

# Federal Screw Works

## Statement of Operations

(unaudited, in thousands, except per share)

	Second Quarter Ended December 31		Six Months Ended December 31	
	2018	2017	2018	2017
Net sales	\$ 17,640	\$ 18,116	\$ 35,539	\$ 35,379
Costs and expenses:				
Cost of products sold	16,085	16,560	32,678	32,433
Selling, general and administrative	843	919	1,692	1,823
Interest	235	118	423	222
Other (income) expense	(1)	(2)	(61)	(2)
	17,162	17,595	34,732	34,476
EARNINGS BEFORE FEDERAL INCOME TAXES	478	521	807	903
Federal income tax	101	177	170	307
NET EARNINGS	\$ 377	\$ 344	\$ 637	\$ 596
Total number of common shares outstanding	1,381,595	1,381,595	1,381,595	1,381,595
Net earnings per common share	\$ 0.27	\$ 0.25	\$ 0.46	\$ 0.43

**Federal Screw Works**  
**Comparative Balance Sheets**  
(unaudited)

	December 31, 2018	June 30, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 84,678	\$ 307,271
Accounts receivable, net	10,814,723	12,138,512
Inventories:		
Finished products	3,980,741	4,299,953
In-process products	15,016,174	14,059,690
Raw materials and supplies	2,406,882	1,570,303
Total inventories	21,403,797	19,929,946
Prepaid expenses and other current assets	427,854	188,226
Assets held for sale	5,171	5,171
<b>TOTAL CURRENT ASSETS</b>	<b>32,736,223</b>	<b>32,569,126</b>
<b>Net earnings per common share</b>		
Cash value of life insurance	1,674,252	1,662,252
Deferred federal income taxes	1,759,265	1,893,708
Investments and other	206,286	190,781
	3,639,803	3,746,741
<b>Property, Plant and Equipment</b>		
Land	387,467	387,467
Buildings and improvements	12,040,434	12,010,464
Machinery and equipment	117,142,400	113,952,580
	129,570,301	126,350,510
Less accumulated depreciation	(98,078,129)	(96,139,068)
	31,492,172	30,211,442
	\$ 67,868,198	\$ 66,527,309

	December 31, 2018	June 30, 2018
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,323,935	\$ 7,357,718
Payroll and employee benefits	1,383,199	4,070,876
Dividend payable	-	-
Taxes, other than income taxes	287,262	508,076
Other accrued liabilities	254,132	184,056
Current portion of long-term debt	2,537,266	2,483,366
Current portion of post retirement benefits	898,812	898,812
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,684,606</b>	<b>15,502,903</b>
<b>Long-Term Liabilities</b>		
Long-term debt	19,565,945	16,070,082
Employee benefits	649,828	698,635
Postretirement benefits	8,563,244	8,730,441
Pension benefits	6,866,968	7,058,791
Other liabilities	1,306,355	1,278,760
	36,952,340	33,836,710
<b>Stockholders' Equity</b>		
Common stock, \$1 par value: authorized 2,000,000 shares; 1,381,595 shares outstanding	1,381,595	1,381,595
Additional capital	3,269,476	3,269,476
Retained earnings	31,295,274	31,210,481
Accumulated other comprehensive income	(18,715,093)	(18,673,857)
	17,231,252	17,187,696
	\$ 67,868,198	\$ 66,527,309

# Statements of Cash Flows

## Federal Screw Works

	Six Months Ended December 31, 2018
<b>OPERATING ACTIVITIES</b>	
Net earnings	\$ 637,430
Adjustments to reconcile net earnings to net cash provided by	
Depreciation and amortization	1,957,034
Asset impairment	-
Deferred federal income taxes	134,443
Employee benefits	(449,064)
(Gain) loss on sale of equipment	(60,000)
(Gain) loss on sale of securities	-
Miscellaneous and other	(33,478)
Changes in operating assets and liabilities:	
Accounts receivable	1,323,789
Refundable income taxes	-
Inventories and prepaid expenses	(1,713,479)
Accounts payable and accrued expenses	(1,844,602)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>(47,928)</b>
<b>INVESTING ACTIVITIES</b>	
Purchases of property, plant and equipment	(3,219,790)
Purchases of securities	-
Proceeds from sale of securities	-
Proceeds from sale of equipment	60,000
Company owned life insurance	(12,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,171,790)</b>
<b>FINANCING ACTIVITIES</b>	
Additional borrowings (principal repayments) under bank credit agreement, net	2,881,122
Borrowings on term loans	2,000,000
Principal payments on term loans	(1,331,359)
Principal payments on capital leases	-
Dividends paid	(552,638)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,997,125</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(222,594)</b>
Cash At beginning of year	307,271
<b>CASH AT END OF YEAR</b>	<b>\$ 84,678</b>

## Notes to Financial Statements

**Description of Business:** Federal Screw Works was founded in 1917 and is a domestic manufacturer of industrial component parts, consisting of locknuts, bolts, piston pins, studs, bushings, shafts and other machined and/or ground metal parts, all of which constitute a single business segment. The Company's fiscal year end is June 30.

**Inventories:** Inventories are stated at the lower of cost or market. Cost, determined by the last-in, first-out (LIFO) method, was used for certain raw material inventories. The remaining inventories are costed using the first-in, first-out (FIFO) method.

**Property, Plant and Equipment:** Property, plant and equipment is stated at cost, which includes the cost of interest which is capitalized during construction of significant additions. Provisions for depreciation are based upon the estimated useful lives of the respective assets and are computed by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable from undiscounted cash flows. If impaired, the assets are recorded at fair value as determined by appraisals or discounted cash flow calculations.

**Company Owned Life Insurance:** The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Company owned life insurance is presented in the balance sheets net of policy loans.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates associated with collectability of receivables, inventory allowance for obsolescence, carrying value of property, plant and equipment, self-funded workers compensation liability, pension and postretirement benefits, environmental liability and valuation allowance on deferred tax assets are particularly susceptible to material changes in the near term.

**Revenue Recognition:** The Company recognizes revenue from product sales when goods are shipped and title and risk of ownership passes to the customer. The Company will adopt Accounting Standard Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") effective July 1, 2018. The Company has determined that adoption of ASU 2014-19 should have no effect or change in the way it currently recognizes revenue under existing contracts.

**Allowance for Uncollectible Accounts Receivable:** Accounts receivable has been reduced by an allowance for amounts that may become uncollectible in the future. This estimated allowance \$50,000 is based primarily on management's evaluation of the financial condition of the customer and historical experience. Also, the Company monitors its accounts receivable and charges to expense an amount equal to its estimate of potential credit losses. The Company considers a number of factors in determining its estimates, including the length of time its trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation and the condition of the general economy and the industry as a whole. The use of different estimates could significantly affect the Company's results of operations for the period.

**Comprehensive Income (Loss):** Comprehensive income (loss) consists of net income (loss) and other comprehensive income and losses. Other comprehensive income (loss) includes pension and postretirement liability adjustments.

**Income Taxes:** The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a tax benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with the tax examination being presumed to occur. The amount recognized is the largest amount of the tax benefit greater than 50% likely of being realized on examination and for tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company does not have any material unrecognized tax benefits and accordingly has not recorded any interest or penalties related to unrecognized tax benefits. The Company files a federal income tax return and various state returns.

**Fair Value of Financial Instruments:** The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable, debt and investments approximate fair value due to their short duration and the variable rate nature of the company's debt.

**Net Earnings Per Common Share:** Net earnings per common share is based on the weighted average number of common shares outstanding.

**Defined Benefit Pension Obligations:** The Company accounts for its defined benefit pension and postretirement liabilities under FASB ASC 715, which requires defined benefit plan assets and obligations to be measured as of the date of the employer's fiscal year-end.

## OTC Pink Basic Disclosure Guidelines

### 1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Federal Screw Works

### 2) Address of the issuer's principal executive offices

#### Company Headquarters

34846 Goddard Road

Romulus, Michigan 48174

Phone: 734 941-4211

Email: fsw@federalsscrewworks.com

Website(s): federalsscrew.com

#### IR Contact

N/A

### 3) Security Information

Trading Symbol: FSCR

Exact title and class of securities outstanding: Common Stock

CUSIP: 3138819104

Par or Stated Value: \$1.00

Total shares authorized: 2,000,000

as of: 12-31-2018

Total shares outstanding: 1,381,595

as of: 12-31-2018

Additional class of securities (if necessary):

N/A

#### Transfer Agent

Name: Computershare

Address 1: P.O. Box 30170

Address 2: College Station, TX 77842-5523

Address 3: \_\_\_\_\_

Phone: 800 426-5523

Is the Transfer Agent registered under the Exchange Act?\*

Yes: ☒

No: ☐

\*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security:

N/A

Describe any trading suspension orders issued by the SEC in the past 12 months.

N/A

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

N/A

#### **4) Issuance History**

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

N/A

B. Any jurisdictions where the offering was registered or qualified;

C. The number of shares offered;

D. The number of shares sold;

E. The price at which the shares were offered, and the amount actually paid to the issuer;

F. The trading status of the shares; and

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

#### **5) Financial Statements**

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

- A. Balance sheet;
- B. Statement of income;
- C. Statement of cash flows;
- D. Financial notes; and
- E. Audit letter, if audited

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otcq.com in the field below.

## **Financial statements are being posted to OTC Markets along with the disclosure statement**

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

### **6) Describe the Issuer's Business, Products and Services**

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

Federal Screw Works is a domestic manufacturer of industrial component parts, consisting of locknuts, bolts, piston pins, studs, bushings, shafts and other machined, cold formed, hardened and/or ground metal parts, all of which constitute a single business segment.

The Company's products are manufactured at several plants and are fabricated from metal rod and bar, which are generally available at competitive prices from multiple sources. Production is in high-volume job lots to the specification of original equipment manufacturers and sold to them for incorporation into their assemblies. The majority of these sales are to manufacturers of automobiles and trucks, with the balance being mainly to manufacturers of nonautomotive durable goods.

B. Date and State (or Jurisdiction) of Incorporation:

1919 - Michigan

C. the issuer's primary and secondary SIC Codes;

3451 and 3452

D. the issuer's fiscal year end date;

June 30th

E. principal products or services, and their markets;

See A above

### **7) Describe the Issuer's Facilities**

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

The Big Rapids Division in Big Rapids, Michigan, manufactures special high-strength bolts and other cold formed products using boltmakers and headers as primary equipment. Among the items manufactured to both inch and metric specifications are hex head bolts, connecting rod bolts, studs and flange bolts. The 200,000 square foot plant is situated on 25 acres of land, and contains heat treat facilities for hardening in-process parts.



The Romulus Division operates out of a 100,000 square foot facility. The division heat treats products shipped from Traverse City and also serves as a distribution center of these products to our customers. The division also provides finish processing to those products that we purchase and prepares them for shipment to our customers.

The Traverse City Division manufactures a wide variety of special cold formed products for automotive customers out of a 47,000 square foot plant. The majority of these products are prevailing torque nuts which are intended for use in automotive suspension and drivetrain applications. These products are formed utilizing partsformers and nutformers and finished on various types of secondary equipment that are designed to tap threads, apply locking features or assemble nut blanks to washers.

The parts produced at the above divisions are sold principally to the automotive market. These parts are mass produced, and most are shipped directly to car assembly plants.

The Novex Tool Division occupies a 19,000 square foot leased facility in Brighton, Michigan. The lease expires in August 31, 2021. The division manufactures perishable tooling, primarily for the cold heading industry. Approximately ten percent of its output is consumed by the Company's Big Rapids, Romulus and Traverse City Divisions.

The Company's corporate offices are located at 34846 Goddard Road, Romulus, Michigan, a western suburb of Detroit. The offices are part of the Romulus Division stated above.

The Company owns outright all of the above described buildings, land and production facilities except as specifically noted to the contrary. The Company utilizes all of the floor space of these structures. Present facilities are adequate to meet the needs of each respective division.

## **8) Officers, Directors, and Control Persons**

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

- A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

### **Board of Directors**

David W. Ayriss, Sr. †  
Business Consultant  
Retired General Manager  
Big Rapids Division of the Company

Thomas W. Butler, Jr. \*\*†  
President, Thomas W. Butler and Associates, Inc. Business Consultants

Frank S. Galgan \*\*†  
Attorney and Member Lambert Leser, P.C.

Hugh G. Harness\*  
Business Consultant  
Retired President and Chief  
Operating Officer of the Company

Wade C. Plaskey  
Chief Financial Officer, Secretary and Treasurer

Aaron J. ZurSchmiede  
Vice President Big Rapids Division of the Company

Delle Jean ZurSchmiede\*\*  
Retired Executive Director Finance of General Motors Corporation

Robert F. ZurSchmiede\*  
Executive Vice President and Chief Operating Officer of the Company

Thomas ZurSchmiede\*  
President and Chief Executive Officer of the Company

## **Officers**

Thomas ZurSchmiede  
President and Chief Executive Officer

Robert F. ZurSchmiede  
Executive Vice President and Chief Operating Officer

Jeffrey M. Harness  
Vice President — Sales and Marketing

Aaron J. ZurSchmiede  
Vice President — Big Rapids Division

William G. Harness  
Vice President — Novex Tool Division

Wade C. Plaskey  
Chief Financial Officer, Secretary and Treasurer

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

NA

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

NA

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

NA

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

NA

- C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

NA

## **9) Third Party Providers**

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

### Legal Counsel

Name: Frank Galgan

Firm: Lambert Leser

Address 1: 755 W Big Beaver Road Suite 410

Address 2: Troy Michigan, 48084

Phone: 248 251-1001

Email: fgalgan@lambertleser.com

### Accountant or Auditor

Name: Joeseeph Tomaszewski

Firm: Crowe Horwath

Address 1: 55 Campau Avenue N.W. Suite 300

Address 2: Grand Rapids Michigan 49503

Phone: 616 752-4220

Email: joe.tomaszewski@crowehorwath.com

### Investor Relations Consultant

N/A

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

N/A

## **10) Issuer Certification**

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, Wade C. Plaskey certify that:

1. I have reviewed this Quarterly Report Disclosure Statement of Federal Screw Works
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

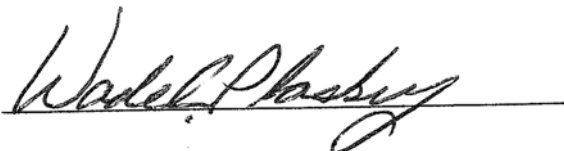
February 8, 2019

/s/ Thomas ZurSchmiede [CEO's Signature]

A handwritten signature in black ink, appearing to read "Thomas ZurSchmiede", written in a cursive style.

/s/ Wade C. Plaskey [CFO's Signature]

\_(Digital Signatures should appear as "/s/ [OFFICER NAME]")

A handwritten signature in black ink, appearing to read "Wade C. Plaskey", written in a cursive style and underlined.