

Federal Screw Works

2021 Annual Report

Centennial 1917–2017

Board of Directors

David W. Ayriess, 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 of the Company

Aaron J. ZurSchmiede*

Executive Vice President
and Chief Operating Officer
of the Company

Delle Jean ZurSchmiede**

Retired Executive Director
Finance of General Motors Corporation

Robert F. ZurSchmiede

Business Consultant
Retired Executive Vice President
and Chief Operating Officer
of the Company

Thomas ZurSchmiede*

President and Chief Executive
Officer of the Company

*Member of
Executive Committee

**Member of Audit
Committee

†Member of Compensation Committee

Officers

Thomas ZurSchmiede

President and Chief
Executive Officer

Aaron J. ZurSchmiede

Executive Vice President
and Chief Operating Officer

Jeffrey M. Harness

Vice President — Sales and Marketing

William G. Harness

Vice President — Novex Tool Division

Wade C. Plaskey

Chief Financial Officer, Secretary and
Treasurer

Financial Highlights

(Dollars in thousands, except per share data)

Years Ended June 30	2021	2020	2019
Net sales	\$ 69,595	\$ 60,010	\$ 73,353
Earnings (loss) before income taxes	6,320	(3,277)	2,561
Federal income tax expense (benefit)	(683)	(1,245)	(1,634)
Net earnings (loss)	7,003	(2,032)	4,195
Depreciation and amortization	3,726	3,744	3,897
Capital expenditures	9,427	5,806	5,126
Working capital	15,230	14,549	22,330
Stockholders' equity	30,898	16,646	20,862
Per Share Data			
Net earnings (loss)	\$ 5.07	\$ (1.47)	\$ 3.04
Average number of shares outstanding: 2021 — 1,381,595; 2020 — 1,381,595; 2019 — 1,381,595			

Annual Meeting

October 28, 2021, 10 a.m. EST

Transfer Agent

Shareholder Correspondence:
Computershare
P.O. Box 505000
Louisville, KY 40233
Shareholder Inquiries 1-800-426-5523
<https://www-us.computershare.com/investor/contact>

Registrar

Computershare Trust Company, N. A.

Federal Screw Works

Corporate Offices:
34846 Goddard Road
Romulus, Michigan 48174-3406
Telephone: 734-941-4211

Division locations: Big Rapids,
Brighton, Romulus, Traverse City, Michigan

Federal Screw Works shares are traded on the OTC Pink Market. The Company's symbol is FSCR.
www.otcm Markets.com

To Our Shareholders:

The Company reports earnings before federal income taxes for the fourth quarter ended June 30, 2021, of \$5,202,000, on sales of \$15,899,000. This compares to a net loss before federal income taxes of \$(3,378,000), on sales of \$6,267,000 in the comparable quarter last year. For the year ended June 30, 2021, the Company reports earnings before federal income taxes of \$6,320,000, on sales of \$69,595,000. This compares to a net loss before federal income taxes of \$(3,277,000), on sales of \$60,010,000 in the previous year.

The pre-tax profit for the fourth quarter and year ended June 30, 2021 includes the forgiveness of the SBA Paycheck Protection Program loan in the amount of \$3,858,000. Excluding this gain the pre-tax profit would be \$1,344,000 and \$2,462,000 for the fourth quarter and year ended June 30, 2021, respectively.

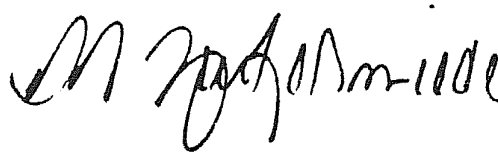
The Company had a solid year of recovery within the difficult circumstances of the pandemic. The global automotive supply chain has been severely disrupted. Pacific Rim shipping ports have closed, as have North American receiving ports. Insufficient supply of semiconductors or chips, now used in increasing quantity in today's cars and trucks, has also throttled automotive production. To date, global vehicle production is estimated to have lost 7 million units with the bulk in North America.

Comprehensive coronavirus safety protocols necessarily disrupted the Company's operations as employees who may have been exposed were sent home, resulting in an almost continuous labor shortage which has imposed long work schedules. At the same time, the Company has broadened and enhanced its deep technical capability by continuing to add highly qualified people and successfully developed two new programs for start of production in the new fiscal year. In support, capital expenditures for the year totaled \$9,427,000.

We wish to thank our Shareholders for their strong support over the years. We also wish to express our deepest gratitude for the dedication, sacrifice, and mental toughness of our employees. As the pandemic appears to be firing back up, we will trust in their commitment and skill.



Aaron ZurSchmiede
Chief Operating Officer



Thomas ZurSchmiede
Chief Executive Officer

Financial Review

Selected Financial Data

Years Ended June 30 (Dollars in thousands, except per share data)

	2021	2020	2019	2018	2017
Net sales	\$ 69,595	\$ 60,010	\$ 73,353	\$ 75,408	\$ 77,341
Cost of products sold	64,271	59,712	67,244	67,687	69,447
Interest expense	402	811	924	552	606
Earnings (loss) before income taxes	6,320	(3,277)	2,561	4,015	4,012
Income tax expense (benefit)	(683)	(1,245)	(1,634)	172	939
Net earnings (loss)	7,003	(2,032)	4,195	3,843	3,073
Average number of shares of common stock outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595
Per share of common stock:					
Net earnings (loss)	\$ 5.07	\$ (1.47)	\$ 3.04	\$ 2.78	\$ 2.22
Total assets	\$ 76,735	\$ 65,026	\$ 70,989	\$ 66,527	\$ 63,282
Long-term debt	21,229	19,341	21,243	16,070	14,783

Stock Prices

	2021		2020	
	High	Low	High	Low
1st Quarter	\$ 5.30	\$ 3.55	\$ 7.67	\$ 6.75
2nd Quarter	5.25	3.75	7.35	6.61
3rd Quarter	7.23	5.01	6.83	4.00
4th Quarter	7.23	5.82	5.00	4.00

These are the quarterly high and low sale quotations as reported by the OTC Pink Market. The Company's symbol is FSCR.

The Company

Industry Information

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.

Operating Divisions

The Company's industrial component parts are manufactured in four plants located throughout Michigan. The Company presently employs 218 full time personnel. A brief description of each division follows.

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 automotive assembly plants.

The Novex Tool Division occupies a 19,000 square foot leased facility in Brighton, Michigan. The lease expired on August 31, 2021 and the rent will be month to month while a new lease is negotiated. The division manufactures perishable tooling, primarily for the cold heading industry. Approximately thirty eight percent of its output is consumed by the Company's Big Rapids 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.

Statements of Operations

	Years Ended June 30		
	2021	2020	2019
Net sales	\$ 69,595,452	\$ 60,010,329	\$ 73,352,774
Costs and expenses:			
Cost of products sold	64,270,987	59,711,955	67,243,907
Selling, general and administrative	2,459,597	2,855,238	2,691,266
Interest	402,341	810,603	923,823
Gain on PPP loan forgiveness — Note 2	(3,858,000)	—	—
Other income	(68)	(90,668)	(66,852)
	63,274,857	63,287,128	70,792,144
EARNINGS (LOSS) BEFORE INCOME TAXES	6,320,595	(3,276,799)	2,560,630
Federal income tax expense (benefit) — Note 4	(682,822)	(1,245,141)	(1,634,687)
NET EARNINGS (LOSS)	\$ 7,003,417	\$ (2,031,658)	\$ 4,195,317
Average number of common shares outstanding	1,381,595	1,381,595	1,381,595
Net earnings (loss) per common share	\$ 5.07	\$ (1.47)	\$ 3.04

See accompanying notes.

Statements of Comprehensive Income (Loss)

	Years Ended June 30		
	2021	2020	2019
NET EARNINGS (LOSS)	\$ 7,003,417	\$ (2,031,658)	\$ 4,195,317
Other comprehensive income (loss)			
Pension and postretirement liability adjustment	7,247,726	(2,184,158)	31,864
COMPREHENSIVE INCOME (LOSS)	\$ 14,251,143	\$ (4,215,816)	\$ 4,227,181

Balance Sheets

	June 30	
	2021	2020
Assets		
Current Assets		
Cash	\$ 85,217	\$ 305,212
Accounts receivable, net	11,494,595	6,134,311
Inventories:		
Finished products	3,872,021	2,782,153
In-process products	12,928,842	13,212,964
Raw materials and supplies	1,368,106	2,212,792
Total inventories	18,168,969	18,207,909
Prepaid expenses and other current assets	128,009	176,797
Assets held for sale	5,171	5,171
TOTAL CURRENT ASSETS	29,881,961	24,829,400
Other Assets		
Company owned life insurance	976,794	951,839
Deferred federal income taxes — Note 4	5,281,186	4,598,364
Right of use lease asset — Note 3	1,011,586	762,212
Other assets	228,764	279,444
	7,498,330	6,591,859
Property, Plant and Equipment — Notes 2 and 3		
Land	387,467	387,467
Buildings and improvements	12,155,977	12,124,748
Machinery and equipment	128,952,122	122,074,563
	141,495,566	134,586,778
Less accumulated depreciation	(102,140,853)	(100,982,408)
	39,354,713	33,604,370
	\$ 76,735,004	\$ 65,025,629

	June 30	
	2021	2020
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 7,484,958	\$ 3,466,434
Payroll and employee benefits	1,044,443	461,597
Taxes, other than income taxes	867,292	503,405
Other accrued liabilities	408,857	679,920
Current portion of lease liability — Note 3	393,630	433,490
Current portion of long-term debt — Note 2	4,008,940	4,149,521
Current portion of postretirement benefits — Note 5	443,761	585,930
TOTAL CURRENT LIABILITIES	14,651,881	10,280,297
Long-Term Liabilities		
Long-term debt — Note 2	21,228,791	19,340,908
Long-term lease liability — Note 3	617,956	328,723
Employee benefits	484,228	557,660
Postretirement benefits — Note 5	3,685,632	5,123,946
Pension benefits — Note 5	4,031,569	11,561,305
Other liabilities — Note 9	1,137,381	1,186,367
	31,185,557	38,098,909
Stockholders' Equity — Note 8		
Common stock, \$1 par value: authorized 2,000,000 shares; 1,381,595 shares outstanding in 2021 and in 2020	1,381,595	1,381,595
Additional capital	3,269,476	3,269,476
Retained earnings	39,824,919	32,821,502
Accumulated other comprehensive income (loss)	(13,578,424)	(20,826,150)
	30,897,566	16,646,423
	\$ 76,735,004	\$ 65,025,629

See accompanying notes.

Statements of Stockholders' Equity

Years ended June 30, 2021, 2020 and 2019

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JULY 1, 2018	\$ 1,381,595	\$ 3,269,476	\$ 31,210,481	\$ (18,673,856)	\$ 17,187,696
Net earnings for the year			4,195,317		4,195,317
Cash dividends declared — \$0.40 per share			(552,638)		(552,638)
Pension and postretirement liability adjustment				31,864	31,864
BALANCES AT JUNE 30, 2019	1,381,595	3,269,476	34,853,160	(18,641,992)	20,862,239
Net loss for the year			(2,031,658)		(2,031,658)
Pension and postretirement liability adjustment				(2,184,158)	(2,184,158)
BALANCES AT JUNE 30, 2020	1,381,595	3,269,476	32,821,502	(20,826,150)	16,646,423
Net earnings for the year			7,003,417		7,003,417
Pension and postretirement liability adjustment				7,247,726	7,247,726
BALANCES AT JUNE 30, 2021	\$ 1,381,595	\$ 3,269,476	\$ 39,824,919	\$ (13,578,424)	\$ 30,897,566

() Denotes deduction.

See accompanying notes.

Statements of Cash Flows

	Years Ended June 30		
	2021	2020	2019
OPERATING ACTIVITIES			
Net earnings (loss)	\$ 7,003,417	\$ (2,031,658)	\$ 4,195,317
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,726,404	3,744,199	3,897,006
Gain on PPP loan forgiveness	(3,857,760)	—	—
Deferred federal income taxes	(682,822)	(1,107,610)	(1,597,046)
Employee benefits	(1,935,925)	(1,007,039)	(703,091)
Gain on sale of equipment	(51,970)	(23,000)	(61,500)
Miscellaneous and other	(2,025)	(76,192)	(114,772)
Changes in operating assets and liabilities:			
Accounts receivable	(5,360,284)	5,731,999	272,201
Inventories and prepaid expenses	87,728	3,602,008	(1,868,541)
Accounts payable and accrued expenses	4,645,207	(3,642,524)	(3,459,239)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,571,970	5,190,183	560,335
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(9,427,073)	(5,805,793)	(5,126,040)
Proceeds from sale of equipment	55,000	23,000	61,500
Company owned life insurance	(24,954)	743,341	(32,928)
NET CASH USED IN INVESTING ACTIVITIES	(9,397,027)	(5,039,452)	(5,097,468)
FINANCING ACTIVITIES			
Additional borrowings (principal repayments) under bank credit agreement, net	497,275	(6,311,865)	5,664,693
Borrowings on term loans	8,003,162	4,807,349	2,000,000
Borrowings on PPP loan	—	3,822,269	—
Principal payments on term loans	(2,895,375)	(2,362,099)	(2,683,366)
Dividends paid	—	—	(552,638)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,605,062	(44,346)	4,428,689
INCREASE (DECREASE) IN CASH	(219,995)	106,385	(108,444)
Cash at beginning of year	305,212	198,827	307,271
CASH AT END OF YEAR	\$ 85,217	\$ 305,212	\$ 198,827

See accompanying notes.

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.

Note 1 — Significant Accounting Policies

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, \$505,000 and \$1,380,000 at June 30, 2021 and 2020, respectively. The remaining inventories are costed using the first-in, first-out (FIFO) method. If inventories valued on LIFO had been valued at current cost, amounts reported at June 30 would have been increased by \$685,000 and \$347,000 in 2021 and 2020, respectively. In addition, net earnings (loss) under the FIFO method would have increased or (decreased) by \$338,000, \$(121,000) and \$20,000 for the years ended June 30, 2021, 2020 and 2019 respectively.

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 of \$498,000 at June 30, 2021 and 2020.

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 contracts with customers when control of the promised goods transfers to the customer. This generally occurs when the product is shipped to the customer. Revenue is recorded at the amount of consideration the Company expects to be entitled to in exchange for the shipped goods. For more information about the Company's revenue from contracts with customers, refer to Note 10 - Revenue Recognition.

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 at June 30, 2021 and 2020) 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.

Leases: At the inception of an arrangement, the Company determines if an arrangement is a lease based on all relevant facts and circumstances. Leases are classified as operating or finance leases at the lease commencement date. Operating leases are included in operating lease ROU assets, current portion of lease liability and long-term lease liability on the balance sheet. At June 30, 2021 and 2020 the Company does not have finance leases. Lease expense is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less (short-term leases) are not recorded on the balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. ROU assets also include prepaid rent and are adjusted by the unamortized balance of lease incentives. As the implicit rate is generally not readily determinable for all of the leases, the Company uses an estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments.

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. As of June 30, 2021, and 2020, 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. These returns remain subject to examination by taxing authorities for all years after 2014.

Fair Value of Financial Instruments: At June 30, 2021 and 2020, 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 of 1,381,595 in 2021, 2020, and 2019.

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.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 7, 2021, which is the date financial statements were available to be issued.

Notes to Financial Statements

Continued

Note 2 – Long-Term Debt

Long-term debt at June 30 consists of the following:

	2021	2020
Notes payable to bank	\$ 25,237,731	\$19,668,160
Paycheck Protection Program note payable	—	3,822,269
Less current maturities	(4,008,940)	(4,149,521)
	\$ 21,228,791	\$19,340,908

On March 12, 2020 the Company amended and restated a \$53,541,000 credit facility with a bank that consists of a \$24,000,000 revolving loan, \$27,541,000 term loan and a \$2,000,000 equipment line of credit with a maturity date of March 12, 2025.

Interest on the revolving loan balance of \$10,398,000 at June 30, 2021 consisted of \$8,700,000 at a rate of 2.34% (LIBOR rate plus 2.25%) and the balance of \$1,698,000 at a rate of 4.50% (prime rate plus 1.25%). Interest on the revolving loan balance of \$9,901,000 at June 30, 2020 consisted of \$9,000,000 at a rate of 2.42% (LIBOR rate plus 2.25%) and the balance of \$901,000 at a rate of 4.50% (prime rate plus 1.25%). Interest on the term and equipment loans balance of \$14,840,000 at June 30, 2021 consisted of \$13,765,000 at a rate of 2.85% (LIBOR rate plus 2.75%) and the balance of \$1,075,000 at a rate of 5.00% (prime rate plus 1.75%). Interest on the term and equipment loans balance of \$9,767,000 at June 30, 2020 had a rate of 2.92% (LIBOR rate plus 2.75%). The Company also pays a commitment fee of .25% on the unused portion of the credit facility. Interest is payable on the 1st of every month.

Advances under the line of credit are limited to approximately 85% of eligible accounts receivable plus the lesser of 65% of eligible inventory or \$15,600,000 including a further sublimit of \$10,000,000 of eligible work in process inventory. Included in the maximum borrowings of the revolving note payable is a letter of credit totaling \$300,000 at June 30, 2021. The Company had available \$8,894,000 to borrow under the revolving loan and \$725,000 under the term loans as of June 30, 2021. The term loans are due in monthly installments of \$313,000 through September 1, 2021, increasing to \$371,000 beginning October 1, 2021, decreasing to \$326,000 beginning January 1, 2022, decreasing to \$281,000 beginning January 1, 2023, decreasing to \$213,000 beginning January 1, 2024, decreasing to \$201,000 beginning January 1, 2025. Additional borrowings under the term loans will be repaid using a five year amortization.

Under the terms of the bank agreement, the Company has agreed to maintain certain financial covenants including the requirements to meet certain financial ratios and other restrictions related to the use of cash. At June 30, 2021, the Company was in compliance with these financial covenants.

Interest paid by the Company during fiscal 2021, fiscal 2020, and fiscal 2019 aggregated \$602,000, \$924,000, and \$962,000, respectively. Interest added in to property, plant and equipment in fiscal 2021 and 2020, was \$330,000 and \$159,000, respectively.

The scheduled repayment of the term loans as of June 30, 2021 are \$4,009,000 is due in the first year, \$3,645,000 is due in the second year, \$2,965,000 is due in the third year, \$1,881,000 is due in the fourth year, leaving a balance of \$2,340,000 at the maturity date.

In April 2020 the Company received a term loan through the Paycheck Protection Program under the CARES Act. Interest on the Paycheck Protection Program loan balance of \$3,822,000 at June 30, 2020 was at a rate of 1%. As of June 30, 2020, \$1,699,000 was recorded in current liabilities and \$2,123,000 was recorded in long-term liabilities.

On June 4, 2021, the Company received notification that forgiveness in the amount of \$3,858,000 was approved by the Small Business Administration (SBA). Accordingly, outstanding debt balance of \$3,858,000 was recorded as a gain on loan forgiveness on the statements of operations in the year ended June 30, 2021.

Note 3 - Leases and Other Commitments

The Company has operating leases for various equipment, vehicles and facilities under agreements with contractual periods ranging from less than one year to six years. Some of the leases contain options to extend the term and some include the option to terminate the lease. All of the leases are accounted for as operating leases with the initial lease liability calculated as the present value of fixed payments not yet paid.

During the year ended June 30, 2021, the Company recognized rent expense of approximately \$654,000, of which \$582,000 is included in cost of products sold and \$72,000 is included in selling, general and administrative. At June 30, 2021, the Company has recorded approximately \$1,012,000 for right of use lease asset and lease liability on the balance sheet.

Certain supplemental cash flow information related to these leases is as follows for the years ending:

	June 30, 2021	June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 654,000	\$ 596,000
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 589,000	\$ 204,000

At June 30, 2021 the weighted average remaining lease term was approximately three years.

As of June 30, 2021, maturities of lease liabilities are as follows:

Year ending June 30	Operating Leases
2022	\$ 394,000
2023	252,000
2024	173,000
2025	139,000
2026	54,000
Thereafter	—
Total future minimum lease payments	\$ 1,012,000

Total rent expense was \$596,000 in fiscal 2020, and \$592,000 in fiscal 2019.

Costs committed to complete the expansion of existing plant facilities and the purchase of machinery and equipment approximated \$2,076,000 at June 30, 2021.

Notes to Financial Statements

Continued

Note 4 - Income Taxes

Federal income tax expense (benefit) consists of the following at June 30:

	2021	2020	2019
Deferred expense (benefit)	\$ 2,033,000	\$ (1,108,000)	\$ 475,000
Current expense	—	(137,000)	—
Change in valuation allowance	(2,716,000)	—	(2,109,000)
Federal income tax expense (benefit)	\$ (683,000)	\$ (1,245,000)	\$ (1,634,000)

A reconciliation of the federal income tax expense to the amount computed by applying the applicable statutory income tax rate to profit before income taxes follows:

	2021	2020	2019
Computed amount	\$ 1,320,000	\$ (670,000)	\$ 538,000
Life insurance policies	(7,000)	(26,000)	(7,000)
Other	1,530,000	(549,000)	(56,000)
PPP loan adjustment	(810,000)	—	—
Change in income tax valuation allowance	(2,716,000)	—	(2,109,000)
Federal income tax expense (benefit)	\$ (683,000)	\$ (1,245,000)	\$ (1,634,000)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which the related temporary differences become deductible. The Company evaluated the deferred tax valuation allowance and considering recent financial performance and future performance, reversed \$2,716,000 and \$-0- of the valuation allowance during the years ended June 30, 2021 and 2020, respectively, as the realization of such income tax benefits was considered to be more likely than not. At June 30, 2021 and 2020, a valuation allowance of \$500,000 and \$3,216,000 was recorded, respectively.

Significant components of the Company's deferred tax liabilities and assets as of June 30, 2021 and 2020 are as follows:

	2021	2020
Deferred tax liabilities:		
Accelerated tax depreciation	\$ 2,421,000	\$ 2,137,000
Other	20,000	21,000
Total deferred tax liabilities	\$ 2,441,000	\$ 2,158,000
Deferred tax assets:		
Employee benefits	\$ 1,825,000	\$ 3,759,000
Net operating loss and tax credit carryforwards	5,882,000	5,677,000
Inventories	128,000	152,000
Other	387,000	384,000
Total deferred tax assets	8,222,000	9,972,000
Valuation allowance	(500,000)	(3,216,000)
Net deferred tax assets (liabilities)	\$ 5,281,000	\$ 4,598,000

The Company paid zero income taxes during 2021, 2020, and 2019. State income taxes paid during 2021, 2020, and 2019 are not material.

At June 30, 2021, and June 30, 2020, the Company had a federal tax loss carryforward of approximately \$28,000,000 and \$26,000,000, respectively, available to offset future taxable income. Approximately \$21,002,000 of the net operating losses at June 30, 2021 and 2020, respectively, will expire beginning in 2028 through 2032.

Note 5 - Employee Benefit Plans

The Company sponsors three defined benefit pension plans. Benefits under two of the plans are based on negotiated rates times years of service. Under the remaining plan, benefits are based on compensation during the years immediately preceding retirement and years of service. It is the Company's policy to make contributions to these plans sufficient to meet minimum funding requirements of the applicable laws and regulations, plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate.

The Company has frozen all benefit accruals under the Salaried Pension Plan effective November 30, 2006. In addition, the Company negotiated a pension freeze on one of the remaining plans effective June 30, 2008.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Some of the Company's hourly employees may become eligible for life insurance benefits if they reach normal retirement age while working for the Company. The benefits are provided through certain insurance companies. Effective June 30, 2009, the Company terminated the postretirement health benefit for all current and future salaried retirees. Effective January 30, 2011, the Company terminated the postretirement health benefit for all future hourly employees after the age of 65.

The Company uses a measurement date of June 30 for purposes of valuing its obligations related to pension benefits and postretirement benefits. The following tables set forth the plans' funded status at the 2021 and 2020 measurement dates:

Notes to Financial Statements

Continued

Changes in benefit obligation are:

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Benefit obligation at beginning of year	\$ 43,038,000	\$ 41,596,000	\$ 5,710,000	\$ 7,535,000
Service cost	—	—	—	—
Interest cost	1,242,000	1,466,000	135,000	241,000
Amendments	—	—	—	—
Actuarial (gain)/loss	(129,000)	2,201,000	(1,192,000)	(1,415,000)
Benefits paid	(2,330,000)	(2,225,000)	(524,000)	(651,000)
Benefit obligation at end of year	\$ 41,821,000	\$ 43,038,000	\$ 4,129,000	\$ 5,710,000

Changes in plan assets are:

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Fair value of assets at beginning of year	\$ 31,477,000	\$ 33,103,000	\$ —	\$ —
Actual return on assets	7,441,000	208,000	—	—
Employer contributions	1,202,000	391,000	—	—
Benefits paid	(2,330,000)	(2,225,000)	—	—
Fair value of assets at end of year	\$ 37,790,000	\$ 31,477,000	\$ —	\$ —
Funded status at measurement date (underfunded)	\$ (4,032,000)	\$ (11,561,000)	\$ (4,129,000)	\$ (5,710,000)

Amounts recognized in accumulated other comprehensive income (loss):

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Net loss (gain)	\$ 16,903,000	\$ 23,230,000	\$ (3,239,000)	\$ (2,236,000)
Prior service cost (credit)	—	—	(86,000)	(169,000)
Net amounts recognized	\$ 16,903,000	\$ 23,230,000	\$ (3,325,000)	\$ (2,405,000)

The components of net periodic benefit cost are as follows:

	Pension Benefits			Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
Service cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest cost	1,242,000	1,466,000	1,673,000	135,000	240,000	391,000
Expected return on assets	(2,315,000)	(2,401,000)	(2,457,000)	—	—	—
Amortization of prior service cost	—	—	—	(82,000)	(82,000)	(82,000)
Amortization of unrecognized net (gain)/loss	1,073,000	885,000	779,000	(189,000)	(8,000)	—
Net periodic benefit cost	\$ —	\$ (50,000)	\$ (5,000)	\$ (136,000)	\$ 150,000	\$ 309,000

The following summarizes target asset allocations for the Company's defined benefit plan assets as of June 30, 2021 and major asset categories as of June 30, 2021 and June 30, 2020:

	Target Asset Allocations June 30, 2021	2021	Percentage of Plan Assets 2020
Equity securities	60.0%	64.0%	66.0%
Fixed income instruments	10.0%	14.0%	12.0%
Cash equivalents	30.0%	22.0%	22.0%
	100.0%	100.0%	100.0%

The Company's defined benefit plan assets are managed by institutional investment managers. Target investment allocation rates have been developed for the pension plans in order to achieve the overall investment objective of an annual rate of return of 7.5% or more. The target allocations for plan assets are shown in the table above. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies. The Company achieves the target asset allocations by investing in equity securities, common stock, money market accounts, U.S. treasury and agency securities, corporate bonds, collective trusts, investment contracts and mutual funds with appropriate underlying assets that are consistent with the target allocations. The plans have an allocation range for each asset class to adjust for investment opportunities and changing market conditions. Currently, management has not identified any concentration in the investments to disclose. The weighted average expected long term rate of return is estimated based on current trends in the plan assets as well as projected future rates of returns on those assets.

Fair Value Measurements: Generally accepted accounting principles (GAAP) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Company's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Notes to Financial Statements

Continued

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in primarily active markets that the entity has the ability to access as of the measurement date.

Level 2 inputs: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 inputs: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value of Plan Assets: The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Equity securities and common stock: The fair values of equity securities and common stock investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Mutual funds: The fair values of equity mutual fund investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments measured at fair value are summarized below:

	<u>Fair Value Measurements at June 30, 2021 Using</u>		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:			
Equity securities and common stock	\$ 1,844,000	\$ —	\$ —
Mutual funds	35,942,000	—	—

Fair Value Measurements at June 30, 2020 Using
Quoted Prices
in Active
Markets for
Identical Assets
(Level 1) **Significant Other**
Observable
Inputs
(Level 2) **Significant**
Unobservable
Inputs
(Level 3)

Investments:

Equity securities and common stock	\$ 76,000	\$ —	\$ —
Mutual funds	31,398,000	—	—

Plan assets of one of the plans include 15,156 shares of Federal Screw Works common stock which had a market value of \$95,786 at June 30, 2021 and \$75,780 at June 30, 2020.

The Company's contributions to the defined benefit plans in fiscal 2022 are estimated to be \$252,000.

The assumptions used in the calculation of amounts recognized for the Company's benefit plans are as follows:

	Pension Benefits		Postretirement Benefits	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate – benefit obligation	2.50/3.00%	3.00%	2.50%	3.35%
Discount rate – benefit cost	3.00%	3.65%	2.50%	3.35%
Expected return on plan assets	7.5%	7.5%	—	—
Rate of salary increase	NA	NA	—	—

The net periodic pension cost for fiscal 2021 and 2020 was based on a long-term asset rate of return of 7.50%. This rate is based upon management's and the investment advisor's estimate of future long-term rates of return on similar assets and is consistent with historical returns on assets. Using the plans' current mix of assets and adjusting for current market trends for this broadly diversified portfolio, an expected rate of return of 7.50% is justified.

The estimated net loss and prior service credit that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next year are \$775,000 and \$82,000 respectively.

The future benefits to be paid are as follows:

	<u>Pension</u> <u>Benefits</u>	<u>Postretirement</u> <u>Benefits</u>
Fiscal 2022	\$ 2,599,000	\$ 444,000
Fiscal 2023	2,649,000	425,000
Fiscal 2024	2,659,000	401,000
Fiscal 2025	2,653,000	381,000
Fiscal 2026	2,663,000	360,000
Fiscal 2027 through 2031	12,810,000	1,468,000

Notes to Financial Statements

Continued

Note 6 – Industry Information

Approximately 99% of the Company's net sales in fiscal 2021, 2020 and 2019 were made either directly or indirectly to automotive companies.

The Company's customer base is primarily located throughout the United States, Mexico and Canada. Three customers accounted for approximately 63% of net sales in 2021, 62% in 2020, and 58% in 2019; and 66% of accounts receivable as of June 30, 2021 and 69% as of June 30, 2020 respectively.

Note 7 – Contingencies and Uncertainties

The Company is involved in various legal actions arising in the normal course of business. Management is of the opinion that their outcome will not have a significant effect on the Company's financial statements.

The Company is self-insured for workers' compensation claims up to \$500,000 per claim. The Company has excess liability insurance with an outside carrier to minimize its risk to catastrophic claims. Losses are accrued based on an estimate of the ultimate liability for claims incurred, using certain assumptions based on the Company's experience under the program including the nature of outstanding claims, estimated costs to settle existing claims and loss history. At June 30, 2021 and 2020, the Company had an accrued self funded workers' compensation liability of approximately \$90,000 and \$68,000 respectively, included in payroll and employee benefits. Workers' compensation expense was \$45,000 in fiscal 2021, \$99,000 in fiscal 2020, and \$106,000 in fiscal 2019.

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected. The extent to which the coronavirus (or any other disease or epidemic) impacts business activity, operating results or the significant estimates disclosed in Note 1 will depend on future developments. These future developments are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions required to contain the coronavirus or treat its impact, among others.

In 2020 a global disruption in the supply chain began due to a shortage of semiconductor microchips as a result of the COVID-19 global pandemic. The Company does not utilize semiconductors in their manufacturing process, but certain customers have been impacted and continue to be impacted resulting in customers shutting down plants for various lengths of time. Currently, the global semiconductor shortage is anticipated to continue throughout 2021 and into 2022. The operations and business results of the Company could be materially adversely affected by the semiconductor shortage in the event of prolonged customer plant shutdowns due to supply shortages of semiconductors. The extent to which the semiconductor shortage impacts business activity will depend on future developments in the semiconductor production process, which are highly uncertain and cannot be predicted.

Note 8 – Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	2021	2020	2019
Net income (loss)	\$ 7,003,417	\$ (2,031,658)	\$ 4,195,317
Change in pension and postretirement liabilities	7,247,726	(2,184,158)	31,864
Total comprehensive income (loss)	\$14,251,143	\$ (4,215,816)	\$ 4,227,181

The changes in pension and postretirement liabilities in fiscal 2021 and 2020 were primarily the result of changes in the discount rate (note 5, page 19) and underlying asset performance. Future decreases in the discount rate will have an effect to increase the value of the pension obligation, while future increases in the discount rate will have an effect to decrease the value of the pension obligation.

The components of accumulated other comprehensive income (loss) as of June 30, 2021 and 2020 are as follows:

	2021	2020
Unrecognized loss and prior service costs in pensions	\$ (16,903,298)	\$ (23,230,218)
Unrecognized loss and prior service costs in postretirement benefits	3,324,874	2,404,068
Accumulated other comprehensive income (loss)	\$ (13,578,424)	\$ (20,826,150)

The changes in accumulated other comprehensive income (loss) by component for the years ended June 30 are as follows:

	Pension Benefits	Postretirement Benefits	Total
Balance at July 1, 2019	\$ (19,720,956)	\$ 1,078,964	\$ (18,641,992)
Changes in actuarial assumptions	(4,393,855)	1,415,233	(2,978,622)
Amounts reclassified from AOCI	884,593	(90,129)	794,464
Net OCI for the year	(3,509,262)	1,325,104	(2,184,158)
Balance at June 30, 2020	(23,230,218)	2,404,068	(20,826,150)
Changes in actuarial assumptions	5,254,340	1,192,049	6,446,389
Amounts reclassified from AOCI	1,072,580	(271,243)	801,337
Net OCI for the year	6,326,920	920,806	7,247,726
Balance at June 30, 2021	\$ (16,903,298)	\$ 3,324,874	\$ (13,578,424)

Notes to Financial Statements

Continued

Reclassifications out of accumulated other comprehensive income (loss) for the years ended June 30 are as follows:

Details about accumulated other comprehensive income (loss) components	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Amortization				
Actuarial gain (loss)	\$ 1,072,580	\$ 884,593	\$ —	\$ —
Prior service costs	—	—	271,243	90,129
Total before tax	1,072,580	884,593	271,243	90,129
Tax expense	—	—	—	—
Net of tax	\$ 1,072,580	\$ 884,593	\$ 271,243	\$ 90,129

These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 5 - Pensions for additional details.)

Note 9 – Other Liabilities

The Company along with several other manufacturing companies has been designated by the federal Environmental Protection Agency (“EPA”) as a Potentially Responsible Party (“PRP”) with respect to two dump sites. The primary PRP who had the greatest share of liability and was performing the remedial activities at both sites filed bankruptcy. The Company had previously resolved its liability with the primary PRP in 1988. In accordance with Consent Decrees with the EPA, the remaining PRPs are liable for continuing the remedial activities. At June 30, 2021 and 2020, the Company had accrued \$1,238,000 and \$1,287,000 respectively. Amounts include \$101,000 and \$101,000 classified as current in other accrued liabilities at June 30, 2021 and 2020 respectively.

Note 10 - Revenue Recognition

Revenues are recognized when or as control of the promised goods transfers to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods.

Disaggregation of Revenue: In the following table, revenue from contracts with customers, is disaggregated by geography:

Country	2021	2020
United States	\$ 52,952,000	\$ 43,961,000
Mexico	9,156,000	8,501,000
Canada	6,660,000	5,795,000
Other	827,000	1,753,000
Total revenue	\$ 69,595,000	\$ 60,010,000

Description of Products and Services: The Company is a major 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 revenue is considered one segment. See Note 1 for more detailed information about the Company's operations.

Revenue is recognized when control of the products transfers to the customer which is the point when the customer gains the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, which is generally upon shipment of goods. The Company uses this measure of progress because it best depicts the transfer of value to the customer and correlates with the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods to the customer.

The Company typically invoices the customer after shipment of the promised goods, at which time it has an unconditional right to payment. Accounts receivable, net on the balance sheet represents trade receivables for invoiced goods. At June 30, 2021 and 2020, the balance sheet does not include any contract asset or contract liabilities.

Significant Judgments and Practical Expedients Applied: Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. Incidental items that are immaterial in the context of the contract are not recognized as separate performance obligations to which a portion of revenue would otherwise be allocated.

The Company records freight billed to customers in net sales. The corresponding costs incurred for shipping and handling related to these customer billed freight costs are recorded as costs to fulfill the contract and are included in cost of products sold on the statement of income.

The Company's contracts typically do not result in situations where there is a time period greater than one year between performance under the contract and collection of the related consideration. The Company elected a practical expedient related to significant financing components, where the Company expects, at contract inception, that the period between the entity's transfer of a promised good to a customer and the customer's payment for that good will be one year or less.

The Company applies a practical expedient for costs to obtain a contract and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incurred costs that the Company otherwise would have capitalized is one year or less. These costs are included in selling, general and administrative expenses on the statement of income.

Transaction Price Allocated to the Remaining Performance Obligation: The Company applies a practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The Company does not have material contracts with product releases that have expected durations of more than one year.

Report of Independent Auditors

Board of Directors
Federal Screw Works
Romulus, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Screw Works, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Screw Works as of June 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.



Crowe LLP

Grand Rapids, Michigan
September 7, 2021

Five Year Summary

Five Years Ended June 30	2021	2020	2019	2018	2017
Operations (in thousands)					
Net sales	\$ 69,595	\$ 60,010	\$ 73,353	\$ 75,408	\$ 77,341
Earnings (loss) before income taxes	6,320	(3,277)	2,561	4,015	4,012
Income tax expense (benefit)	(683)	(1,245)	(1,634)	172	939
Net earnings (loss)	7,003	(2,032)	4,195	3,843	3,073
Depreciation and amortization	3,726	3,744	3,897	3,697	3,637
Capital expenditures	9,427	5,806	5,126	6,377	7,739
Per share data					
Net earnings (loss)	\$ 5.07	\$ (1.47)	\$ 3.04	\$ 2.78	\$ 2.22
Cash dividends declared	—	—	0.40	—	—
Book value	22.36	12.05	15.10	12.44	6.58
Market price range					
High	7.23	7.67	10.00	9.75	9.00
Low	3.55	4.00	6.37	6.76	5.26
Return data					
Net earnings (loss) on net sales	10.1%	(3.4)%	5.7%	5.1%	4.0%
Net earnings (loss) on stockholders' equity	22.7%	(12.2)%	20.1%	22.4%	33.8%
Financial position at June 30 (in thousands)					
Total assets	\$ 76,735	\$ 65,026	\$ 70,989	\$ 66,527	\$ 63,281
Working capital (net current assets)	15,230	14,549	22,330	17,066	15,805
Other assets	7,498	6,592	5,450	3,747	3,874
Property, plant and equipment (net)	39,355	33,604	31,482	30,211	27,485
Total assets less current liabilities	62,083	54,745	59,262	51,024	47,164
Less:					
Long-term debt	21,229	19,341	21,243	16,070	14,783
Employee benefits	484	558	622	698	814
Postretirement benefits	3,686	5,124	6,808	8,730	10,601
Pension liabilities	4,032	11,561	8,494	7,059	10,552
Other liabilities	1,754	1,515	1,233	1,279	1,322
Stockholders' equity (net assets)	\$ 30,898	\$ 16,646	\$ 20,862	\$ 17,188	\$ 9,092
Other					
Number of employees	218	184	221	221	219
Average shares outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595

Federal Screw Works

34846 Goddard Road
Romulus, Michigan 48174

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

Federal Screw Works

34846 Goddard

734-941-4211

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fsw@federalscrewworks.com

3451 and 3452

Annual Report

For the Period Ending: 06-30-2021
(the "Reporting Period")

As of 06-30-2021, the number of shares outstanding of our Common Stock was:

1,381,595

As of 03-31-21, the number of shares outstanding of our Common Stock was:

1,381,595

As of 06-30-2020, the number of shares outstanding of our Common Stock was:

1,381,595

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 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: ☒

Indicate by check mark whether a Change in Control⁵ of the company has occurred over this reporting period:

Yes: ☐ No: ☒

⁵ "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.

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

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

Federal Screw Works

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

Michigan, Active

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

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

The address(es) of the issuer's principal executive office:

34846 Goddard Rd
Romulus, MI 48174

The address(es) of the issuer's principal place of business:

Check box 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?

Yes: ☐ No: ☒

If this issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

N/A

2) Security Information

Trading symbol:	<u>FSCR</u>
Exact title and class of securities outstanding:	<u>Common Stock</u>
CUSIP:	<u>3138819104</u>
Par or stated value:	<u>\$1.00</u>

Total shares authorized:	<u>2,000,000</u>	as of date: <u>06-30-2021</u>
Total shares outstanding:	<u>1,381,595</u>	as of date: <u>06-30-2021</u>

Number of shares in the Public Float⁶: 648,434 as of date: 06-30-2021
Total number of shareholders of record: 142 as of date: 06-30-2021

All additional class(es) of publicly traded securities (if any):

Trading symbol: _____
Exact title and class of securities outstanding: _____
CUSIP: _____
Par or stated value: _____
Total shares authorized: _____ as of date: _____
Total shares outstanding: _____ as of date: _____

Transfer Agent

Name: Computershare
Phone: 800-426-5523
Email: June.Lutes@computershare.com
Address: P.O. Box 505000
Louisville, KY 40233

Is the Transfer Agent registered under the Exchange Act?⁷ Yes: ☒ No: ☐

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct 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

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☒

Shares Outstanding as of Second Most Recent Fiscal Year End: <u>Opening Balance</u> Date <u>06-30-2020</u> Common: <u>1,381,595</u> Preferred: _____			*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	Individual/ Entity Shares were issued to (entities must have individual with voting / investment	Reason for share issuance (e.g. for cash or debt conversion) -OR- Nature of	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.

⁶ "Public Float" shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a "control person"), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

⁷ To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

					issuance? (Yes/No)	control disclosed).	Services Provided		
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Shares Outstanding on Date of This Report:									
<u>Ending</u> _____ <u>Balance</u>									
<u>Ending Balance:</u>									
Date <u>06-30-2021</u> Common: <u>1,381,595</u>									
Preferred: _____									

Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended September 30, 2020, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2018 through September 30, 2020 pursuant to the tabular format above.

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

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe all outstanding promissory notes, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities.

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

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 (entities must have individual with voting / investment control disclosed).	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

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

4) Financial Statements

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

- ☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual)⁸:

Name: Wade C. Plaskey
Title: CFO
Relationship to Issuer: Employee

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

- C. Balance sheet;
- D. Statement of income;
- E. Statement of cash flows;
- F. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- G. Financial notes; and
- H. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ 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 statements in a separate report as described 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 OTCIQ in the field below. Financial Statements must be compiled in one document.

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

5) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no 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.

⁸ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

B. Please list any subsidiaries, parents, or affiliated companies.

C. Describe the issuers' principal products or services.

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.

6) 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 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, 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 18% 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.

7) Company Insiders (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 or beneficial shareholders.

Using the tabular format below, please provide information, as of the period end date of this report, regarding any person or entity owning 5% or more of any class of the issuer's securities, as well as any officer, and any director of the company, or any person that performs a similar function, regardless of the number of shares they own. **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 in the note section.**

Name of Officer/Director or Control Person	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	Note
<u>Thomas ZurSchmiede</u>	<u>Officer</u>	<u>Big Rapids, MI</u>	<u>153,285</u>	<u>Common</u>	<u>11.1%</u>	_____
<u>Robert F. ZurSchmiede</u>	<u>Director</u>	<u>Elk Rapids, MI</u>	<u>77,443</u>	<u>Common</u>	<u>5.6%</u>	_____
<u>Jeffrey M. Harness</u>	<u>Officer</u>	<u>Gross Pointe Farms, MI</u>	<u>54,958</u>	<u>Common</u>	<u>4.0%</u>	_____
<u>Aaron J. ZurSchmiede</u>	<u>Officer</u>	<u>Belmont, MI</u>	<u>92,370</u>	<u>Common</u>	<u>6.7%</u>	_____
<u>William G. Harness</u>	<u>Officer</u>	<u>Gross Pointe Farms, MI</u>	<u>25,118</u>	<u>Common</u>	<u>1.8%</u>	_____
<u>Wade C. Plaskey</u>	<u>Officer</u>	<u>Shelby Twp., MI</u>	<u>1,875</u>	<u>Common</u>	<u>Less than 1%</u>	_____
<u>David W. Ayriss, Sr.</u>	<u>Director</u>	<u>Paris, MI</u>	<u>200</u>	<u>Common</u>	<u>Less than 1%</u>	_____
<u>Thomas W. Butler, Jr.</u>	<u>Director</u>	<u>Sun City West, AZ</u>	<u>200</u>	<u>Common</u>	<u>Less than 1%</u>	_____
<u>Frank S. Galgan</u>	<u>Director</u>	<u>Troy, MI</u>	<u>1,450</u>	<u>Common</u>	<u>Less than 1%</u>	_____
<u>Hugh G. Harness</u>	<u>Director</u>	<u>Gross Pointe Farms, MI</u>	<u>108,209</u>	<u>Common</u>	<u>7.8%</u>	_____
<u>Delle Jean ZurSchmiede</u>	<u>Director</u>	<u>Big Rapids, MI</u>	<u>14,118</u>	<u>Common</u>	<u>1.0%</u>	_____

8) Legal/Disciplinary History

A. Please identify whether any of the persons or entities listed above have, in the past 10 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);

N/A

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;

N/A

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

N/A

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.

N/A

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 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.

N/A

9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

Securities Counsel

Name: Frank Galgan
Firm: Lambert Leser
Address 1: 755 W Big Beaver Rd Suite 410
Address 2: Troy, MI 48084
Phone: 248-251-1001
Email: fgalgan@lambertleser.com

Accountant or Auditor

Name: Joseph Tomaszewski

Firm: Crowe LLP
Address 1: 55 Campau Ave. N.W. Suite 300
Address 2: Grand Rapids, MI 49503
Phone: 616-752-4220
Email: joe.tomaszewski@crowe.com

Investor Relations

N/A

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) or consultant(s) or provided assistance or services to the issuer during the reporting period.

N/A

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, Thomas ZurSchmiede certify that:

1. I have reviewed this Annual 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.

September 10, 2021

/s/ Thomas ZurSchmiede [CEO's Signature]

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



Principal Financial Officer:

I, Wade C. Plaskey certify that:

1. I have reviewed this Annual Report Disclosure Statement of Federal Screw Works;

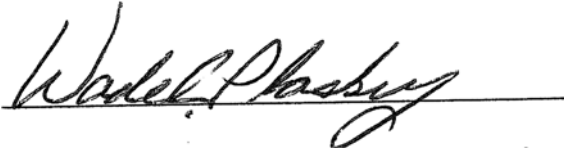
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by 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.

September 10, 2021

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

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

A handwritten signature in black ink, reading "Wade C. Plaskey", is written over a horizontal line. The signature is cursive and stylized.