

**REO Plastics Inc**  
11850 93<sup>rd</sup> Avenue North  
Maple Grove, MN 55369

---

763-425-4171  
reoplastics.com  
info@reoplastics.com

## Quarterly Report

For the period ending October 31, 2025 (the "Reporting Period")

### **Outstanding Shares**

The number of shares outstanding of our Common Stock was:

445,268 as of October 31, 2025 (Current Reporting Period Date or More Recent Date)

445,509 as of April 30, 2025 (Most Recent Completed Fiscal Year End)

### **Shell Status**

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

### **Change in Control**

Indicate by check mark whether a Change in Control<sup>4</sup> of the company has occurred during this reporting period:

Yes: ☐ No: ☒

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

In answering this item, provide the current name of the issuer and names used by predecessor entities, along with the dates of the name changes.

REO Plastics Inc

Current State and Date of Incorporation or Registration: Minnesota, 4/18/1962

Standing in this jurisdiction: (e.g. active, default, inactive): Active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

n/a

---

<sup>4</sup> "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

n/a

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

none

Address of the issuer's principal executive office:

11850 93<sup>rd</sup> Avenue North  
Maple Grove, MN 55369

Address of the issuer's principal place of business:

☒ *Check if principal executive office and principal place of business are the same address:*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below:

## 2) Security Information

### **Transfer Agent**

Name: Equiniti  
Phone: 800-468-9716  
Email: shareowneronline.com  
Address: 1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120

### **Publicly Quoted or Traded Securities:**

*The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.*

Trading symbol:	<u>REOP</u>	
Exact title and class of securities outstanding:	<u>Common Stock</u>	
CUSIP:	<u>760248104</u>	
Par or stated value:	<u>\$0.10</u>	
Total shares authorized:	<u>1,000,000</u>	<u>as of date: 10/31/2025</u>
Total shares outstanding:	<u>445,268</u>	<u>as of date: 10/31/2025</u>
Total number of shareholders of record:	<u>117</u>	<u>as of date: 7/15/2025</u>

*Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer.*

**Other classes of authorized or outstanding equity securities that do not have a trading symbol:**

*The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g., preferred shares that do not have a trading symbol). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.*

Exact title and class of the security: \_\_\_\_\_  
Par or stated value: \_\_\_\_\_  
Total shares authorized: \_\_\_\_\_ as of date: \_\_\_\_\_  
Total shares outstanding: \_\_\_\_\_ as of date: \_\_\_\_\_  
Total number of shareholders of record: \_\_\_\_\_ as of date: \_\_\_\_\_

*Please provide the above-referenced information for all other classes of authorized or outstanding equity securities.*

\_\_\_\_\_

**Security Description:**

*The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:*

1. **For common equity, describe any dividend, voting and preemption rights.**

Full rights

2. **For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

n/a

3. **Describe any other material rights of common or preferred stockholders.**

None

4. **Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

None

**3) Issuance History**

*The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.***

Disclosure under this item shall include, in chronological order, all offerings and issuances of 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. Using the tabular format below, please describe these events.

**A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period.**

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Shares Outstanding <u>Opening Balance:</u> Date <u>4/30/2023</u> Common: <u>445,909</u> Preferred: <u>0</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to.  ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
10/11/2023	Repurchase	100	Common						
11/6/2023	Repurchase	200	Common						
1/27/2025	Repurchase	100	Common						
6/13/2025	Repurchase	241	Common						
Shares Outstanding on Date of This Report: Ending Balance: Date <u>10/31/2025</u> Common: <u>445,268</u> Preferred: <u>0</u>									

**Example:** A company with a fiscal year end of December 31<sup>st</sup> 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023 pursuant to the tabular format above.

**\*\*\*Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

## B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder. *** You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

**\*\*\*Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

\_\_\_\_\_

#### 4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on [www.OTCMarkets.com](http://www.OTCMarkets.com).

- A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")  
Plastic Injection Molding and Value-Added Services
- B. List any subsidiaries, parent company, or affiliated companies.  
None
- C. Describe the issuers' principal products or services.  
Reo Plastics is a custom manufacturer of our customers' products.

#### 5) Issuer's Facilities

*The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.*

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

In addition to our owned facility at 11850 93<sup>rd</sup> Avenue North, Maple Grove, MN, we lease approximately 45,000 square feet of warehouse space under a non-cancelable lease agreement that expires in August 2027.

#### 6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities.

If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

*The goal of this section is to provide investors 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 or beneficial owners.*

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
Carolyn P. Sample	President/ Director	Minneapolis, MN	361,109	Common	81%	
Daniel J. Dammen	Executive VP/ CFO/ Director	New Hope, MN	100	Common	<1%	
James L. Swenson	Senior VP/ Director	Ramsey, MN	1,000	Common	<1%	
Paul Levenson	VP	Otsego, MN	0			
John Adamski	VP	Rogers, MN	0			
Scott Seibert	VP	Oak Grove, MN	0			
Judy Silva	VP	Maple Grove, MN	0			
Ernest A. Lindstrom	Chairman/ Director	Richfield, MN	10,000	Common	2%	
Ronald Draper	Director	Stillwater, MN	100	Common	<1%	

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, log in to [www.OTCIQ.com](http://www.OTCIQ.com) to update your company profile.

## 7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

None

2. Been the subject of 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, financial- or investment-related, insurance or banking activities;

None

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

None

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

None

5. Been the subject 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.

None

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

None

- B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party to or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

## 8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

### Accountant or Auditor

Name: \_\_\_\_\_  
Firm: RSM US LLP  
Address 1: One South Wacker Drive, Suite 800  
Address 2: Chicago, IL 60606  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

### Investor Relations

Name: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Address 1: \_\_\_\_\_

Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

*All other means of Investor Communication:*

X (Twitter): \_\_\_\_\_  
Discord: \_\_\_\_\_  
LinkedIn: \_\_\_\_\_  
Facebook: \_\_\_\_\_  
[Other ]: \_\_\_\_\_

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: \_\_\_\_\_  
Firm: \_\_\_\_\_  
Nature of Services: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

**9) Disclosure & Financial Information**

A. This Disclosure Statement was prepared by (name of individual):

Name: **Daniel J Dammen**  
Title: **Executive Vice President/CFO**  
Relationship to Issuer: **Officer/Director**

B. The following financial statements were prepared in accordance with:

- ☐ IFRS  
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: **Daniel J Dammen**  
Title: **Executive Vice President/CFO**  
Relationship to Issuer: **Officer/Director**

Describe the qualifications of the person or persons who prepared the financial statements:<sup>5</sup> **Inactive CPA in the State of Minnesota. Over 30 years of audit and financial statement preparation experience**

Provide the following qualifying financial statements:

- Audit letter, if audited;
- Balance Sheet;

---

<sup>5</sup> The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.



- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Financial Notes

**Financial Statement Requirements:**

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

**10) Issuer Certification**

*Principal Executive Officer:*

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) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Carolyn P. Sample certify that:

1. I have reviewed this Disclosure Statement for REO Plastics, Inc.;
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.

12/05/2025 [Date]

/s/ Carolyn P. Sample [CEO's Signature]

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

*Principal Financial Officer:*

I, Daniel J. Dammen certify that:

1. I have reviewed this Disclosure Statement for REO Plastics, Inc.;
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.

12/05/2025 [Date]

/s/ Daniel J. Dammen [CFO's Signature]

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

**Balance Sheet  
Assets**

	10/31/2025	10/31/2024
Current Assets-		
Cash	3,269,149	2,402,582
Investments	4,268,095	2,158,658
Accounts Receivable	7,046,911	6,986,298
Inventory:		
Raw Material	7,008,901	8,821,732
Work in Process and Finished Goods	4,253,504	5,002,351
Customer Molds In Process	476,955	672,506
Prepaid Expenses	267,806	237,396
Deferred Income Tax	-	-
Total Current Assets	<u>26,591,322</u>	<u>26,281,523</u>
Equipment and Leasehold Improvements-		
Machinery and Equipment	26,288,945	24,674,397
Building and Land	13,206,724	13,206,724
Less: Accumulated Depreciation and Amortization	<u>(23,889,650)</u>	<u>(22,613,213)</u>
Net Equipment	15,606,020	15,267,908
Leased Right of Use Assets	755,736	161,902
Total Assets	<u><u>42,953,078</u></u>	<u><u>41,711,334</u></u>

**Liabilities and Stockholders Equity**

	10/31/2025	10/31/2024
Current Liabilities-		
Current Portion of Long-Term Debt	733,149	688,297
Current Portion of Lease Liabilities	298,524	89,400
Accounts Payable	3,344,667	5,913,547
Accrued Salaries and Commissions	1,318,568	940,930
Other Accrued Expenses	684,320	752,827
Customer Deposits on Molds	365,485	578,745
Income Tax Payable	<u>581,556</u>	<u>432,321</u>
Total Current Liabilities	7,326,269	9,396,068
Deferred Income Taxes	933,000	632,000
Long-Term Debt (Less Current Portion)	2,924,582	3,958,132
Long-Term Lease Liabilities (Less Current Portion)	504,489	73,472
Retirement Plan Liability	350,133	377,741
Stockholder's Equity-		
Common Stock (.10 Par Value)	44,527	44,561
Outstanding: 445,268 shares in		
FY2026 and 445,609 in FY2025		
Capital in Excess of Par Value	224,118	224,288
Retained Earnings	<u>30,645,962</u>	<u>27,005,072</u>
Total Stockholder's Equity	30,914,606	27,273,921
Total Liabilities and Stockholder's Equity	<u><u>42,953,078</u></u>	<u><u>41,711,334</u></u>

## Statement of Income

	Quarter	% of Sales	YTD	% of Sales	Last Quarter	% of Sales	Last YTD	% of Sales	% of Prior Year
Net Sales	14,331,989		28,719,943		13,396,283		24,172,858		18.8%
Cost of Goods Sold	12,174,495	84.9%	24,484,796	85.3%	11,655,945	87.0%	21,045,875	87.1%	16.3%
Gross Profit	2,157,494	15.1%	4,235,147	14.7%	1,740,339	13.0%	3,126,984	12.9%	35.4%
Operating Expenses:									
General and Administrative	561,630	3.9%	1,165,128	4.1%	537,211	4.0%	1,088,292	4.5%	7.1%
Selling	137,208	1.0%	273,997	1.0%	125,771	0.9%	253,124	1.0%	8.2%
Operating Income	1,458,655	10.2%	2,796,022	9.7%	1,077,357	8.0%	1,785,568	7.4%	56.6%
Interest Expense	32,982	0.2%	67,314	0.2%	41,524	0.3%	79,552	0.3%	(15.4%)
Interest (Income)	(62,154)	(0.4%)	(123,962)	(0.4%)	(49,146)	(0.4%)	(79,361)	(0.3%)	56.2%
Other Expense (Income)	9,688	0.1%	13,654	0.0%	(5,404)	(0.0%)	(1,787)	(0.0%)	864.0%
Net Income before Income Taxes	1,478,138	10.3%	2,839,016	9.9%	1,090,383	8.1%	1,787,164	7.4%	58.9%
Income Tax Expense (Benefit)	443,442	3.1%	851,705	3.0%	327,115	2.4%	536,149	2.2%	58.9%
Net Income	1,034,697	7.2%	1,987,311	6.9%	763,268	5.7%	1,251,015	5.2%	58.9%
Net Income Per Share	\$ 2.32		\$ 4.46		\$ 1.71		\$ 2.81		

## Statement of Stockholders Equity

	Common Stock	Add'l Paid-In Capital	Retained Earnings	Total
Balance, April 30, 2024	44,561	224,288	25,754,057	26,022,906
Net Income (Loss)	-	-	487,747	487,747
Balance, July 31, 2024	44,561	224,288	26,241,804	26,510,653
Net Income (Loss)	-	-	763,268	763,268
Balance, October 31, 2024	44,561	224,288	27,005,072	27,273,921
Net Income (Loss)	-	-	438,232	438,232
Stock Repurchase	(10)	(50)	(2,940)	(3,000)
Balance, January 31, 2025	44,551	224,238	27,440,364	27,709,153
Net Income (Loss)	-	-	1,226,397	1,226,397
Balance, April 30, 2025	44,551	224,238	28,666,760	28,935,549
Net Income (Loss)	0	-	952,614	952,614
Stock Repurchase	(24)	(121)	(8,109)	(8,254)
Balance, July 31, 2025	44,527	224,118	29,611,265	29,879,909
Net Income (Loss)	-	-	1,034,697	1,034,697
Balance, October 31, 2025	44,527	224,118	30,645,962	30,914,606

## Statement of Cash Flows

	Quarter	YTD	Last Quarter	Last YTD
<b>Cash Flows From Operating Activities</b>				
Net Income	1,034,697	1,987,311	763,268	1,251,015
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	445,127	886,009	433,326	857,001
Interest Expense on Long Term Debt	31,883	65,116	40,425	77,355
(Gain) loss on sale of equipment	(1,000)	(1,000)	(15,000)	(15,000)
Investment Income	(36,398)	(68,509)	(22,701)	(40,997)
Deferred/Prepaid Income taxes	-	-	-	-
Retirement Plan Expense	-	-	-	-
Amortization of Financing Costs	1,099	2,198	1,099	2,198
Noncash Lease Expense	-	-	-	-
<u>Changes in current assets and Liabilities:</u>				
Trade receivables	(729,925)	1,580,643	(1,554,880)	(2,190,425)
Inventories	890,960	844,260	(858,818)	(2,791,440)
Prepaid and other current assets	29,881	(142,167)	75,499	(102,320)
Income taxes receivable	(4,559)	382,705	397,989	603,817
Accounts payable	(988,765)	(769,105)	1,485,704	3,197,368
Accrued salaries and commissions	380,783	318,733	190,121	200,301
Other accrued expenses	(213,990)	(179,085)	431,849	528,221
Net cash provided by operating activities	839,795	4,907,109	1,367,882	1,577,093
<b>Cash Flows From Investing Activities</b>				
Proceeds from investments	-	-	-	-
Purchases of investments	-	(2,000,000)	-	-
Purchases of property and equipment	(845,645)	(1,602,269)	(166,198)	(849,983)
Proceeds from sales of equipment	15,000	15,000	15,000	15,000
Net cash used in investing activities	(830,645)	(3,587,269)	(151,198)	(834,983)
<b>Cash Flows From Financing Activities</b>				
Proceeds from debt issuance	-	-	-	-
Payment to debt service	(210,710)	(421,419)	(176,548)	125,262
Purchase of common stock	-	(8,254)	-	-
Net cash used in financing activities	(210,710)	(429,673)	(176,548)	125,262
<b>Increase (Decrease) in cash</b>	(201,560)	890,166	1,040,137	867,372
<b>Cash</b>				
Beginning	3,470,709	2,378,983	1,362,445	1,535,210
Ending	3,269,149	3,269,149	2,402,582	2,402,582

# Reo Plastics, Inc. Notes to the Quarterly Financial Statements

## **Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:** REO Plastics, Inc.'s (the Company) operations principally involve the custom injection molding, decorating, and assembling of thermoplastics for customers in various industries, primarily in the United States of America. The Company establishes credit terms on an individual customer basis.

A summary of the Company's significant accounting policies follows:

**Use of estimates in the preparation of financial statements:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition:** The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Company's revenue is derived from sales of custom injection tooling, moldings, decorating and assembling of thermoplastics for original equipment manufacturers in various industries. Sales of products are subject to economic conditions and may fluctuate based on changes in the industry, trade policies and financial markets.

**Nature of products and services:** Revenue from the sale of the Company's products is recognized at a point in time, upon transfer of control to the customer, which is typically upon shipment, Free on Board (FOB) shipping point. The Company has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated equipment and not as **a separate performance obligation**.

**Transaction price:** The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration such as early payment discounts, rebates, rights of return, and other allowances.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Variable consideration is estimated using the expected-value method (i.e., probability-weighted approach) based on review of specific transactions, historical experience, and market and economic conditions. Variable consideration is not significant to the overall transaction price.

**Contract balances:** The timing of revenue recognition aligns with the right to invoice the customer. The Company records accounts receivable when it has the unconditional right to issue an invoice and receive payment, which is upon shipment of the product to the customer or completion of the delivery. Payment terms on invoiced amounts range from 30 to 90 days. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the products and not to provide financing to the customer.

The Company excludes from revenue sales taxes and other government-assessed and imposed taxes on revenue-generating activities that are invoiced to customers.

**Warranties:** The Company generally provides limited-assurance-type warranties for standard equipment and work performed under its contracts. The warranty periods typically extend for a limited duration following transfer of control of the equipment. Historically, warranty claims have not resulted in material costs incurred. The Company does not consider these warranties to be performance obligations.

**Costs to obtain a contract:** The Company has elected to apply the practical expedient to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less, which applies to all customer contracts.

**Cash and cash equivalents:** For purposes of reporting cash flows, the Company considers all money market funds to be cash. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Cash and cash equivalents consist of cash and money market mutual funds.

**Short-term investments:** At times, the Company has short-term investments that consist of certificates of deposit, treasury bills (T-bills) and treasury notes (T-notes). The certificates of deposit, T-bills and T-notes are held at one bank until maturity, with maturities of less than one year from the date of purchase, and are recorded at cost, which approximates fair value due to the short-term nature of these investments.

**Trade receivables:** Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is generally considered to be past due if any portion of the receivable balance is outstanding for more than 90 days beyond a customer's credit terms.

**Inventories:** Raw materials are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories of work in process and finished goods are stated at standard costs, which approximate the lower of cost (first-in, first-out) or net realizable value.

**Property and equipment:** Property and equipment is stated at acquisition cost. Repair and maintenance are expensed as incurred. Major improvements and betterments are capitalized. Depreciation is provided using the straight-line method based on the following estimated useful lives:

Building	10-40 years
Machinery and Equipment	3-10 years

**Long-lived assets:** Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable or if depreciable lives should be modified. To date, management has determined that no impairment of long-lived assets exists.

**Customer mold in process and customer deposits:** The Company requires a cash deposit and milestone payments for customer-specific mold production, which is generally outsourced to a third-party mold manufacturer. Customer specific molds are recorded as current assets as costs are incurred and the revenue, and the corresponding cost of goods sold, is recognized on the molds when product samples have been approved by the customer.

**Income taxes:** Deferred income taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion of the deferred tax assets may not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company classifies all deferred income taxes as a single, noncurrent net asset in the accompanying balance sheets.

The Company recognizes income tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from income tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Management has evaluated the Company's income tax positions and determined there are no material uncertain income tax positions that require adjustment to the financial statements. To the extent that the final income tax outcome of these matters is different from the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential income tax assessments are included in income tax expense.

**Leases:** The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company recognizes most leases on its balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease



payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statements of income.

The Company made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other significant leases, the Company recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments ASC Topic, 842, Leases (Topics 842) requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease, or if that rate cannot be readily determined, its incremental borrowing rate. Generally, the company cannot determine the implicit interest rate as it does not have access to the lessor's estimated residual value of the amount of the lessor's deferred initial direct costs. To determine the present value of lease payments, the Company made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes in index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable, they will be incurred.

The Company's leases may include a non-lease component representing additional services transferred to the Company, such as common area maintenance for real estate. The Company made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

## **Note 2. Debt**

**Construction term note payable:** In December of 2021, the Company entered into a construction loan agreement with a bank, providing for advances of up to \$5,500,000 through December 31, 2022, at which time the outstanding balance converted into a term note payable. The interest rate is fixed at 3.125% through the end of the term loan. The loan agreement requires minimum monthly principal payments based on a 20-year loan amortization with a balloon payment for the unpaid principal due December 26, 2028, however, the Company has elected to amortize and pay the loan over a 10-year period. The future maturity schedule is reflective of the Company's intent to pay the loan over a 10-year period. The Company is allowed to pre-pay the outstanding balance at any point in time without incurring a pre-payment penalty. All borrowings are secured by a mortgage agreement.

### **Note 3. Commitments and Contingencies**

**Employee benefit plans:** The Company has a 401(k) tax-deferred savings plan in effect for its employees. Employees over the age of 21 are eligible to participate on the 1st day of the month following 30 days of employment. The Company matches 50% of employee contributions, up to 6% of the employee's salary. Matching contributions are made on a weekly basis.

**Self-funded insurance plan:** Effective January 1, 2024, the Company switched from a fully premium-based plan to partially self-funded insurance plan for employee medical coverage. Under the partially self-funded plan, the Company covers all medical claims up to \$75,000 per person, subject to an aggregate claims exposure of approximately \$1,834,000. The Company has re-insured claims over \$75,000 through participation in segregated account program whereby the Company pays re-insurance and stop loss premiums equal to approximately 12% of the aggregate expected claims of the segregated account program's participants, plus a contingent premium, which may be returned if the actual claims of the segregated account program are less than estimated.

**Litigation:** The Company is involved in certain legal proceedings and claims incidental to the normal course of business. Although the ultimate outcome of these outstanding claims cannot be determined, management believes their final resolution will not have a material adverse effect on the financial position of the Company.

### **Note 4. Leases**

The Company leases certain warehouse facilities and various other equipment under non-cancelable operating leases with various expiration dates through January 2029. These leases include options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term. These options to extend a lease are included in the lease terms when it is reasonably certain that the Company will exercise the option. The Company's operating leases generally do not contain any material restrictive covenants.

The Company also leases production equipment under financing lease agreements that require monthly payments through May 2027. The Company's finance leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease costs is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in front-loaded expense pattern over the lease term.

### **Note 5. Deferred Compensation**

The Company has deferred compensation arrangements with current and retired key executives of the Company. Upon retirement, as defined, each executive receives annual payments of \$20,000 for a period of 11 years. The payments cease upon the death of the executive. All deferred compensation benefits were fully vested as of the signing of the contracts. Deferred compensation expense consists of the change in the present value of the remaining payments, including estimated retirement dates, and

the difference between actual deferred compensation payment and the mortality adjusted expected payments. Based on estimated retirement dates, the Company expects deferred compensation payments to continue through 2035.