



American Biltrite Inc.

Consolidated Financial Statements

As of and For the Years Ended
December 31, 2022 & 2021

American Bilrite Inc. and Subsidiaries

Consolidated Balance Sheets – Assets

(In thousands of dollars)

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,297	\$ 1,339
Accounts receivable, less allowances for doubtful accounts and discounts of \$2,045 in 2022 and \$2,153 in 2021	22,175	23,459
Inventories	44,535	37,864
Prepaid expense & other current assets	3,806	4,150
Insurance receivable for asbestos and environmental liabilities	3,482	3,668
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Total current assets	75,295	70,480
Property, plant & equipment, net	28,358	26,259
Other assets:		
Insurance receivable for asbestos and environmental liabilities	12,397	13,858
Other assets	8,363	8,153
	<hr/>	<hr/>
	20,760	22,011
	<hr/>	<hr/>
Total assets	\$124,413	\$118,750

American Bilrite Inc. and Subsidiaries

Consolidated Balance Sheets – Liabilities and Stockholders' Equity
(In thousands of dollars)

	December 31	
	2022	2021
Liabilities		
Current liabilities:		
Accounts payable	\$ 9,150	\$ 11,739
Accrued expenses	15,534	15,685
Operating lease liabilities	1,062	1,483
Asbestos and environmental liabilities	7,313	6,614
Notes payable	17,000	1,184
Current portion of long-term debt	474	351
Total current liabilities	50,533	37,056
Long-term debt, less current portion	3,258	1,081
Operating lease liabilities	5,032	4,649
Asbestos and environmental liabilities	35,116	36,720
Other liabilities	4,342	7,247
Total liabilities	98,281	86,753
Commitments and contingencies		
Stockholders' equity		
Common stock and additional paid in capital (common stock par value \$.01, authorized 150,000 shares, issued 45,985 shares, and 32,469 shares outstanding at December 31, 2022 and 2021)	20,846	20,846
Less cost of common stock in treasury (13,516 shares at December 31, 2022 and 2021)	(15,725)	(15,725)
Retained earnings	26,733	32,519
Accumulated other comprehensive loss	(5,722)	(5,643)
Total stockholders' equity	26,132	31,997
Total liabilities and stockholders' equity	\$124,413	\$118,750

American Bilrite Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands of dollars, except share and per share amounts)

	Years Ended December 31	
	2022	2021
Net sales	\$187,746	\$190,734
Cost of products sold	143,777	143,651
Selling, general & administrative expenses	49,915	52,080
Loss from operations	(5,946)	(4,997)
Other income (expense)		
Payroll Protection Program loan forgiveness	–	6,022
Government subsidies	–	1,050
Interest	(760)	(301)
Other	979	123
	219	6,894
(Loss) income before income taxes and other items	(5,727)	1,897
Provision for income taxes	59	106
Net (loss) income	\$ (5,786)	\$ 1,791
Net (loss) income per common share, basic and diluted	\$ (178.20)	\$ 55.16
Weighted average shares outstanding, basic and diluted	32,469	32,469

American Bilrite Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In thousands of dollars)

	Years Ended December 31	
	2022	2021
Net (loss) income	\$ (5,786)	\$ 1,791
Other comprehensive loss before tax		
Foreign currency translation adjustments	(1,922)	622
Defined benefit pension plan adjustments		
Prior service credit arising during period	–	11
Net actuarial gain arising during period	2,193	8,341
Amortization of prior service cost included in net periodic pension cost	–	362
Other - foreign exchange gain (loss) on unrecognized pension liability	123	(97)
Defined benefit pension plan adjustments, net	2,316	8,617
Other comprehensive income, before tax	394	9,239
Income tax expense related to components of other comprehensive (loss) income	(473)	(1,363)
Other comprehensive (loss) income	(79)	7,876
Comprehensive (loss) income attributable to controlling interests	\$ (5,865)	\$ 9,667

American Bilrite Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands of dollars)

	Years Ended December 31	
	2022	2021
Operating activities		
Net (loss) income	\$ (5,786)	\$ 1,791
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,505	4,395
Provision for doubtful accounts and discounts	2,075	1,758
Deferred taxes	(319)	(40)
Amortization of right-of-use assets	1,473	1,685
PPP loan forgiveness	–	(6,022)
Change in operating assets and liabilities:		
Accounts and notes receivable	(1,269)	(3,433)
Inventories	(8,180)	(744)
Prepaid expenses and other assets	(50)	(1,696)
Accounts payable and accrued expenses	(2,119)	2,326
Asbestos and environmental liabilities	742	1,469
Income tax	(98)	382
Pension contribution	–	(511)
Other	(528)	(1,749)
Net cash used in operating activities	(10,554)	(389)
Investing activities		
Investments in property, plant and equipment	(6,700)	(3,470)
Proceeds from sale of investments	–	2,795
Purchase of non-controlling interests	–	(523)
Net cash used in investing activities	(6,700)	(1,198)
Financing activities		
Net short-term loan borrowings (payments)	16,251	(1,120)
Payments for acquisition of MJM Jewelry Inc.	(158)	(410)
Proceeds from Canadian federal and provincial development loan programs	2,569	715
Payments on long-term loans	(252)	(147)
Net cash provided by (used in) financing activities	18,410	(962)
Effect of foreign exchange rate changes on cash	(1,198)	1,086
Net decrease in cash and cash equivalents	(42)	(1,463)
Cash and cash equivalents at beginning of year	1,339	2,802
Cash and cash equivalents at end of year	\$ 1,297	\$ 1,339

American Bilrite Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
(In thousands of dollars, except share amounts)

	Common Stock and Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity of Controlling Interests	Non- Controlling Interests	Total Equity
December 31, 2020	\$20,324	\$(15,725)	\$30,728	\$(13,519)	\$21,808	\$ 1,045	\$22,853
Net income	—	—	1,791	—	1,791	—	1,791
Foreign currency translation adjustments	—	—	—	622	622	—	622
Defined benefit plans adjustment	—	—	—	7,254	7,254	—	7,254
Purchase of non-controlling interests	522	—	—	—	522	(1,045)	(523)
December 31, 2021	20,846	(15,725)	32,519	(5,643)	31,997	—	31,997
Net loss	—	—	(5,786)	—	(5,786)	—	(5,786)
Foreign currency translation adjustments	—	—	—	(1,922)	(1,922)	—	(1,922)
Defined benefit plans adjustment	—	—	—	1,843	1,843	—	1,843
December 31, 2022	\$20,846	\$(15,725)	\$26,733	\$ (5,722)	\$26,132	\$ —	\$26,132

American Biltrite Inc. and Subsidiaries

Significant Accounting Policies

(In thousands of dollars)

December 31, 2022

Principles of Consolidation

The consolidated financial statements include the accounts of American Biltrite Inc. and its wholly owned subsidiaries, as well as entities over which we have voting control. Our operations are comprised of the Tape Division, the jewelry division, K&M Associates L.P. (“K&M”), and the Canadian division, which is our wholly owned Canadian subsidiary, American Biltrite (Canada) Ltd. (“AB Canada”). Intercompany accounts and transactions, including transactions with associated companies that result in intercompany profit, are eliminated upon consolidation. As used herein, “American Biltrite”, “ABI”, “we,” “our,” and similar terms include American Biltrite Inc. and its subsidiaries, unless the context indicates otherwise.

The Tape Division provides a global customer base with a wide variety of specialized pressure sensitive tapes, films, and protective sheeting. It manufactures these by coating various substrates (paper, film, foil, nylon, polyester films, glass cloth, and others) using adhesive systems formulated with water and solvent-based materials. K&M is one of North America’s largest suppliers of fashion jewelry and hair accessories, serving all levels of retail trade in the U.S. and Canada, from mass market to upper tier department stores. AB Canada manufactures and distributes commercial and residential flooring and industrial rubber products throughout North America. Its commercial flooring business primarily serves the healthcare, educational and institutional sectors, and its industrial rubber business supplies rubber sheet goods to OEMs, distributors and fabricators serving various markets.

Use of Estimates and Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include accounts receivable and inventory reserves, reserves for discounts and allowances, warranty reserves, asbestos liabilities and contingencies, environmental liabilities and contingencies, insurance coverage related to asbestos and environmental liabilities, valuation of deferred tax assets, and actuarial assumptions for the pension plan and post-retirement benefits. Although we use reasonable and appropriate estimates and assumptions in the preparation of our financial statements and in our application of accounting policies, if business conditions were different, or if we used different estimates and assumptions, it is possible that actual results could differ materially from such estimates.

Concentration of Credit Risk

We perform periodic credit evaluations of our customers' financial condition, and we generally do not require collateral to secure accounts receivable. None of our customers accounted for more than 10% of consolidated net sales for each of the years 2022 and 2021. At December 31, 2022, we did not have receivables from any customer that exceeded 10% of our receivables. At December 31, 2021, we had receivables from one customer that totaled \$2.8 million. This total represented 12% of consolidated accounts receivable as of December 31, 2021. We subsequently collected such amounts due from this customer.

Cash and cash equivalents are maintained with several financial institutions in the United States and internationally. Because our credit agreement generally requires cash receipts to be applied to reduce our borrowings, deposits held with banks rarely exceed the amount of insurance on such deposits. Generally, these deposits may be redeemed upon demand. We have not experienced any losses in such accounts and we are not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

Cash equivalents represent highly liquid investments with maturities of three months or less at the date of purchase.

Accounts Receivable, Net

Our allowance for doubtful accounts is determined based on a variety of factors that affect the potential collectability of the related receivables, including length of time receivables are past due, customer credit ratings, financial stability of customers, specific one-time events and past customer history. In addition, in circumstances where we are aware of a specific customer's potential inability to meet its financial obligations, a specific allowance is established. The majority of accounts are individually evaluated on a regular basis and reserves are established as deemed appropriate based on the criteria previously mentioned. The remainder of the reserve is based on our estimates and takes into consideration historical trends, market conditions and the composition of our customer base.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the last-in, first-out ("LIFO") method for approximately 50% of our domestic inventories and by the first-in, first-out ("FIFO") method for our foreign inventories and the remaining domestic inventory. We use LIFO when permitted where we believe it results in a better matching of costs and revenues. We record any amounts required to reduce the carrying value of inventories to net realizable value as a charge to cost of products sold.

Inventory costs include expenses that are directly or indirectly incurred in the acquisition and production of products for sale. Expenses include the cost of materials and supplies used in production, direct labor costs, freight and duty in, and allocated overhead costs such as depreciation, utilities, insurance, employee benefits, and indirect labor.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for improvements that increase asset values and extend useful lives are capitalized. Depreciation expense, which is determined using the straight-line method, is provided over the estimated useful lives (30 to 40 years for buildings and building improvements, 10 to 15 years for production equipment and heavy-duty vehicles, and 3 to 10 years for light-duty vehicles and office furnishings and equipment).

Leases

ASU 2016-02, *Leases* (Topic 842) requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. Leases will continue to be classified as either financing or operating with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease.

Debt Issuance Costs

Costs incurred in connection with the issuance of debt are being amortized to interest expense over the term of the related debt agreements. In July 2022, we incurred and deferred \$260 thousand for the extension of our credit agreement with Wells Fargo. See Note 5. Debt issuance costs at December 31, 2022 and 2021 amounted to \$266 thousand and \$71 thousand, respectively. Unamortized costs are being amortized over a period of five years through the end of the loan agreement in June of 2027.

Impairment of Long-Lived Assets

We assess long-lived assets for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, we project undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment is recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets. No impairment losses were identified during 2022 or 2021.

Product Warranties

We provide product warranties for specific product lines, and we accrue for estimated future warranty cost in the period in which the revenue is recognized. The following table sets forth activity in our warranty reserves (*in thousands*):

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 602	\$ 761
Accruals	407	391
Charges	<u>(586)</u>	<u>(550)</u>
Ending balance	<u>\$ 423</u>	<u>\$ 602</u>

Environmental and Product Liabilities and Insurance Coverage

We accrue for costs associated with environmental claims on an undiscounted basis when it is probable that a liability has been incurred and the amount can be reasonably estimated. The best estimate of likely costs to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including the extent of clean-up activities to be performed, the methods employed in the clean-up activities, our relative share in costs at sites where other parties are involved, existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is a better estimate than another, the minimum is accrued. For sites with multiple potentially responsible parties, we consider our likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. When future liabilities have been recorded for a potential matter, a determination is made as to whether payments of such liabilities are reimbursable by insurance coverage or other source of reimbursement, and an asset is recorded related to the expected future recovery provided such recovery is undisputed and deemed highly probable. Legal fees associated with defending these claims are expensed as incurred to the extent not covered by insurance. Accounting for environmental liabilities, insurance coverage and amounts receivable from indemnitors includes significant judgmental estimates, and actual results could differ materially from estimates recorded. See Note 8.

Asbestos Liability and Insurance Coverage

We are a party to a number of lawsuits stemming from our manufacture of asbestos-containing products decades ago. We record a liability based on our estimates of the future costs to settle asbestos litigation. In estimating our asbestos-related exposures, we analyze and consider numerous uncertainties including the anticipated costs to settle claims, the claims dismissal rate, the cost to litigate claims, and the number of claims expected to be received. Separately, we evaluate and estimate the amounts that are probable of recovery from insurance policies and settlements with insurance companies. The same factors that affect developing forecasts of potential indemnity costs for asbestos-related liabilities also affect estimates of the total amount of insurance that is probable of recovery, as do a number of additional factors. These additional factors include the applicability and allocation of insurance coverage or settlement costs, the financial viability of the insurance companies and indemnitors, the method in which losses will be allocated to the various insurance policies and the years covered by those policies, how legal and other loss handling costs will be covered by the insurance policies and settlements, interpretation of the effect on coverage of various policy terms and limits which can differ depending on which state's law may be applicable as well as changes in case law, and how the insurance companies will interpret their coverage obligations in light of all these considerations. We do not include legal defense costs in our estimates of future costs and related insurance recoveries to settle asbestos litigation. Legal fees associated with defending these claims are expensed as incurred to the extent not covered by insurance.

Accounting for asbestos-related liabilities and related amounts recoverable from insurers and indemnitors, if any, includes significant assumptions and estimates, and actual results could differ materially from the estimates recorded. See Note 8.

Noncontrolling Interests

Prior to December 2021, the noncontrolling interest recorded on our balance sheet represented the 37.5% noncontrolling interest of Tullahoma Properties LLC, an investment holding company. In December, 2021, we acquired all of Tullahoma Properties' interest for \$523 thousand, 50% of the recorded value. This purchase resulted in the elimination of noncontrolling interests from our balance sheet, and an increase in additional paid in capital.

Revenue Recognition

We enter into contracts with some of our customers, generally on an annual basis. Contracts may or may not provide for a specified quantity of products; however, pricing is usually determined, and there may be provisions to adjust pricing to reflect changes in product content or cost and other commercial factors. Contracts may be terminated by our customers at any time with notice. We receive purchase orders from our customers, which provide the commercial terms for the order.

Revenue is recognized at the time control of the product is transferred to the customer under standard commercial terms, as we do not have an enforceable right to payment prior to such transfer. The amount of revenue recognized reflects the consideration that we expect to be entitled to in exchange for those products. Our customers pay for products received in accordance with payment terms that are customary within the industry. Our contracts with our customers do not have financing components.

Net sales are comprised of the total sales billed during the period less the sales value of estimated returns and sales incentives, which consist primarily of trade discounts, cash discounts and customers' price allowances.

Selling, General and Administrative Expenses

Selling, general and administrative expenses are charged to income as incurred. Expenses incurred for promoting and selling products are classified as selling expenses and include such items as advertising, sales commissions and travel. Advertising expense (including cooperative advertising) amounted to \$1,180 thousand and \$948 thousand for 2022 and 2021, respectively. General and administrative expenses include such items as salaries, related benefits, information technology costs, research and development, office supplies, insurance and office rental. In addition, general and administrative expenses include other operating items such as provision for doubtful accounts, professional (accounting and legal) fees, asbestos claim related costs, and environmental remediation costs. We also record shipping, handling, purchasing and finished goods inspection costs in general and administrative expenses. Shipping and handling costs were \$5.7 million and \$6.0 million for the years ended December 31, 2022 and 2021, respectively.

Income Taxes

We recognize deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates currently in effect for the year in which the differences are expected to be reflected in the tax return.

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of our deferred tax assets will not be realized. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

We operate across multiple taxing jurisdictions and are subject to audit in these jurisdictions. Audits can involve complex issues and cover multiple years, which may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all years subject to audit.

We recognize any tax related interest and penalties as a component of income tax expense.

Research and Development Costs

Expenditures relating to the development of new products are charged to operations as incurred and amounted to \$2.4 million for each of the years ended December 31, 2022 and 2021, respectively.

Foreign Currency Translation

The functional currency for our foreign operations is the applicable local currency except for our Singapore operation. Its functional currency is the U.S. dollar because the vast majority of its purchases and sales are in U.S. dollars. Balance sheet accounts of our other foreign subsidiaries are translated at the balance sheet date exchange rate, and income statement items are translated at the average exchange rate for the period; resulting translation adjustments are made directly to accumulated other comprehensive income (loss) in stockholders' equity. Foreign exchange gains and losses from revaluation and transactions are included in our results from operations. We recorded a foreign exchange loss of \$663 thousand and a gain of \$145 thousand in our consolidated statements of operations for 2022 and 2021, respectively.

Earnings Per Share

Basic earnings per share have been computed based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share have been computed based upon the weighted-average number of common shares outstanding during the year, adjusted for the dilutive effect of shares issuable upon the exercise of stock options (common stock equivalent) unless their inclusion would be antidilutive. In calculating diluted earnings per share, the dilutive effect of a stock option is computed using the average market price for the period.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. Our adoption of ASU 2019-12 in January 2021 did not have a significant impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. Our adoption of ASU 2018-14 in January 2021 did not have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We do not expect the impact of adopting this new guidance will have a material effect on our consolidated financial statements.

We do not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.