - Note 12:				
Basic	\$ 0.62	\$ 0.28	\$ 0.97	\$ 0.70
Diluted	0.62	0.28	0.97	0.69
Dividends per common share	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32
Weighted average shares outstanding:				
Basic	2,755,625	2,728,633	2,755,625	2,727,380
Diluted	2,774,408	2,755,109	2,772,477	2,753,490

The accompanying notes are an integral part of these consolidated financial statements.

Span-America Medical Systems, Inc.
Consolidated Balance Sheets

	April 1, 2017 (Unaudited)	October 1, 2016 (Note)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,273,691	\$ 3,752,945
Accounts receivable, net of allowances of \$125,000 (Apr. 1, 2017) and \$140,000 (Oct. 1, 2016)	7,434,230	8,079,500
Inventories - Note 4	7,370,775	7,437,442
Deferred income taxes - Note 11	-	459,159
Prepaid expenses	1,482,097	879,108
Total current assets	23,560,793	20,608,154
Property and equipment, net - Note 5	4,058,844	4,116,070
Goodwill	3,909,945	3,937,676
Intangibles, net - Note 6	1,862,297	1,989,899
Other assets - Note 7	266,026	2,909,740
Deferred tax asset - Note 11	242,000	-
Total assets	<u>\$ 33,899,905</u>	<u>\$ 33,561,539</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,497,838	\$ 2,410,376
Accrued and sundry liabilities	2,436,472	3,583,457
Total current liabilities	4,934,310	5,993,833
Deferred tax liability - Note 11	48,873	266,715
Deferred compensation	245,174	289,394
Total long-term liabilities	294,047	556,109
Total liabilities	5,228,357	6,549,942
Commitments and contingencies - Note 14		
Shareholders' equity:		
Common stock, no par value, 20,000,000 shares authorized; issued and outstanding shares 2,755,625 (Apr. 1, 2017 and Oct. 1, 2016)	373,803	373,803
Additional paid-in capital	6,025	6,025
Retained earnings	30,928,313	29,133,746
Accumulated other comprehensive loss	(2,636,593)	(2,501,977)
Total shareholders' equity	28,671,548	27,011,597
Total liabilities and shareholders' equity	<u>\$ 33,899,905</u>	<u>\$ 33,561,539</u>

Note: The Balance Sheet at October 1, 2016, has been derived from the audited financial statements at that date.

The accompanying notes are an integral part of these consolidated financial statements.

Span-America Medical Systems, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	April 1, 2017	April 2, 2016
Operating activities:		
Net income	\$ 2,676,367	\$ 1,900,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	524,810	586,422
Provision for losses on accounts receivable	22,492	-
Loss on disposal of equipment	1,569	7,658
Increase in cash value of life insurance	(72,383)	(79,715)
Deferred compensation	(45,941)	(42,769)
Gain on life insurance proceeds	(731,623)	-
Changes in operating assets and liabilities:		
Accounts receivable	600,057	1,342,115
Inventories	32,164	1,024,721
Prepaid expenses and other assets	(294,377)	(237,074)
Accounts payable and accrued expenses	(1,254,613)	(2,591,084)
Net cash provided by operating activities	1,458,522	1,910,775
Investing activities:		
Purchases of property and equipment	(317,495)	(275,384)
Insurance proceeds	3,353,851	-
Payments for other assets	(69,483)	(57,067)
Net cash provided by (used for) investing activities	2,966,873	(332,451)
Financing activities:		
Dividends paid	(881,800)	(873,590)
Proceeds of revolving credit line	-	2,900,000
Repayment of revolving credit line	-	(2,900,000)
Purchase and retirement of common stock	-	(209,880)
Net cash used for financing activities	(881,800)	(1,083,470)
Effect of exchange rates on cash	(22,849)	14,500
Increase in cash and cash equivalents	3,520,746	509,354
Cash and cash equivalents at beginning of period	3,752,945	1,224,026
Cash and cash equivalents at end of period	\$ 7,273,691	\$ 1,733,380

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 1, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Span-America Medical Systems, Inc. (the “Company,” “we,” or “Span-America”), located in Greenville, SC, has prepared the accompanying unaudited Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended April 1, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2017. The unaudited Consolidated Financial Statements appearing in this Quarterly Report should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 1, 2016. Except as stated in Notes 4 and 11, our accounting policies are consistent with those described in our Significant Accounting Policies in the Form 10-K, including but not limited to those set forth below.

Our wholly-owned subsidiary, Span Medical Products Canada Inc. (“Span-Canada”), a British Columbia corporation, located in Beamsville, Ontario, Canada, is operated under the registered business name M.C. Healthcare Products (“M.C. Healthcare”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and Span-Canada, its wholly-owned subsidiary. Significant inter-entity accounts and transactions have been eliminated.

Foreign Currency Translation

Span-Canada uses the Canadian dollar as its functional currency. The assets and liabilities of Span-Canada are translated into U.S. dollars at the quarter-end exchange rate. Revenues and expenses are translated at weighted average exchange rates. The resulting translation adjustments are recorded as a separate component of shareholders’ equity in “Accumulated Other Comprehensive Loss.”

Inventories

Inventory is valued at the lower of cost (first-in, first-out method) or net realizable value.

Revenue Recognition

We recognize revenue when title and risk of loss pass to the customer and collection is reasonably assured. Our sales prices are fixed at the time revenue is recognized.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (“FASB”) has issued a standard on revenue recognition. This standard provides a five-step approach to be applied to all contracts with customers and requires expanded disclosures about the nature, amount, timing and uncertainty of revenue (and the related cash flows) arising from customer contracts, significant judgments and changes in judgments used in applying the revenue model and the assets recognized from costs incurred to obtain or fulfill a contract. The standard is effective for us beginning in the first quarter of fiscal 2019. Early adoption is permitted. We are currently assessing the impact this standard will have on our consolidated financial statements as well as the method by which we will adopt the new standard.

The FASB has issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, the standard also requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires that we adopt the standard using a modified retrospective approach and adoption for reporting periods beginning after December 15, 2018. We are currently evaluating the impact that ASU 2016-02 will have on our financial position, results of operations and cash flows.

The FASB has issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which provides guidance for the accounting for credit losses on instruments within its scope. The amendments provide guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The amendments require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments also require that credit losses on available-for-sale debt securities be presented as an allowance. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

The FASB has issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force),” which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. We are currently assessing the impact of the future adoption of this standard on our consolidated Statements of Cash Flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants. We grant options to purchase common stock to some of our employees under various plans at prices equal to the market value of the stock on the dates the options are granted. New shares of common stock are issued upon share option exercise. We do not have treasury stock. We have not made any stock option grants since fiscal year 2011.

2. SUBSEQUENT EVENT – TENDER OFFER FOR SPAN-AMERICA MEDICAL SYSTEMS, INC. BY SAVARIA CORPORATION AND MERGER

We announced on May 1, 2017 that we have entered into an agreement and plan of merger (the “Merger Agreement”) to be acquired by Savaria Corporation, an Alberta, Canada corporation (“Savaria”) (TSX:SIS). The Merger Agreement calls for an indirect wholly-owned subsidiary of Savaria to acquire Span-America by way of an all-cash tender offer for \$29 per share, or approximately \$80.2 million, followed by a merger in which such subsidiary will acquire all of the remaining shares not purchased in the tender offer (other than shares owned by us, Savaria or any stockholder who validly exercises any applicable dissenters’ rights). The transaction is expected to close in the second calendar quarter of 2017. The Board of Directors of Span-America unanimously approved the Merger Agreement and the transactions contemplated thereby. The transaction is subject to customary closing conditions, including receipt of two-thirds of Span-America's shares on a fully diluted basis in a tender offer to Span-America's shareholders. All of the members of Span-America's board of directors and its senior officers have entered into tender support agreements with Savaria committing, subject to certain conditions and exceptions, to tender (without a right of withdrawal) all of their Span-America shares, constituting in aggregate approximately 15.9% of its outstanding shares (excluding shares receivable upon the exercise of vested and exercisable options). Following the successful completion of the tender offer, the Merger Agreement requires Savaria to cause to be acquired all remaining shares not tendered in the tender offer (other than shares owned by us, Savaria or any stockholder who validly exercises any applicable dissenters’ rights) through a second-step merger at the same price per share as that payable under the offer.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes information on the fair value measurement of certain Company assets as of April 1, 2017 and October 1, 2016 grouped by the categories prescribed by the FASB. See also Note 9 - Gain on Life Insurance Proceeds.

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash value of life insurance policies:				
April 1, 2017	\$ 149,206	-	\$ 149,206	-
October 1, 2016	2,697,465	-	2,697,465	-

4. INVENTORIES

	April 1, 2017	October 1, 2016
Raw materials	\$ 5,845,272	\$ 5,476,393
Work in process	397,188	678,753
Finished goods	1,642,315	1,807,296
Reserve for obsolescence	(514,000)	(525,000)
Inventories, net	<u>\$ 7,370,775</u>	<u>\$ 7,437,442</u>

At the beginning of the second quarter of fiscal 2017, we prospectively adopted FASB Accounting Standards Update 2015-11, "Inventory (Topic 330)" which simplifies the measurement of inventory by measuring inventory at the lower of cost and net realizable value. The adoption did not result in an adjustment in the second quarter of fiscal 2017. As required by the standard, prior periods were not retrospectively adjusted.

5. PROPERTY AND EQUIPMENT

	April 1, 2017	October 1, 2016
Land	\$ 469,718	\$ 469,718
Land improvements	486,698	486,698
Buildings	7,018,079	7,003,652
Machinery and equipment	9,828,208	9,563,061
Furniture and fixtures	526,149	506,277
Construction in process	32,788	36,637
Automobiles	14,136	23,853
Property and equipment, cost	18,375,776	18,089,896
Less accumulated depreciation	14,316,932	13,973,826
Property and equipment, net	<u>\$ 4,058,844</u>	<u>\$ 4,116,070</u>

6. INTANGIBLES

	April 1, 2017	October 1, 2016
Patents and trademarks	\$ 2,307,428	\$ 2,268,402
Trade names	338,945	343,678
Non-competition agreements	-	150,601
Customer relationships	2,491,438	2,526,230
Intangibles, cost	5,137,811	5,288,911
Less accumulated amortization	(3,275,514)	(3,299,012)
Intangibles, net	<u>\$ 1,862,297</u>	<u>\$ 1,989,899</u>

Changes in the balances shown for trade names and customer relationships result solely from foreign currency fluctuations. The last remaining non-competition agreement expired in November 2016.

7. OTHER ASSETS

	April 1, 2017	October 1, 2016
Cash value of life insurance policies - Note 3	\$ 149,206	\$ 2,697,465
Other	116,820	212,275
Other assets	<u>\$ 266,026</u>	<u>\$ 2,909,740</u>

See Note 9 - Gain on Life Insurance Proceeds.

8. PRODUCT WARRANTIES

We offer warranties of various lengths to our customers, depending on the specific product sold. The warranties require us to repair or replace non-performing products during the warranty period at no cost to the customer. At the time revenue is recognized for products

covered by warranties, we record a liability for estimated costs that may be incurred under our warranties. The costs are estimated based on historical experience, any specific warranty problems that have been identified and recovery of secondary warranty cost from component suppliers. The amounts shown below are presented net of any expected cost recovery from suppliers. Although historical warranty costs have been within our expectations, there can be no assurance that future warranty costs will not exceed historical amounts. We regularly evaluate the adequacy of the warranty liability and adjust the balance as necessary.

Changes in our product warranty liability for the six months ended April 1, 2017 and April 2, 2016 are as follows:

	Six Months Ended	
	April 1, 2017	April 2, 2016
Accrued liability at beginning of period	\$ 306,488	\$ 291,980
Increase in reserve	83,629	144,857
Repairs and replacements	(77,370)	(122,763)
Accrued liability at end of period	<u>\$ 312,747</u>	<u>\$ 314,074</u>

9. GAIN ON LIFE INSURANCE PROCEEDS

In February 2017, we received approximately \$3.4 million in life insurance proceeds upon the passing of our founder and former chief executive officer, Donald C. Spann. We had retirement and resignation agreements with Mr. Spann in place since 1993 when he retired from the Company. These agreements provided for payments of \$113,561 per year to Mr. Spann and his former wife. Mr. Spann's former wife survives him, so in accordance with these agreements, we will continue to make the retirement payments to Ms. Spann for the remainder of her life. To help fund our payment obligations under the retirement arrangement, the Company owned and was the beneficiary of three life insurance policies on Mr. Spann that were put in place from 1981 through 1993. These policies had a total cash value of approximately \$2.6 million recorded in "Other assets" on our balance sheet. The difference between the total life insurance proceeds and the total cash values of the policies was approximately \$732,000, or \$0.26 per diluted share after taxes, which was recorded as non-operating income. The life insurance proceeds are not subject to federal or state income taxes.

As of April 1, 2017, we had a liability balance of approximately \$357,000, which represents the present value of the expected future retirement payments to be made to Ms. Spann. This liability is recorded in "Accrued and sundry liabilities" and "Deferred compensation" on the Company's balance sheet.

See Notes 3 - Fair Value of Financial Instruments, 7 - Other Assets and 11- Income Taxes.

10. REVOLVING CREDIT FACILITY

The credit facility includes financial covenants relating to tangible net worth and leverage ratios, and restricts mergers and acquisitions, assets sales, indebtedness, liens and capital expenditures without prior written consent of or waiver by the lending bank.

No amounts were outstanding under the credit facility at April 1, 2017.

11. INCOME TAXES

At the beginning of the second quarter of fiscal 2017, we prospectively adopted FASB Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes (Topic 740)" which requires that deferred tax liabilities and assets be netted for each tax-paying component and classified as noncurrent in a classified statement of financial position. Prior periods were not retrospectively adjusted.

Income tax expense differs from the amounts computed by applying the statutory U.S. federal tax rate to income before income taxes as a result of state income taxes, net of federal tax benefit, differences between U.S. and foreign tax rates, the domestic production deduction and the \$732,000 gain on life insurance proceeds discussed in Note 9.

12. EARNINGS PER SHARE OF COMMON STOCK

The following table sets forth the computation of basic and diluted earnings per share of our common stock.

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Numerator for basic and diluted earnings per share:				
Net income	\$1,713,475	\$ 757,749	\$2,676,367	\$1,900,501
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	2,755,625	2,728,633	2,755,625	2,727,380
Effect of dilutive securities:				
Employee stock options	18,783	26,476	16,852	26,110
Denominator for diluted earnings per share:				
Adjusted weighted average shares and assumed conversions	2,774,408	2,755,109	2,772,477	2,753,490
Net income per share:				
Basic	\$ 0.62	\$ 0.28	\$ 0.97	\$ 0.70
Diluted	\$ 0.62	\$ 0.28	\$ 0.97	\$ 0.69

13. OPERATIONS AND INDUSTRY SEGMENTS

For management and reporting purposes, we divide our business into two segments: medical and custom products. This industry segment information corresponds to the markets in the United States, Canada and other countries for which we manufacture and distribute our various products.

The following table summarizes certain information on industry segments:

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales:				
Medical	\$ 12,927,831	\$ 10,972,017	\$ 25,445,982	\$ 22,364,814
Custom products	2,298,045	3,880,612	5,002,523	13,939,997
	<u>\$ 15,225,876</u>	<u>\$ 14,852,629</u>	<u>\$ 30,448,505</u>	<u>\$ 36,304,811</u>
Operating profit (loss):				
Medical	\$ 1,781,601	\$ 1,229,251	\$ 3,388,046	\$ 2,731,102
Custom products	(76,908)	154,420	(90,089)	359,220
	<u>1,704,693</u>	<u>1,383,671</u>	<u>3,297,957</u>	<u>3,090,322</u>
Corporate expense	(301,628)	(223,481)	(503,652)	(373,677)
Other income (expense)	737,410	(53,441)	771,062	54,856
Income before income taxes	<u>\$ 2,140,475</u>	<u>\$ 1,106,749</u>	<u>\$ 3,565,367</u>	<u>\$ 2,771,501</u>

Total sales by industry segment include sales to unaffiliated customers as reported in our consolidated statements of comprehensive income. In calculating operating profit, non-allocable general corporate expenses, interest expense, other income and income taxes are not included, but certain corporate operating expenses incurred for the benefit of both segments are included on an allocated basis.

14. COMMITMENTS AND CONTINGENCIES

From time to time we are defendants in legal actions involving claims arising in the normal course of business. We believe that, as a result of legal defenses and insurance arrangements with parties we believe to be financially capable, none of these actions, if determined adversely, should have a material adverse effect on our operations or financial condition.

ANNEXE C

SAVARIA CORPORATION
ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA non audités
Pour les périodes closes les 30 juin 2017 et 31 décembre 2016

	Notes	Savaria 30 juin 2017 (voir note 4)	Span 1 ^{er} avril 2017	Ajustements pro forma	Consolidé pro forma 30 juin 2017
Revenus		66,879 \$	40,512 \$	- \$	107,391 \$
Coût des ventes		(43,670)	(26,644)	-	(70,314)
Marge brute		23,209	13,868	-	37,077
Charges opérationnelles					
Frais d'administration		(5,515)	(3,457)	-	(8,972)
Frais de vente		(5,600)	(5,808)	-	(11,408)
Frais d'ingénierie		(1,237)	(639)	-	(1,876)
Frais de recherche et développement		(516)	(78)	-	(594)
		(12,868)	(9,982)	-	(22,850)
Autres charges	2 c)	(14)	(174)	175	(13)
Résultat opérationnel		10,327	3,712	175	14,214
Produits financiers	2 d)	263	1,025	-	1,288
Charges financières	2 e)	(611)	-	(603)	(1,214)
Charges financières nettes		(348)	1,025	(603)	74
Résultat avant impôt		9,979	4,737	(428)	14,288
Charge d'impôt sur le résultat	2 f)	(2,541)	(1,200)	146	(3,595)
Résultat net		7,438 \$	3,537 \$	(282) \$	10,693 \$
Résultat net par action					
De base	5	0.19 \$			0.27 \$
Dilué	5	0.19 \$			0.26 \$

Les notes aux pages 4 à 9 font partie intégrante des états consolidés du résultat net pro forma non audités.

	Notes	Savaria 31 décembre 2016	Span 1 ^{er} octobre 2016	Ajustements pro forma	Consolidé pro forma 31 décembre 2016
Revenus		119,728 \$	89,761 \$	- \$	209,489 \$
Coût des ventes	2 b)	(79,159)	(63,023)	(447)	(142,629)
Marge brute		40,569	26,738	(447)	66,860
Charges opérationnelles					
Frais d'administration		(9,550)	(6,042)	-	(15,592)
Frais de vente		(9,478)	(11,133)	-	(20,611)
Frais d'ingénierie		(2,516)	(1,227)	-	(3,743)
Frais de recherche et développement		(935)	(90)	-	(1,025)
		(22,479)	(18,492)	-	(40,971)
Autres charges		(641)	(9)	-	(650)
Résultat opérationnel		17,449	8,237	(447)	25,239
Produits financiers		630	5	-	635
Charges financières	2 e)	(825)	(7)	(1,196)	(2,028)
Charges financières nettes		(195)	(2)	(1,196)	(1,393)
Résultat avant impôt		17,254	8,235	(1,643)	23,846
Charge d'impôt sur le résultat	2 f)	(4,953)	(2,471)	469	(6,955)
Résultat net		12,301 \$	5,764 \$	(1,174) \$	16,891 \$
Résultat net par action					
De base	5	0.36 \$			0.46 \$
Dilué	5	0.34 \$			0.44 \$

Les notes aux pages 4 à 9 font partie intégrante des états consolidés du résultat net pro forma non audités.

SAVARIA CORPORATION

NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

1 . Mode de présentation

Les états consolidés du résultat net pro forma non audités de Savaria Corporation (« Savaria » ou la « Société ») ont été préparés par la direction suite à l'acquisition de la totalité des actions de Span-America Medical Systems Inc. (« Span ») en date du 16 juin 2017.

L'information fournie dans les présents états financiers pro forma est tirée des documents mentionnés ci-dessous et elle doit être lue à la lumière de ces documents, qui sont :

- a) les états financiers consolidés non audités de Savaria au 30 juin 2017 et pour la période close à cette date;
- b) les états financiers consolidés non audités de Span au 1^{er} avril 2017 et pour la période close à cette date;
- c) les états financiers consolidés audités de Savaria au 31 décembre 2016 et pour l'exercice clos à cette date.
- d) les états financiers consolidés audités de Span au 1^{er} octobre 2016 et pour l'exercice clos à cette date.

De l'avis de la direction, les états consolidés du résultat net pro forma non audités pour la période de six mois close le 30 juin 2017 et pour l'exercice clos le 31 décembre 2016 tiennent compte de tous les ajustements nécessaires à la présentation des transactions, de façon conforme aux méthodes comptables appliquées par la Société dans ses états financiers consolidés audités au 31 décembre 2016 et pour l'exercice clos à cette date.

Les ajustements pro forma sont fondés sur l'information disponible, sur des estimations et sur certaines hypothèses qui sont, de l'avis de la direction, raisonnables et qui sont décrites dans les notes afférentes aux états financiers consolidés non audités. Les états financiers consolidés du résultat net pro forma non audités ne tiennent pas compte des synergies ni des économies de coûts qui pourraient ou devraient résulter de la transaction. Ces états financiers ne sont fournis qu'à titre indicatif et ils ne sont pas censés représenter le rendement réel des sociétés combinées qui auraient été présentés si la transaction avait eu lieu à la date mentionnée et ils ne sont également pas censés représenter les résultats d'exploitation pour toute autre période ultérieure.

2 . Principales hypothèses et principaux ajustements pro forma

Aux fins de la préparation des états consolidés du résultat net pro forma non audités, les hypothèses significatives suivantes ont été formulées et les ajustements ci-dessous ont été effectués :

- a) L'acquisition de Span sera comptabilisée comme si elle avait eu lieu au 1^{er} janvier 2016 selon la méthode de l'acquisition, conformément à IFRS 3 *Regroupements d'entreprises*. Tous les actifs acquis et les passifs repris seront évalués à leur juste valeur à la date d'acquisition. Les résultats d'exploitation, y compris la charge d'amortissement réelle, pourraient différer considérablement des résultats fournis dans les présents états financiers puisque la direction n'a pas finalisé la répartition du prix d'achat en raison de la courte période qui s'est écoulée depuis l'acquisition et des estimations à établir concernant l'évaluation des justes valeurs. La Société prévoit qu'une partie du prix d'achat sera allouée aux immobilisations incorporelles, ce qui pourrait se traduire par une charge d'amortissement supplémentaire.
- b) Un ajustement pro forma a été inscrit pour tenir compte de l'impact sur le coût des ventes d'un ajustement à la valeur des stocks acquis de 447 000 \$ pour l'exercice clos le 31 décembre 2016.

SAVARIA CORPORATION

NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

2 . Principales hypothèses et principaux ajustements pro forma (suite)

- c) Un ajustement pro forma a été inscrit pour éliminer les frais liés à l'acquisition de Span durant la période de six mois clos le 30 juin 2017, totalisant 175 000 \$, puisqu'ils sont non récurrents et sont directement liés à l'acquisition.
- d) Les résultats de Span pour la période close le 30 juin 2017 inclut un produit financier de 959 000 \$ lié à un ajustement de la valeur de rachat de polices d'assurance détenues par Span suite au décès de son fondateur. Cet élément sera non récurrent.
- e) Un ajustement pro forma a été inscrit pour ajouter les frais d'intérêts liés à la dette à long terme engagée lors de l'acquisition de Span, totalisant 603 000 \$ pour la période de six mois close le 30 juin 2017 et 1 196 000 \$ pour l'exercice clos le 31 décembre 2016.
- f) Un ajustement à la charge d'impôt se rapportant aux divers éléments pro forma décrits ci-dessus a été inscrit.
- g) Les résultats de Span, qui sont présentés en dollars US, ont été convertis en dollars canadiens en utilisant le taux de change moyen de la période en question (se référer aux tableaux de la note 3).

3 . Acquisition d'une entreprise

Le 16 juin 2017, la Société a acquis les actions de la compagnie Span. Span fabrique et commercialise une gamme complète de surfaces de soutien thérapeutique et autres produits de gestion de la pression pour le marché médical, de lits médicaux pour le marché des soins de longue durée ainsi que des surmatelas et oreillers en mousse pour le marché de la consommation et certains produits pour le marché industriel, principalement des produits de mousse. Cette acquisition comporte trois avantages clefs qui aideront Savaria à atteindre ses objectifs de croissance stratégique à long terme. Tout d'abord, elle ajoute une gamme de produits complémentaire à sa gamme de produits d'accessibilité. Deuxièmement, elle procure un nouveau canal de distribution vers les marchés institutionnels et gouvernementaux, ce qui complémentera son réseau de distributeurs existant et ses points de vente directe Silver Cross. Enfin, elle accroît sa présence aux États-Unis, ce qui lui permet de se rapprocher de 50 % de sa clientèle actuelle.

La contrepartie totale est de 107 204 000 \$ (81 019 000 \$ US) payée à la date d'acquisition. En plus de sa trésorerie, la Société s'est appuyée sur une nouvelle ligne de crédit rotatif et un placement privé pour financer les sommes versées dans le cadre de la transaction.

Les actifs acquis sont principalement de l'encaisse, des comptes à recevoir, des stocks, des immobilisations corporelles et incorporelles et du goodwill; ce dernier provient des synergies entre Savaria et Span et des revenus additionnels de produits d'accessibilité qui en résulteront. Le goodwill a été attribué au secteur opérationnel *Span*.

Au 30 juin 2017, la Société n'avait pas finalisé la répartition du prix d'achat sur les éléments identifiables de l'actif net et du goodwill des regroupements d'entreprises ci-dessus. Les informations nécessaires pour confirmer la juste valeur de certains actifs et passifs n'ont pas encore été obtenues. La Société finalisera la répartition du prix d'achat à mesure qu'elle obtiendra plus de renseignements. Le tableau ci-dessous présente la répartition préliminaire des prix d'achat en fonction des meilleures informations recueillies à ce jour en presumant que l'acquisition a eu lieu le 1^{er} janvier 2016.

SAVARIA CORPORATION**NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA**

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

3 . Acquisition d'une entreprise (suite)

	Span
Actifs acquis	
Actifs courants	31,571 \$
Immobilisations corporelles	12,411
Autres actifs non courants	282
Immobilisations incorporelles et goodwill	74,869
	119,133 \$
Passifs pris en charge	
Passifs courants	9,020
Autres passifs non courants	2,909
	11,929 \$
Juste valeur des actifs nets acquis et flux de trésorerie liés à l'acquisition	107,204 \$
Moins : trésorerie de l'entreprise acquise	8,865
Flux de trésorerie liés à l'acquisition	98,339 \$

Les tableaux ci-dessous présentent les éléments de conciliation aux états du résultat net de Span résultant des ajustements de présentation, de l'alignement de l'information financière selon les conventions comptables de Savaria et des normes IFRS et de la conversion des résultats en dollars canadiens.

SAVARIA CORPORATION
NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

Période de six mois close le 1 ^{er} avril 2017	Span - données historiques selon les normes US en dollars US	Ajustements de présentation en dollars US ⁽¹⁾	Ajustements IFRS en dollars US ⁽²⁾	Ajustements liés à la conversion de devise ⁽³⁾	Span - selon les normes IFRS en dollars CA
Revenus	30,448 \$	33 \$	- \$	10,031 \$	40,512 \$
Coût des ventes	(19,021)	(1,026)	-	(6,597)	(26,644)
Marge brute	11,427	(993) \$	-	3,434	13,868
Charges opérationnelles					
Frais d'administration	(2,732)	131	-	(856)	(3,457)
Frais de vente	(5,363)	993	-	(1,438)	(5,808)
Frais d'ingénierie	-	(538)	57 a)	(158)	(639)
Frais de recherche et développement	(538)	538	(59) b)	(19)	(78)
	(8,633)	1,124	(2)	(2,471)	(9,982)
Autres charges	-	(131)	-	(43)	(174)
Résultat opérationnel	2,794	-	(2)	920	3,712
Produits financiers	771	-	-	254	1,025
Charges financières	-	-	-	-	-
Charges financières nettes	771	-	-	254	1,025
Résultat avant impôt	3,565	-	(2)	1,174	4,737
Charge d'impôt sur le résultat	(889)	-	(14) c)	(297)	(1,200)
Résultat net	2,676 \$	- \$	(16) \$	877 \$	3,537 \$

⁽¹⁾ Ajustements de présentation des données historiques de Span afin d'aligner la présentation à celle de Savaria.

⁽²⁾ Span ne capitalise aucun coût de développement et les crédits d'impôt reçus pour ses activités de recherche et développement sont enregistrés en diminution des charges d'impôt. Les ajustements appropriés ont été fait afin de capitaliser les dépenses qui répondent aux critères établis par les IFRS et enregistrer les crédits d'impôts afférents en réduction des charges capitalisées.

a) Ajustement reflétant la capitalisation des frais de recherche et développement.

b) Amortissement des frais de recherche et développement qui auraient été capitalisés dans le passé.

c) Ajustement des crédits d'impôts reçus et impact fiscal sur les autres éléments mentionnés précédemment.

⁽³⁾ L'état du résultat net a été converti en dollars canadiens au taux moyen de 1,3291.

SAVARIA CORPORATION
NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

Période de douze mois close le 1 ^{er} octobre 2016	Span - données historiques selon les normes US en dollars US	Ajustements de présentation en dollars US ⁽¹⁾	Ajustements IFRS en dollars US ⁽²⁾	Ajustements liés à la conversion de devise ⁽³⁾	Span - selon les normes IFRS en dollars CA
Revenus	67,627 \$	112 \$	- \$	22,022 \$	89,761 \$
Coût des ventes	(45,346)	(2,215)	-	(15,462)	(63,023)
Marge brute	22,281	(2,103)	-	6,560	26,738
Charges opérationnelles					
Frais d'administration	(4,560)	-	-	(1,482)	(6,042)
Frais de vente	(10,505)	2,103	-	(2,731)	(11,133)
Frais d'ingénierie	-	(1,134)	208 a)	(301)	(1,227)
Frais de recherche et développement	(1,134)	1,134	(68) b)	(22)	(90)
	(16,199)	2,103	140	(4,536)	(18,492)
Autres charges	(7)	-	-	(2)	(9)
Résultat opérationnel	6,075	-	140	2,022	8,237
Produits financiers	4	-	-	1	5
Charges financières	(5)	-	-	(2)	(7)
Charges financières nettes	(1)	-	-	(1)	(2)
Résultat avant impôt	6,074	-	140	2,021	8,235
Charge d'impôt sur le résultat	(1,827)	-	(38) c)	(606)	(2,471)
Résultat net	4,247 \$	- \$	102 \$	1,415 \$	5,764 \$

⁽¹⁾ Ajustements de présentation des données historiques de Span afin d'aligner la présentation à celle de Savaria.

⁽²⁾ Span ne capitalise aucun coût de développement et les crédits d'impôt reçus pour ses activités de recherche et développement sont enregistrés en diminution des charges d'impôt. Les ajustements appropriés ont été fait afin de capitaliser les dépenses qui répondent aux critères établis par les IFRS et enregistrer les crédits d'impôts afférents en réduction des charges capitalisées.

a) Ajustement reflétant la capitalisation des frais de recherche et développement.

b) Amortissement des frais de recherche et développement qui auraient été capitalisés depuis toujours.

c) Ajustement des crédits d'impôts reçus et impact des autres éléments mentionnés précédemment.

⁽³⁾ L'état du résultat net a été converti en dollars canadiens au taux moyen de 1,3251.

NOTES AUX ÉTATS CONSOLIDÉS DU RÉSULTAT NET PRO FORMA

(les montants présentés dans les tableaux sont exprimés en milliers de dollars, sauf ceux relatifs aux données sur les actions et les montants par action - non audités)

4 . État consolidé du résultat net pro forma de Savaria

Le tableau ci-dessous indique les ajustements portés à l'état du résultat net de Savaria pour la période close le 30 juin 2017 afin d'exclure les résultats de Span du 17 au 30 juin aux fins de l'état du résultat net pro forma de cette période.

	Savaria Total	Portion Span du 17 juin au 30 juin 2017	Ajustements de consolidation	Savaria excluant Span
Revenus	70,260 \$	3,381 \$	- \$	66,879 \$
Coût des ventes	(46,292)	(2,287)	(335)	(43,670)
Marge brute	23,968	1,094	(335)	23,209
Charges opérationnelles				
Frais d'administration	(5,736)	(221)	-	(5,515)
Frais de vente	(6,028)	(428)	-	(5,600)
Frais d'ingénierie	(1,296)	(59)	-	(1,237)
Frais de recherche et développement	(516)	-	-	(516)
	(13,576)	(708)	-	(12,868)
Autres charges	(1,277)	(1,263)	-	(14)
Résultat opérationnel	9,115	(877)	(335)	10,327
Produits financiers	263	-	-	263
Charges financières	(620)	(9)	-	(611)
Charges financières nettes	(357)	(9)	-	(348)
Résultat avant impôt	8,758	(886)	(335)	9,979
Charge d'impôt sur le résultat	(2,657)	(230)	114	(2,541)
Résultat net	6,101 \$	(1,116) \$	(221) \$	7,438 \$

5 . Résultat pro forma par action

Le tableau qui suit présente un rapprochement du résultat de base pro forma par action :

	30 juin 2017	31 décembre 2016
Résultat net pro forma	10,693 \$	16,891 \$
Résultat de base pro forma par action :		
Nombre moyen pondéré de base d'actions ordinaires en circulation	40,317,656	37,030,454
Résultat de base pro forma par action	0.27 \$	0.46 \$

Le tableau qui suit présente un rapprochement du résultat dilué pro forma par action :

	30 juin 2017	31 décembre 2016
Résultat net pro forma	10,693 \$	16,891 \$
Résultat dilué pro forma par action :		
Nombre moyen pondéré de base d'actions ordinaires en circulation	41,210,256	38,675,514
Résultat dilué pro forma par action	0.26 \$	0.44 \$