

# H M A S O T E<sup>®</sup>

**2021 Annual Report**  
**Our 112th Year**



# About Us

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Homasote Company is America's leading green building products manufacturer. Most of our base products are manufactured from Homasote® board which is made from 98% recycled paper fiber. The remaining 2% is comprised of environmentally-friendly materials that give our products their strength, water resistance and mold/mildew resistance. They contain no added urea formaldehyde, phenolics or resins to outgas.

We categorize our served markets into two sales divisions. The larger is our millboard division that supplies a variety of products including sound insulation in walls and floors (440 SOUNDBARRIER®), roof decking (HOMASOTE EASY-PLY®, FIRESTALL®), floor decking (HOMASOTE 4-WAY® floor decking), concrete expansion joint and forming board (HOMEX®), and finished interior panels (NovaCork, DesignWall, PINnacle™ panels).

Our industrial division is the smaller of the two sales divisions and serves the glass, metal and paper industries with a variety of shapes and coated strips for product separation and breakage reduction, along with custom designed packaging that protects customers' products during interplant transport (PAK-LINE®, STAPLE-SAFE®). Homasote products are used in everything from finished caskets to blocking for refrigerator doors during shipping.

Whether you need sound control for a home theatre installation or a joint filler for your driveway that contains no harmful bituminous material, you can count on Homasote to deliver time tested performance while keeping an eye on the planet. Homasote, Sensible. Sound. Solutions.



# To Shareholders and Employees

April 29, 2022

In 2021 we were still feeling the effects of the Covid 19 epidemic but fortunately, it did not interfere with our ability to operate. What did have a direct effect on our operations was a fire that broke out on June 25, 2021 in our main auto sander. Upon inspection of the area, our Specialties finishing department, it was discovered that 2/3 of the roof (over 200,000 sq. ft.) was deteriorating and needed to be replaced. The area was deemed unsafe to work in by the township and the department, which housed the machines to produce our value-added products, was shutdown for almost 3 ½ months due to long lead times for new roof decking and insulation. Orders did not stop coming and our backlog increased 2-fold with no set date for completion of the roof.

By early October a good portion of the roof had been completed and clean up began in the area. By November, we were back running all operations and set the wheels in place to start shipping orders which had been placed in early May when lead times were 6 to 8 weeks, but now were in excess of 12 weeks.

As of this writing, having worked weekends, our lead times are down to 8 weeks and holding steady with orders starting to increase due to the coming spring and summer building seasons. At no time during this year have industrial orders slowed down.

## Accomplishments & Projects Completed through 2021 were:

- Coating & repair of roofs – ongoing
- Replacement of pulping unloading area roof
- Pulper conveyor exit repaired
- Cogen – emissions testing of all engines complete and paperwork submitted for continued permit
- Replacement of roof in pulping unloading area
- Replacement of roof in specialties

## Major Projects started in 2022:

- Replacement of sidehill screen platform and expansion of same
- Switch to an IT managed solution
- Replacement of interior roof area of Lincoln Hwy
- General roof repair
- Continue investigation of a new dry dust collection system with briquetting
- Carter Day controls upgrade
- Cogen Engine #3 top end cylinders / rebuild
- New or used floor sweeper

## Year In Review

Millboard sales results were as follows: our flagship 440 SoundBarrier decreased by 7%, Homex expansion joint and forming boards increased 4%, and Nova prefinished interior panels decreased by 37%. Industrial (Pak-Line Division) sales increased by 14%.

Net sales for 2021 were \$19,048,002 versus 2020 sales of \$18,390,327, an increase of \$657,675. Net loss for the year was (\$406,330), resulting in diluted earnings per common share of (\$1.12). The 2020 net income was \$1,196,464. Working capital was \$(1.4) million, a decrease of \$1.0 million from the previous year.

On October 4, 2021, Norman Sharlin retired from the Board of Directors of Homasote Company after 23 years of service. He will be missed. We thank Mr. Sharlin for his many years of knowledge and guidance and wish him well in his retirement.

We wish to acknowledge and express our appreciation for the many years of loyal effort and cooperation given to Homasote Company by our 2021 retirees, Mr. Larry Furth and Mr. Joseph Leming.

We wish to thank our loyal shareholders, employees, directors, officers, customers and suppliers for their continued support and we value each of you.

## Homasote Management Team



**Warren L. Flicker**  
Chairman of the Board,  
Chief Executive Officer



**Ronald D. Fasano**  
Chief Financial Officer  
& Treasurer



**Peter Tindall**  
Vice President,  
Operations

# Five Year Highlights

	2021	2020	2019	2018	2017
Net sales.....	\$ 19,048,002	\$ 18,390,327	\$ 19,784,896	\$ 20,620,354	\$ 20,643,785
Depreciation.....	\$ 878,130	\$ 918,982	\$ 940,679	\$ 938,656	\$ 896,902
Net (loss) income .....	\$ (406,330)	\$ 1,196,464	\$ 401,433	\$ 997,849	\$ 1,396,773
Common shares outstanding (weighted average):					
Basic.....	361,494	361,119	360,477	359,744	359,411
Diluted .....	361,494	361,119	360,752	360,319	359,976
Net earnings per common share:					
Basic.....	\$ (1.12)	\$ 3.31	\$ 1.11	\$ 2.77	\$ 3.89
Diluted .....	\$ (1.12)	\$ 3.31	\$ 1.11	\$ 2.77	\$ 3.88
Dividends – declared and paid .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Dividends per share .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Working capital .....	\$ (1,422,158)	\$ (421,889)	\$ (1,178,266)	\$ (4,426,344)	\$ (3,422,907)
Working capital ratio.....	.7:1	.9:1	.8:1	.4:1	.5:1
Capital expenditures.....	\$ 989,838	\$ 720,850	\$ 557,191	\$ 647,258	\$ 536,389
Total assets.....	\$ 11,006,195	\$ 11,297,189	\$ 11,315,063	\$ 10,990,886	\$ 11,438,525
Long-term debt, excluding current portion. ....	\$ 2,374,710	\$ 2,424,861	\$ 2,668,590	\$ 181,088	\$ 2,384,483
Stockholders' equity.....	\$ 1,060,509	\$ 454,118	\$ (683,834)	\$ (1,458,356)	\$ (2,280,302)
Common shares outstanding .....	361,719	361,419	361,019	360,619	360,219
Per share book value of common stock .....	\$ 2.93	\$ 1.26	\$ (1.89)	\$ (4.04)	\$ (6.33)

## Two Year Dividend and Stock Price Comparison

### CASH DIVIDENDS

Quarterly cash dividends for the last two years were as follows:

Quarter	2021	2020
First.....	\$ 0.00	\$ 0.00
Second.....	0.00	0.00
Third. ....	0.00	0.00
Fourth .....	0.00	0.00
	<u>\$ 0.00</u>	<u>\$ 0.00</u>

### STOCK PRICES

Quarterly stock prices for the Company's common stock for the last two years were as follows:

Quarter	2021		2020	
	High	Low	High	Low
First.....	\$ 6.24	\$ 4.00	\$ 9.82	\$ 4.00
Second .....	\$ 6.99	\$ 4.75	\$ 8.00	\$ 4.52
Third .....	\$ 6.04	\$ 4.75	\$ 7.95	\$ 4.25
Fourth.....	\$ 6.00	\$ 5.02	\$ 8.99	\$ 4.50

The common stock of the Company is traded over-the-counter.

The number of Shareholders of record of the Company at December 31, 2021 is 140 and 2020 is 141.

## Profile

Homasote Company manufactures building and industrial products used in various construction and manufacturing industries.

# Statements of Income

Years Ended December 31

	2021	2020	2019
Net sales .....	\$ 19,048,002	\$ 18,390,327	\$ 19,784,896
Cost of sales .....	14,665,279	14,010,230	14,288,529
Gross profit .....	4,382,723	4,380,097	5,496,367
Selling, general and administrative expenses .....	4,468,773	4,479,560	4,733,714
Operating income .....	(86,050)	(99,463)	762,653
Other income (expense):			
Interest expense .....	(246,186)	(244,088)	(396,841)
Other (expense) income .....	(2,208)	1,546,517	263,357
NPBC – other components .....	(71,886)	(6,502)	(227,736)
(Loss) Income before income tax expense .....	(406,330)	1,196,464	401,433
Income tax expense .....	—	—	—
Net (loss) income .....	\$ (406,330)	\$ 1,196,464	\$ 401,433
Net earnings per common share:			
Basic .....	\$ (1.12)	\$ 3.31	\$ 1.11
Diluted .....	\$ (1.12)	\$ 3.31	\$ 1.11
Weighted average common shares outstanding:			
Basic .....	361,494	361,119	360,477
Diluted .....	361,494	361,119	360,752

See accompanying notes to financial statements.

# Statements of Comprehensive Income

Years Ended December 31

	2021	2020	2019
Net (loss) income .....	\$ (406,330)	\$ 1,196,464	\$ 401,433
Other comprehensive income (loss):			
Net actuarial gain (loss) of retirement benefit plans:			
Unrealized gain (loss) arising during the period .....	734,342	(301,925)	60,619
Amortization of actuarial gain .....	276,804	241,393	307,495
Total other comprehensive income (loss) .....	1,011,14	(60,532)	368,114
Comprehensive income .....	\$ 604,816	\$ 1,135,932	\$ 769,547

See accompanying notes to financial statements.

# Balance Sheets

December 31

## ASSETS

### Current Assets:

	2021	2020
Cash and cash equivalents.....	\$ 645,720	\$ 1,013,317
Accounts receivable (net of allowance for doubtful accounts of \$46,000 in 2021 and 2020).....	1,444,451	1,637,346
Inventories .....	1,215,235	1,020,655
Prepaid expenses and other current assets .....	253,239	290,029
Total Current Assets .....	\$ 3,558,645	\$ 3,961,347
Property, plant and equipment, net.....	7,424,825	7,313,117
Deferred income taxes .....	21,014	22,725
Total Assets.....	\$ 11,004,484	\$ 11,297,189

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current Liabilities:

Short-term debt, net of unamortized issuance cost of \$18,647 in 2021 and \$18,617 in 2020.....	\$ 1,849,463	\$ 1,646,611
Current portion of long-term debt.....	306,153	337,099
Accounts payable.....	2,480,269	1,985,941
Accrued expenses .....	296,918	345,585
Current portion of obligations under benefit plans .....	48,000	68,000
Total Current Liabilities .....	\$ 4,980,803	\$ 4,383,236
Long-term debt, net of unamortized issuance cost of \$119,150 in 2021 and \$138,257 in 2020.....	2,374,710	2,424,861
Deferred income taxes .....	21,014	22,725
Obligations under benefit plans .....	2,054,870	3,192,409
Other liabilities .....	512,578	819,840
Total Liabilities .....	9,943,975	10,843,071

### Commitments and Contingencies

### Stockholders' Equity:

Common stock, par value \$0.20 per share; Authorized 1,500,000 shares; Issued 876,915 shares in 2021 and 876,615 shares in 2020 .....	175,383	175,323
Additional paid-in capital.....	971,337	969,822
Retained earnings .....	9,765,583	10,171,913
Accumulated other comprehensive loss .....	(2,340,965)	(3,352,111)
	8,571,338	7,964,947
Less cost of common shares in treasury, 515,196 shares in 2021 and 2020 .....	7,510,829	7,510,829
Total Stockholders' Equity.....	1,060,509	454,118
Total Liabilities and Stockholders' Equity .....	\$ 11,004,484	\$ 11,297,189

See accompanying notes to financial statements.

# Statements of Changes in Stockholders' Equity

Years Ended December 31

	COMMON STOCK		ADDITIONAL	RETAINED	ACCUMULATED	TREASURY	TOTAL
	SHARES	PAR VALUE	PAID IN CAPITAL	EARNINGS	OTHER COMPREHENSIVE (LOSS) INCOME	STOCK	STOCKHOLDERS' EQUITY
Balances at January 1, 2019 .....	360,619	\$ 175,163	\$ 962,987	\$ 8,574,016	\$ (3,659,693)	\$ (7,510,829)	\$ (1,458,356)
Net income .....				401,433			401,433
Net change in unrecognized retirement benefit plans .....					368,114		368,114
Other comprehensive income .....							769,547
*Issuance of restricted stock, vested and non-vested .....	400	80	(80)				
Share based compensation .....			4,975				4,975
Balances at December 31, 2019 .....	361,019	175,243	967,882	8,975,449	(3,291,579)	(7,510,829)	(683,834)
Net income .....				1,196,464			1,196,464
Net change in unrecognized retirement benefit plans .....					(60,532)		(60,532)
Other comprehensive income .....							1,135,932
Issuance of restricted stock, vested and non-vested .....	400	80	(80)				
Share based compensation .....			2,020				2,020
Balances at December 31, 2020 .....	361,419	175,323	969,822	10,171,913	(3,352,111)	(7,510,829)	454,118
Net loss .....				(406,330)			(406,330)
Net change in unrecognized retirement benefit plans .....					1,011,146		1,011,146
Other comprehensive income .....							604,816
Issuance of restricted stock, vested and non-vested .....	300	60	(60)				
Share based compensation .....			1,575				1,575
Balances at December 31, 2021 .....	361,719	\$ 175,383	\$ 971,337	\$ 9,765,583	\$ (2,340,965)	\$ (7,510,829)	\$ 1,060,509

\*Par Value balance reflects corrected entry.

See accompanying notes to financial statements.

# Statements of Cash Flows

Years Ended December 31

	2021	2020	2019
Cash flows from operating activities:			
Net (loss) income .....	\$ (406,330)	\$ 1,196,464	\$ 401,433
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation .....	878,130	918,982	940,679
Bad debt expense .....	—	—	—
Share based compensation expense .....	1,575	2,020	4,975
Amortization of retirement plans actuarial gain.....	276,804	241,393	307,495
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable, net .....	192,895	(356,654)	141,471
(Increase) decrease in inventories .....	(194,580)	336,642	(189,091)
Decrease (increase) in prepaid expenses and other current assets.....	36,790	(66,655)	95,610
Increase (decrease) in accounts payable .....	494,328	(485,488)	41,737
Decrease in accrued expenses.....	(48,667)	(72,884)	(340,568)
Decrease in obligations under benefit plans .....	(423,197)	(631,207)	(349,815)
Decrease in other liabilities .....	(307,262)	(24,696)	—
Net cash provided by operating activities .....	500,486	1,057,917	1,053,926
Cash flows from investing activities:			
Capital expenditures .....	(989,838)	(720,850)	(557,191)
Net cash used in investing activities.....	(989,838)	(720,850)	(557,191)
Cash flows from financing activities:			
Net proceeds from (repayment of) short-term debt.....	202,852	(54,922)	(178,767)
Net (repayment of) proceeds from long-term debt.....	(100,204)	(202,100)	616,120
Debt issuance costs, net. ....	19,107	21,558	(178,433)
Net cash provided by (used in) financing activities .....	121,755	(235,464)	258,920
Net (decrease) increase in cash and cash equivalents .....	(367,597)	101,603	755,655
Cash and cash equivalents at beginning of year .....	1,013,317	911,714	156,059
Cash and cash equivalents at end of year .....	\$ 645,720	\$ 1,013,317	\$ 911,714
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest .....	\$ 227,881	\$ 226,928	\$ 375,054

See accompanying notes to financial statements.

# Notes to Financial Statements

December 31, 2021, 2020 and 2019

## Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**DESCRIPTION OF BUSINESS:** Homasote Company is in the business of manufacturing wood fiberboard products used in a variety of building material applications including sound insulation, thermal insulation, floor and roof decking and interior tack panels. The Company also manufactures an industrial packaging product line consisting primarily of glass, paper and metal separators. Sales in 2021 were distributed as follows: Building material wholesalers and contractors, approximately 56%; industrial manufacturers, approximately 44% and in 2020, building material wholesalers and contractors, approximately 60%; industrial manufacturers, approximately 40% and in 2019, building material wholesalers and contractors, approximately 58%; industrial manufacturers, approximately 42%. The Company's primary basic raw material, post-consumer wastepaper, is generally readily available from various regional suppliers.

**CASH AND CASH EQUIVALENTS:** The Company considers all highly liquid debt instruments purchased with a maturity of ninety days or less to be cash equivalents.

**INVENTORY VALUATION:** Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

**PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line and various accelerated methods at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred. Alterations and major overhauls which extend the lives or increase the capacity of plant assets are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts with any gain or loss realized upon sale or disposal charged or credited to operations.

**PRODUCT WARRANTIES:** Product warranty costs are accrued when the covered products are delivered to the customer. Product warranty expense is recognized based on the terms of the product warranty and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires. The table presents the changes in the Company's accrual for product warranties, which is included in accrued expenses, for the years ended December 31, 2021 and 2020.

	2021	2020
Balance at January 1 .....	\$ 7,500	\$ 5,000
Accruals and adjustments for product warranties issued during the period .....	0	2,500
Settlements made during the period .....	0	0
Balance at December 31 .....	<u>\$ 7,500</u>	<u>\$ 7,500</u>

**REVENUE RECOGNITION:** Revenue from product sales is recognized when the related goods are shipped and title and risk of loss pass to the buyer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for those goods. The Company generally has no obligations after the product is shipped except for routine and customary warranties for which the Company accrues a reserve at the time of sale based on historical experience. All revenue of the Company is recognized at a point in time.

The Company considered several factors in determining that control transfers to the customer upon shipment of goods. These factors include that legal title transfers to the customer, the Company has a right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. Sales (and similar) taxes that are imposed on our sales and collected from customers are excluded from revenues.

**NET EARNINGS PER SHARE:** Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 260, *Earnings Per Share*, requires presentation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the period.

**BUSINESS AND CREDIT CONCENTRATIONS:** Sales of the Company's products are dependent upon the economic conditions of the housing and manufacturing industries. Changes in these industries may significantly affect management's estimates and the Company's performance.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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## Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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The Company's customers are located throughout the United States of America. Additionally, export sales, 80% to Canada and the balance to other countries, accounted for approximately 2.5%, 2.0% and 3.0% of the Company's sales in the years ended December 31, 2021, 2020 and 2019, respectively. One customer accounted for 13%, 15% and 12% of the Company's sales in 2021, 2020 and 2019, respectively. Additionally, one customer accounted for 10% of accounts receivable at December 31, 2021 and 12% at December 31, 2020.

**ACCOUNTS RECEIVABLE:** The Company records accounts receivable at net realizable value. This value includes an appropriate allowance for uncollectible accounts to reflect any loss anticipated on the accounts receivable balances. The Company calculates this allowance based on the history of write-offs, level of past-due accounts based on the contractual terms of the receivables, and the Company's relationships with and economic status of its customers.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:** Cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses are reflected in the financial statements at carrying value, which approximates fair value due to the short-term nature of these instruments. The carrying value of the Company's borrowings approximates their fair value based on the current rates available to the Company for similar instruments.

**PENSIONS AND OTHER POSTRETIREMENT PLANS:** The Company has a non-contributory pension plan covering substantially all of its employees who meet age and service requirements. Employees hired subsequent to April 1, 2010 are not eligible to enter the pension plan. Effective March 1, 2012 the pension plan was amended to discontinue benefit accruals. Additionally, a supplemental non-contributory plan, curtailed for active employees in 2005, covers certain retired key employees of the Company. The Company also provides certain health care benefits, discontinued for new employees hired on or after January 1, 2005, to retired employees. The Company records annual expenses relating to its pension benefit and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return and turnover rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The expected long-term rate of return on plan assets assumption was updated as of January 1, 2021 from 8.5% to 6.25%. The update relied upon a

review of the Plan's strategic asset allocation and duration of the Plan's liabilities and the judgement of the Plan's advisors. The change resulted in an increase in net periodic pension cost for the year ended December 31, 2021 with no impact on the Plan's benefit obligation. The effects of the gains, losses, and prior service costs and credits are amortized over future service periods. In accordance with FASB ASC 715, the funding status, or projected benefit obligation less plan assets, if any, for each plan, is reflected on the Company's balance sheet.

Refer to Note 7 (Post Employment Benefit Plans).

**SHARE-BASED COMPENSATION COSTS:** The Company has an incentive plan (the "2008 Stock Plan") which rewards "key persons", as defined, with restricted shares of Common Stock. Shares awarded vest in four equal annual installments based on the date of grant. The cost of these awards is determined using the market price of the shares on the date of grant. Compensation expense is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting. On December 13, 2010 the 2008 Stock Plan was amended and restated (the "Amended Stock Plan"). Shares awarded to employees under the Amended Stock Plan vest in five equal annual installments based on the date of grant. Other provisions of the stock award incentive plan continue substantially unchanged.

Refer to Note 8 (Share-based Compensation).

**INCOME TAXES:** In accordance with FASB ASC 740, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when in the opinion of management, it is more likely than not, that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The Company has adopted accounting guidance related to accounting for uncertainty in income taxes. Under the "more-likely-than-not" threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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## Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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give rise to the non-recognition of an existing tax benefit. As of December 31, 2021, 2020 and 2019, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of Selling, general and administrative expense.

**IMPAIRMENT OF LONG-LIVED ASSETS:** Long-lived assets, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows.

**USE OF ESTIMATES:** 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas in which the Company makes such estimates include inventory valuation, the valuation of long-lived assets, accounts receivable, deferred tax assets and pension and postretirement benefits, among others. Actual results could differ from those estimates.

**RECLASSIFICATIONS:** Certain financial statement amounts reported in prior periods have been reclassified to conform with the current year presentation. The reclassifications did not impact the Company's net income or net income per share.

**RECENT ACCOUNTING PRONOUNCEMENTS:** In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective

or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year. The updated standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The updated standard was effective for the Company for the year ended December 31, 2018. The adoption of this standard did not have a material effect on the Company's financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). Historically U.S. GAAP required entities to measure inventory at the lower of cost or market. When measuring inventory, "market" could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 does not apply to inventory measured using the last-in, first-out method or the retail inventory method. The ASU applies to all other inventory, which includes inventory measured using the first-in, first-out method or the average cost method. Inventory within the scope of ASU 2015-11 now is required to be measured at the lower of cost and net realizable value. Net realizable value is defined as "the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." ASU 2015-11 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2016. ASU 2015-11 was effective for the Company for the year ended December 31, 2017, the standard was adopted with no material effect on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), revising accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires the recognition of a right of use asset and lease liability for those leases currently classified as operating leases while also refining the definition of a lease. In addition, lessees will be required to disclose key information about the amount, timing and uncertainty of cash flows arising from leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, and was effective for the Company for the year ended December 31, 2019. As originally released, ASU 2016-02

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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## Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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required application at the beginning of the earliest comparative period presented at the time of adoption. In July 2018, the FASB issued further guidance providing the option to instead apply the provisions of ASU 2016-02 at the effective date, without adjusting the comparative periods presented. The adoption of this standard did not have a material effect on the Company's financial statements and related disclosures. ASU 2016-02 was adopted on January 1, 2019 and management assessed that the Company's operating leases consist of four equipment leases, which are immaterial both individually and in the aggregate. As such, the Company did not record additional lease assets and lease liabilities on the balance sheet. Additionally, the Company did not record a cumulative effect adjustment to opening retained earnings.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice and affects all entities required to present a statement of cash flows under Topic 230. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU was effective for the Company on January 1, 2018, the standard was adopted with no material effect on its financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost* ("ASU 2017-07"). ASU 2017-07 requires that the service cost component of net periodic pension and postretirement benefit cost be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period, and the other components of net benefit cost be reported separately from the service cost component and below operating income. The standard also allows only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 is effective for public entities for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted.

The standard is to be applied retrospectively for the presentation of net benefit cost in the income statement and prospectively for the capitalization of the service cost component of net benefit cost, as applicable. The Company adopted ASU 2017-07 on January 1, 2018 on a retrospective basis. As permitted by the new guidance, the Company used the amounts disclosed in Note 7, Post Employment Benefit Plans, for the prior comparative periods as the basis for applying the retrospective reclassifications. Only the service cost component of pension and postretirement benefit costs is included in Operating Income. For the year ended December 31, 2017, the Company reclassified \$187,379 of non-service related Net Periodic Benefit Cost from Selling, general and administrative expense to a new line item, NPBC-other components, in Other income (expense). Adoption of this guidance had no effect on the Net income, Net earnings per common share or Statement of cash flows of the Company.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), clarifying when a change to the terms or conditions of a stock-based payment award must be accounted for as a modification. This guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 was effective for the Company on January 1, 2018, the standard was adopted on a prospective basis and did not impact the Company's financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, ("ASU 2018-14"). This guidance removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and requires certain additional disclosures. ASU 2018-14 is effective for public entities on a retrospective basis for the year ended December 31, 2020, with early adoption permitted. The ASU was adopted by the Company on January 1, 2019 with no material effect on its financial statements and related disclosures.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 2 – INVENTORIES

The following are the major classes of inventories as of December 31:

	2021	2020
Finished goods.....	\$ 674,107	\$ 575,516
Work in process .....	73,776	23,920
Raw materials.....	467,352	421,219
	<u>\$ 1,215,235</u>	<u>\$ 1,020,655</u>

Inventories include the cost of materials, labor and manufacturing overhead.

## Note 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

	2021	2020	Estimated Useful Lives
Land .....	\$ 591,491	\$ 591,491	
Buildings and additions .....	12,922,469	12,300,746	10-50 years
Machinery and equipment .....	36,070,623	35,743,362	3-20 years
Office equipment.....	1,554,911	1,514,057	3-10 years
Automotive equipment .....	601,868	601,868	3-5 years
Cogeneration system .....	3,614,059	3,614,059	20 years
	<u>55,355,421</u>	<u>54,365,583</u>	
Less accumulated depreciation .....	<u>47,930,596</u>	<u>47,052,466</u>	
	<u>\$ 7,424,825</u>	<u>\$ 7,313,117</u>	

Depreciation expense was \$878,130, \$918,982 and \$940,679 for the years ended December 31, 2021, 2020 and 2019, respectively.

## Note 4 – DEBT

On May 21, 2015, the Company amended and extended its Credit Facilities Agreement (the “Agreement”) with ACF Finco I LP, successor-in-interest to Keltic Financial Partners II, LP (the “Lender”). During the year ended December 31, 2019, all debt related to the Agreement was refinanced with a new lender. The Agreement was comprised of a term loan (the “Term Loan”) and a revolving credit facility (the “Revolving Credit Facility”). The Term Loan, in the amount of \$3,166,667 was payable in 42 equal installments of \$45,833.33 commencing on June 1, 2015 and in one installment on December 14, 2018 equal to the then outstanding and unpaid principal and interest amount. Under the Revolving Credit Facility, the Company could borrow up to specified percentages of eligible receivables and inventory, as defined, in an aggregate amount not to exceed

\$2,500,000. Interest on each loan was payable monthly at the greatest of (a) the Lender’s prime rate, as defined (5.50% at December 31, 2018) plus 2.75%, (b) the LIBOR Rate, as defined, plus 5.25%, or (c) 6.00%. The Agreement further provided for an annual facility fee in the amount of \$56,667 payable in equal monthly installments, a monthly collateral management fee of \$1,500 and a closing fee of \$62,370 paid at the loan settlement and certain other expenses of the Lender. The Agreement contained financial and other covenants including minimum EBITDA and limitations on other indebtedness, capital expenditures and dividends. For the measurement periods in 2018 all covenants were satisfied by the Company. Loans and advances under the Agreement were collateralized by substantially all of the Company’s assets, including real property.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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On July 6, 2012, the Company and Caterpillar Financial Services Corporation ("Caterpillar") agreed to terminate an operating lease arrangement for an on-site cogeneration system to supply substantially all of the Company's electricity requirements and thermal energy for the pulping process. Caterpillar agreed to refinance the remaining balance outstanding under the lease, subject to the terms and conditions of the Security Agreement and Promissory Note (the "Caterpillar Agreement"). The Caterpillar Agreement provides for payment of the principal amount of \$3,467,852 over a term of seven years commencing August 1, 2012 with interest on the outstanding principal at 5.9% per annum. Principal and interest are payable in unequal monthly installments in accordance with an amortized payment schedule, with a final payment due on August 1, 2019. During the year ended December 31, 2019, the balance of the Caterpillar agreement was paid in full as a result of the refinancing of the Company's debt.

On August 8, 2019 the Company entered into a secured financing agreement with PNC Bank, National Association and PNC Equipment Finance LLC ("PNC"). The new debt agreements provide for a revolving line of credit, commercial mortgage and equipment financing. The one year \$3,000,000 revolving line of credit bears interest at LIBOR plus two hundred seventy-five (275) basis points. The Company may borrow on the line at a percentage of its inventory and outstanding account receivable, which also collateralize the line of credit. The \$2,180,000 commercial mortgage has a fifteen (15) year repayment term and bears interest at LIBOR plus two hundred seventy-five (275) basis points. The Company also entered into a swap agreement related to the commercial mortgage. The mortgage is collateralized by the building and other assets of the Company. The equipment financing allows the Company to borrow up to \$1,200,000 over a twelve (12) month period, which at the end of the twelve-month period will convert to a seven year term loan bearing interest at LIBOR plus two hundred seventy-five (275) basis points. The equipment financing is collateralized by the equipment it relates to. The unused credit was \$0, based on eligible receivables and inventory as of December 31, 2021 and 2020. The outstanding amount on the revolving line of credit was \$1,868,110 and \$1,665,228, for the years ended December 31, 2021 and 2020, respectively. The outstanding amount in the commercial mortgage

was \$1,932,322 and \$2,041,768, for the years ended December 31, 2021 and 2020, respectively. The outstanding amount on the equipment financing loan was \$803,211 and \$744,888 for the years ended December 31, 2021 and 2020, respectively. The Agreement contains financial and other covenants including minimum EBITDA and minimum fixed charge coverage ratio. All covenants were satisfied by the Company for the measurement periods in 2021 and 2020.

From June 2015 through December 2018 the Company executed purchase agreements with two lenders covering ten vehicles with original costs ranging between \$33,269 to \$46,838. Principal and interest are payable in monthly installments ranging between \$491 and \$847 over periods of sixty to seventy-two months with interest rates ranging between 1.9% to 6.5%. Final payments are due between September 2022 and January 2025. Vehicle loans are collateralized by related vehicles. As of December 31, 2021, outstanding amounts due under the loans, including current portion, were \$64,480.

In February 2015, the Company purchased a 2014 Kubota wheel loader. The Company secured a purchase agreement with Kubota Credit Corporation USA for the payment of \$62,656 over a term of four years commencing March 12, 2015 with 0% interest per annum. Principal is payable in equal monthly installments of \$1,305.34 per month, with a final payment due in February 2019. As of December 31, 2018, the outstanding amount, including current portion, was \$2,611. The balance of the agreement was paid off during the year ended December 31, 2019.

The balance of long-term debt, including current portion, outstanding at December 31, 2021 and 2020 was \$2,800,013 and \$2,900,217, respectively. Aggregate maturities of long-term debt as of December 31, 2021 are as follows: \$306,153 in 2022, \$311,416 in 2023, \$314,081 in 2024, \$294,755 in 2025, \$261,713 in 2026 and \$1,311,895 thereafter.

Total interest costs incurred during 2021, 2020 and 2019 were \$246,263, \$245,486, and \$400,30, respectively.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 5 – ACCRUED EXPENSES

Accrued expenses as of December 31, 2021 and 2020 consist of the following:

	2021	2020
Commissions.....	\$ 43,980	\$ 61,662
Payroll .....	80,589	77,307
Warranty claims.....	7,500	7,500
Maintenance CoGen .....	—	43,685
Professional Fees .....	107,750	105,250
Environmental .....	—	—
Other .....	57,099	50,181
	<u>\$ 296,918</u>	<u>\$ 345,585</u>

## Note 6 – INCOME TAXES

During 2021, 2020 and 2019, the Company had no current tax expense as a result of current losses incurred or utilization of net operating loss carryforwards coupled with a change in the deferred tax valuation allowance which was equal to the change in deferred tax assets and liabilities.

The actual income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 21% for the years ended December 31, 2021, 2020 and 2019 to income before income tax expense as a result of the following:

	2021	2020	2019
Computed “expected” tax expense .....	\$ (85,329)	\$ 250,314	\$ 84,301
Change in valuation allowance.....	155,837	122,699	\$ 22,448
Other .....	(70,508)	(373,013)	(106,749)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31 are presented below:

	2021	2020
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts.....	\$ 10,120	\$ 10,120
Inventories, due primarily to cost capitalization.....	53,730	49,628
Other liabilities, principally due to supplemental pension and postretirement costs .....	189,888	213,114
Nondeductible accrued expenses .....	24,492	20,276
Net operating loss carryforwards – federal and state.....	2,282,127	2,208,479
Alternative minimum tax credit.....	7,360	7,360
Total deferred tax assets.....	2,567,717	2,508,977
Less valuation allowance.....	1,783,099	1,627,262
Net deferred tax assets .....	<u>784,618</u>	<u>881,714</u>
Deferred tax liabilities:		
Fixed assets, due to accelerated depreciation.....	256,817	238,891
Other assets, due to pension costs .....	527,801	642,823
Total deferred tax liabilities .....	<u>784,618</u>	<u>881,714</u>
Net deferred tax assets .....	<u>\$ —</u>	<u>\$ —</u>

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 6 – INCOME TAXES (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2021. The amount of net deferred tax assets considered realizable,

however, could be reduced in the near term if estimates of future taxable income are reduced.

The net change in the total valuation allowance for the year ended December 31, 2021 was an increase of \$155,837. The net change in the total valuation allowance for the year ended December 31, 2020 was an increase of \$122,698. In addition, at December 31, 2021, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately \$10,553,067 and \$927,967, respectively, which are available to reduce future income taxes, if any. The net operating loss carryforwards will begin to expire in year 2020 for federal and 2029 for state tax purposes.

## Note 7 – POST EMPLOYMENT BENEFIT PLANS

The Company has a noncontributory defined benefit retirement plan (the "Pension Plan") covering all eligible employees. Benefits under the Pension Plan are calculated at a rate of \$23.00 per month per year of service, as defined. The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to contribute approximately \$297,000 to the Pension Plan in 2022. On December 17, 2009 the Board of Directors of the Company resolved that employees hired on or subsequent to April 1, 2010 are not eligible to enter the Pension Plan. On December 2, 2011 the Board of Directors of the Company resolved that the Pension Plan be amended to discontinue benefit accruals effective March 1, 2012.

A supplemental non-contributory plan (the "Supplemental Plan") covering certain key employees of the Company provides retirement benefits based upon the employee's compensation, as defined, during the highest five of the last ten consecutive years preceding retirement. The Company's policy for funding the Supplemental Plan is to contribute amounts determined at the discretion of management. As of December 31, 2021 and 2020, the plan was unfunded. On May 11, 2005 the Board of Directors of the Company resolved to terminate the Supplemental Plan for all current employees not already receiving benefits. The termination was recognized as a curtailment gain in 2005. Additionally, as of June 1, 2005, the benefit payments of retired participants were reduced to 50% of their actuarially determined benefit. The payment of the balance of such benefits was deferred and included as an other liability (\$512,578 at December 31, 2021 and 2020) until such time as the Board of Directors determined that it was prudent to either reinstate the full monthly payment as it accrues and/or to begin paying the deferred portion. On September 16, 2013 the Board of Directors of the Company

resolved to reinstate, as of October 1, 2013, the full monthly payment of such benefits as earned. The estimated amount of such benefits payable during the year ended December 31, 2022, \$38,000, is included in current liabilities on the balance sheet of the Company.

The Company also provides a portion of certain health care benefits for eligible retired employees and their spouses who have reached the age of 65. Partial benefits are provided to eligible early retirees who have reached the age of 62. Employees hired on or subsequent to January 1, 2005 are not eligible for retiree health benefits. The Company's policy is to fund the cost of health care benefits for retirees in amounts determined at the discretion of management. As of December 31, 2021 and 2020, the plan was unfunded. Effective July 1, 2005 the Company reduced its contribution to the postretirement benefit plan for all current and future retirees by 50% of the portion paid by the Company prior to such date. On November 10, 2017 the Board of Directors of the Company resolved to allow eligible retirees and their spouses hired after January 1, 2005 to elect participation in the plan, but be required to contribute 100% of the cost. The estimated amount of benefits payable during the year ended December 31, 2022, \$10,000, is included in current liabilities on the balance sheet of the Company.

The Company uses a December 31 measurement date for the pension and other postretirement benefit plans. Year-end asset and obligation amounts are disclosed as of the plan measurement dates.

The following tables set forth the Company's defined benefit, supplemental pension and postretirement benefit plans' benefit obligations, fair value of assets, funded status and other information:

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan		Supplemental Plan		Postretirement Benefits	
	2021	2020	2021	2020	2021	2020
<b>Change in benefit obligation</b>						
Benefit obligation at beginning						
of year .....	\$ 11,446,881	\$ 10,859,963	\$ 317,905	\$ 386,833	\$ 143,665	\$ 163,814
Service cost .....	—	—	—	—	1,578	1,435
Interest cost .....	313,112	377,136	8,498	11,863	3,864	5,649
Actuarial loss (gain) .....	(344,540)	752,624	(35,830)	(23,059)	(25,619)	(13,630)
Benefits paid .....	(549,401)	(542,842)	(50,603)	(57,732)	(11,075)	(13,603)
Benefit obligation at end of year .....	10,866,052	11,446,881	239,970	317,905	112,413	143,665
<b>Accumulated benefit obligation</b>						
at end of year .....	10,866,052	11,446,881	239,970	317,905	—	—
<b>Change in plan assets</b>						
Fair value of plan assets at						
beginning of year .....	8,648,042	7,820,919	—	—	—	—
Actual return on plan assets .....	897,521	1,050,381	—	—	—	—
Employer contributions .....	328,894	517,152	50,603	57,732	11,075	13,603
Administrative expenses .....	(209,491)	(197,568)	—	—	—	—
Benefits paid .....	(549,401)	(542,842)	(50,603)	(57,732)	(11,075)	(13,603)
Fair value of plan assets at end						
of year .....	9,115,565	8,648,042	—	—	—	—
<b>Funded status</b>						
Benefit obligation in excess of						
plan assets .....	\$ (1,750,487)	\$ (2,798,839)	\$ (239,970)	\$ (317,905)	\$ (112,413)	\$ (143,665)
<b>Amounts recognized in balance sheets</b>						
Current benefit liability .....	\$ —	\$ —	\$ (38,000)	\$ (55,000)	\$ (10,000)	\$ (13,000)
Non-current benefit liability .....	(1,750,487)	(2,798,839)	(201,970)	(262,905)	(102,413)	(130,665)
Net liability recognized .....	(1,750,487)	\$ (2,798,839)	\$ (239,970)	\$ (317,905)	\$ (112,413)	\$ (143,665)
Unrecognized actuarial loss (gain) .....	2,664,103	3,648,684	(93,918)	(66,565)	(229,220)	(230,008)
Accumulated other comprehensive						
loss (income) .....	\$ 2,664,103	\$ 3,648,684	\$ (93,918)	\$ (66,565)	\$ (229,220)	\$ (230,008)

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan			Supplemental Plan		
	2021	2020	2019	2021	2020	2019
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ 170,714	\$ 211,984	\$ 183,419	\$ —	\$ —	\$ —
Interest cost.....	313,112	377,136	455,516	8,498	11,863	19,119
Expected return on plan assets .....	(530,391)	(650,787)	(561,792)	—	—	—
Recognized actuarial loss (gain) .....	311,688	281,385	343,887	(8,477)	(12,207)	(5,924)
Net periodic benefit cost .....	<u>\$ 265,123</u>	<u>\$ 219,718</u>	<u>\$ 421,030</u>	<u>\$ 21</u>	<u>\$ (344)</u>	<u>\$ 13,195</u>

	Postretirement Benefits		
	2021	2020	2019
<b>Components of net periodic benefit cost:</b>			
Service cost.....	\$ 1,578	\$ 1,435	\$ 1,201
Interest cost.....	3,864	5,649	7,398
Expected return on plan assets .....	—	—	—
Recognized actuarial gain .....	(26,407)	(27,785)	(30,468)
Net periodic benefit cost .....	<u>\$ (20,965)</u>	<u>\$ (20,701)</u>	<u>\$ (21,869)</u>

Service cost is recorded in Selling, general and administrative expense. All other components of Net periodic benefit costs are recorded in Other income (expense).

	Pension Benefits			Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
<b>Assumptions:</b>						
<b>Weighted-Average Assumptions used to determine net periodic benefit cost for years ended December 31:</b>						
Discount rate .....	2.82%	3.63%	4.60%	2.82%	3.63%	4.60%
Expected long-term return on plan assets .....	6.25%	8.50%	8.50%	N/A	N/A	N/A

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
<b>Weighted-Average Assumptions used to determine benefit obligations at December 31:</b>				
Discount rate .....	3.11%	2.82%	3.11%	2.82%

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

### Assumed Health Care Cost Trend

For measurement purposes, no health care cost trend rate of increase was assumed for 2021. The Company's monthly-paid benefit for each participant is fixed at the amount as of January 1, 2003 and further adjusted as of July 1, 2005 as discussed above.

### Plan Assets

The asset allocation for the Pension Plan at the end of 2021 and 2020, and the target allocation for 2022, by asset category, are as follows:

	Target Allocation	Percentage of the Plan Assets at end of year	
	2022	2021	2020
Equity Mutual Funds .....	60%	61%	61%
Debt Mutual Funds .....	40%	38%	39%
Cash and Cash Equivalents.....	0%	1%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The target asset allocations reflect the investment strategy of the outside Custodian and Asset Manager of the plan assets appointed by the Pension Plan Committee of the Board of Directors, and the current funded status, within an appropriate level of risk. On February 27, 2020 the target asset allocations were modified and rebalanced from 70% equity and 30% debt mutual funds to 60% equity and 40% debt mutual funds. No equity investments within plan assets include Homasote Company common stock. The expected long-term rate of return on plan assets reflects the strategic asset allocation of the funds invested or to be invested to provide for the benefits included in the projected benefit obligation.

FASB ASC 820 10, *Fair Value Measurements and Disclosures*, establishes a framework and provides guidance on measuring the fair value of assets in a pension plan and how an employer should disclose the same. The framework establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

The following table sets forth by level, within the fair value hierarchy, the Pension Plan assets at fair value as of the dates indicated.

Plan Assets	December 31, 2021			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 85,797	—	—	\$ 85,797
Equity mutual funds	3,453,144	—	—	3,453,144
Debt mutual funds	5,576,624	—	—	5,576,624
Fair value of plan assets	<u>\$ 9,115,565</u>	<u>—</u>	<u>—</u>	<u>\$ 9,115,565</u>

Plan Assets	December 31, 2020			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 38,627	—	—	\$ 38,627
Equity mutual funds	5,268,377	—	—	5,268,377
Debt mutual funds	3,341,038	—	—	3,341,038
Fair value of plan assets	<u>\$ 8,648,042</u>	<u>—</u>	<u>—</u>	<u>\$ 8,648,042</u>

## Benefit Payments

The following table summarizes expected benefit payments from pension and postretirement plans through 2031. Actual benefit payments may differ from expected benefit payments.

	Pension Benefit	Supplemental Plan	Postretirement Benefits
2022	\$ 670,000	\$ 38,000	\$ 10,000
2023	669,000	35,000	9,000
2024	681,000	31,000	8,000
2025	673,000	28,000	8,000
2026	662,000	25,000	7,000
2027-31	3,296,000	83,000	32,000

## Savings Plan

The Company has a voluntary savings plan (the “Savings Plan”) for which all employees are eligible. The Savings Plan had provided for the Company to contribute a minimum of \$0.25 for every dollar contributed by employees, up to 4% of their compensation, as defined. Effective October 1, 2018, the Board of Directors resolved to increase the Company contribution to a minimum of \$.50 for every dollar contributed by employees, up to 4% of their compensation, as defined. The Savings Plan qualifies and meets the requirements under Section 401(k) of the Internal Revenue Code. Company contributions charged to operations under this Plan amounted to \$65,648 in 2021, \$72,481 in 2020 and \$59,940 in 2019.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

## Note 8 – SHARE-BASED COMPENSATION

On October 24, 2008, the Board adopted the 2008 Stock Incentive Plan (the “2008 Stock Plan”). No stock was awarded in 2010 or 2009 under the 2008 Stock Plan. On December 13, 2010, the 2008 Stock Plan was amended and restated (the “Amended 2008 Plan”). The Amended 2008 Plan authorizes the issuance of restricted stock to “key persons” including officers, employees, directors and consultants to provide an incentive to enter and remain in the service of the Company, enhance the long-term performance of the Company and acquire a proprietary interest in the success of the Company. An aggregate of 35,000 shares of the Company’s stock is available for issuance under the Amended 2008 Plan and a total of 22,080 shares, net of cancellations, remain available as of December 31, 2021 for future grants of stock.

The Amended 2008 Plan is administered by a Compensation Committee selected by the Board and consisting of not less than two non-employee directors. The Compensation Committee may amend or modify the Amended 2008 Plan and take all action necessary to administer it without prior Board approval.

Stock available for issuance under the Amended 2008 Plan may be from unissued Common Stock, issued Common Stock held in the Company’s treasury or stock acquired by the Company for the purposes of the Amended 2008 Plan. Shares issued under the Amended 2008 Plan are subject to certain restrictions including continued service to the Company, non-transferability and repurchase rights, as defined, and such other restrictions as may be determined at the time of grant. A maximum of 3,500 shares of Common Stock may be granted annually to any key person under the Amended 2008 Plan. Shares awarded to employees under the Amended 2008 Plan vest in five equal annual installments based on the date of grant. The cost of these awards is determined using the market price of the shares on the date of grant. Compensation expense is recognized over the requisite vesting period into Selling, general and administrative expense and paid-in surplus and adjusted for actual forfeitures before vesting.

On December 2, 2015 the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 300 fully paid and non-assessable shares of stock to each of six employees of the Company. The shares vest in five equal annual installments based on the date of grant. In 2017, 180 non-vested shares of said grant were forfeited when an employee did not continue in service. Additionally, on such date, 100 fully paid and non-assessable shares were granted to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On November 1, 2016, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On November 10, 2017, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On October 2, 2018, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On September 20, 2019, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On October 19, 2020, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On October 4, 2021, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of three non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

The total fair value of shares vested and compensation incurred pursuant to the Amended 2008 Plan in 2021, 2020 and 2019 was \$1,575, \$2,020 and \$4,975, respectively. As of December 31, 2021 there was \$0 of unrecognized compensation cost related to non-vested share-based compensation under the Amended 2008 Plan.

# Notes to Financial Statements

December 31, 2021, 2020 and 2019

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## Note 9 – TREASURY STOCK

The Company has a policy offering directors, officers and employees the option to purchase reacquired shares of Homasote Company common stock on the date acquired and at

the purchase price paid by the Company. No shares were acquired or sold in 2021, 2020 or 2019.

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## Note 10 – COMMITMENTS AND CONTINGENCIES

On July 6, 2012, following resolution of certain operational problems with a cogeneration system ("Cogen System"), the Company successfully completed negotiations with Caterpillar to terminate an operating lease arrangement and purchase the Cogen System. Caterpillar agreed to refinance the remaining balance outstanding under the lease of \$3,467,852 for a term of seven years, payable in a series of unequal monthly payments, commencing August 1, 2012 with interest at the rate of 5.9% per annum. The balance of the seven year loan term loan was paid off in the refinancing of the Company's debt during the year ended December 31, 2019.

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were \$36,036 in 2021. Lease payments subsequent to December 31, 2021 are as follows: 2022, \$23,011, 2023, \$13,708, 2024, \$13,708, and 2025, \$1,142.

The Company is a defendant in various asbestos litigation matters. The Company is being defended in these matters by its insurance carrier, who paid all prior defense and indemnity costs as of June 16, 2008. Although the Company believes that the limits of these policies are more than sufficient to cover these claims, the Company has been requested by its insurance carrier to pay a portion of the defense and indemnity costs for claims which occurred, in whole or in part, prior to 1965. The Company has worked to locate coverage for those periods but has not been able to do so. The Company continues to investigate the merits of these claims and intends to defend them vigorously.

On June 17, 2008, the insurance carrier and the Company signed an Interim Asbestos Claims Administration Agreement (the "Agreement") that defines how the parties will share past and future defense and indemnity costs from asbestos claims. The Agreement provided for a settlement of \$172,638 covering all prior costs. The Company further agreed to pay 6% of ongoing defense costs. The Company's agreed upon share of future indemnity costs varies from 0% to 10.49%, based on the claimant's date of first exposure. The Company incurred \$16,843 of such costs for the year ended December 31, 2021. The amount of such costs payable in the future is not determinable as of December 31, 2021. As of December 31, 2021 the Company recognized a provision of \$25,000 in its financial statements.

During the year ended December 31, 2019, while the Company was working through its debt financing with PNC Bank, it became aware of an oil spill that previously occurred which requires remediation. Based on a professional environmental study that was conducted, the Company accrued a liability of \$356,384 in the balance sheet at December 31, 2018. The Company worked with its environmental engineers and the New Jersey Department of Environmental Protection to perform the remediation. Subsequent to the remediation, the Company accrued a liability of \$58,009 in the balance sheet at December 31, 2019 to cover continued testing requirements.

During the normal course of business, the Company is from time to time involved in various claims and legal actions. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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## Note 11 – SUBSEQUENT EVENTS

On April 21, 2020, the Company entered into a term note agreement as part of the United States Small Business Administration's (the "SBA") Paycheck Protection Program. The funds are to be used to retain employees, as well as for rent and utilities. The loan is for a principal sum and bears interest at a rate of 1% per annum payable over a five-year period after a six-month interest and principal deferral period. The SBA loan may be forgiven if certain criteria are met. Beginning on the date of the loan through the six-month anniversary of the loan, interest on the principal balance will accrue, but no payments of interest will be due. On the sixth month anniversary of the loan, all principal that is not otherwise forgiven will convert to an amortizing term loan.

In June 2020, the American Institute of Certified Public Accountants (AICPA) issued Technical Question and Answer (TQA) No. 3200.18, *Borrower Accounting for a Forgivable Loan Received under the Small Business Administration Paycheck Protection Program*. The TQA was prepared after consultation with the staff of the FASB and the Securities and Exchange Commission.

Pursuant to TQA 3200.18, the Company has elected to treat the SBA Paycheck Protection Program funds as a government grant and therefore recognized the loan proceeds as other income for the year ended December 31, 2020 since the Company 1) expects to meet the PPP's eligibility criteria, and 2) considers the substance of the transaction a grant expected to be forgiven. The government assistance is recognized as income when there is reasonable assurance that a) any conditions tied to the assistance are satisfied, and b) the Company will receive the assistance. On August 18, 2021, the Company was notified that PNC received the loan forgiveness payment equal to \$1,526,700 on the PPP Loan 1886 from the SBA.

# Notes to Financial Statements (continued)

December 31, 2021, 2020 and 2019

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## Note 12 – SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2021 through June 16, 2022 for potential recognition and disclosure in the financial statements. The following events require such disclosure. Other than the events described below, there were no events that have occurred that would require adjustment to or disclosure in the financial statements, which were issued on June 16, 2022.

On April 30, 2014 the Company experienced a high voltage breakdown in its 4160V switchgear. This equipment was supplying electric power to the facility and the Cogen System. A temporary bypass was put in place to supply power to the plant. On August 2, 2014 the Company experienced another breakdown of the switchgear equipment. There are still significant matters to be resolved. The cost of the project will be financed by additional debt. The Company is continuing research and planning of the project.

The Company plans to install a heat exchanger to pre-heat the Coe dryer's combustion air stream, utilizing excess thermal energy generated by the Cogen System in the board drying process. Projected completion date of this System component was August 2013. However, due to engineering design changes, the planned completion date is 2023. The cost of such design changes has not been determined.

The Company continues needed roof repairs in the facility. The ongoing project began in late 2017. The Company anticipates approximately \$300,000 of additional roof repairs in 2022.

The Company plans the replacement and expansion of the sidehill screen platform located in the pulping department. The estimated cost is \$500,000 and the project will be completed in the third quarter of 2022.

The Company plans to rebuild the top end frame and cylinders of cogen engine #3. The estimated cost of the project is \$165,000 and the project is expected to be completed in the third quarter of 2022.

The Company is investigating a new dry dust collection system with briquetting. The estimated cost of the project is \$400,000 and the project will begin in the fourth quarter of 2022.

The Company plans on upgrading the controls of the Carter Day. The estimated cost of the project is \$105,00 and the project is expected to be completed in the fourth quarter of 2022.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

# Independent Auditors' Report

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To the Board of Directors and Shareholders of **Homasote Company**:

## **Report on the Financial Statements**

### ***Opinion***

We have audited the accompanying financial statements of Homasote Company (the "Company") which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years ended December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

### ***Basis of Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our ethical responsibilities in accordance with the relevant ethical requirements related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## Independent Auditors' Report (continued)

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planning scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Mercadieu, P.C.*

*Certified Public Accountants*

Hamilton, New Jersey

June 16, 2022

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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## General

This Annual Report, including our Letter to Shareholders and Employees and this Management's Discussion and Analysis and accompanying materials, may include forward-looking statements about the future that are necessarily subject to various risks and uncertainties. These statements are based on the beliefs and assumptions of management and on information currently available to management. These forward-looking statements are identified by words such as "believe", "estimate", "expect", "anticipate", "plan", "potential", "continue" and other similar expressions.

Factors that could cause future results to differ materially from those expressed in or implied by the forward-looking statements or historical results include the impact or outcome of:

- events or conditions that affect the building and manufacturing industries in general and the Company in particular, such as general economic conditions, employment levels, interest rates, inflation, costs of energy, weather, strikes, international unrest, terrorist acts and other factors;
- competitive, regulatory and market conditions, such as changes in choices regarding building materials by architects and builders and packing products by industrial firms;
- the performance of new products and the continued acceptance of current products in the marketplace;
- the execution of strategic initiatives and alliances and;
- other important factors disclosed previously and from time to time in the Company's Annual Report and other material.

Although the ultimate impact of the above and other factors are uncertain, these and other factors may cause future operating results to differ materially from results or outcomes we currently seek or expect. Therefore, the reader is cautioned not to rely on these forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements.

## Results of Operations 2021-2020

Net sales were relatively constant with an increase in 2021 of \$657,675 to \$19,048,002 from \$18,390,327 in 2020. The Company operates two sales divisions, Millboard and Industrial. The Company's millboard division serves several markets including the construction and renovation of multi-family dwellings, commercial office buildings, educational facilities, single-family dwellings and retail establishments. The primary channel of distribution is through a "two-step" model wherein wholesale distributors sell the Company's products to dealers that typically specialize in lumber and other forestry products. The millboard product line is led by 440 Sound-Barrier, followed by Homex expansion joint and NovaCork cork board. Net sales for the millboard division in 2021 decreased by \$319,587 or 3% to \$10,908,768 from \$11,228,355 in 2020. The decrease in sales is reflective of the results across the division as follows: the largest product line, millboard products decreased 7%; the Homex product line sales volume increased 4%; the Nova prefinished panels product line saw a sales volume decrease of 37%; while decking product sales decreased by 62%.

The Company's industrial (Pak-Line) division provides sustainable packaging solutions for users in three main manufacturing and finishing sectors: glass, paper and steel. Additionally, the division provides a variety of products to end-users as varied as appliance manufacturers and office furniture makers. Net sales for the industrial division in 2021 increased by \$977,262 or 14% to \$8,139,234 from \$7,161,972 in 2020.

Gross profit as a percentage of sales was 23.0% in 2021 and 23.8% in 2020. There was a 3% decrease in board production from 2021 as compared to 2020. There was a 2% decrease in the cost of natural gas, from an average cost of \$5.34 per dekatherm in 2020 to \$5.25 per dekatherm in 2021. The variance in the cost of natural gas between 2021 and 2020 based on 167,517 dekatherms purchased was \$15,077. There was a 60% increase in the cost of paper from an average of \$110 per ton in 2020 to \$176 per ton in 2021, based on 16,032 tons purchased. The effect on cost of sales was an increase of \$1,069,859 in overall paper costs.

Selling, general and administrative expenses decreased \$10,787 from \$4,479,560 in 2020 to \$4,468,773 in 2021.

Interest expense on debt increased to \$246,186 in 2021 from \$244,088 in 2020.

In 2020, other income consists primarily of \$1.6 million of forgiveness income due to the SBA Paycheck Protection Program as explained in Note 11. On August 18, 2021, the Company was notified that PNC received the loan forgiveness payment equal to \$1,526,700 on the PPP Loan 1886 from the SBA.

As a result of the foregoing, net loss in 2021 was (\$406,330) as compared to net income of \$1,196,464 in 2020.

## Results of Operations 2020-2019

Net sales were relatively constant with a decrease in 2020 by \$1,394,569 to \$18,390,327 from \$19,784,896 in 2019. The Company operates two sales divisions, Millboard and Industrial. The Company's millboard division serves several markets including the construction and renovation of multi-family dwellings, commercial office buildings, educational facilities, single-family dwellings and retail establishments. The primary channel of distribution is through a "two-step" model wherein wholesale distributors sell the Company's products to dealers that typically specialize in lumber and other forestry products. The millboard product line is led by 440 SoundBarrier, followed by Homex expansion joint and NovaCork cork board. Net sales for the millboard division in 2020 decreased by \$501,034 or 4% to \$11,228,355 from \$11,729,389 in 2019. The decrease in sales is reflective of the results across the division as follows: the largest product line, millboard products decreased 7%; the Homex product line sales volume increased 11%; the Nova prefinished panels product line saw a sales volume decrease of 16%; while decking product sales decreased by 32%.

The Company's industrial (Pak-Line) division provides sustainable packaging solutions for users in three main manufacturing and finishing sectors: glass, paper and steel. Additionally, the division provides a variety of products to end-users as varied as appliance manufacturers and office furniture makers. Net sales for the industrial division in 2020 decreased by \$893,535 or 11% to \$7,161,972 from \$8,055,507 in 2019.

Gross profit as a percentage of sales was 23.8% in 2020 and 27.8% in 2019. There was a 12% decrease in board production from 2020 as compared to 2019. There was a 5% increase in the cost of natural gas, from an average cost of \$5.08 per dekatherm in 2019

to \$5.34 per dekatherm in 2020. The variance in the cost of natural gas between 2020 and 2019 based on 167,685 dekatherms purchased was \$43,598. There was a 15% increase in the cost of paper from an average of \$95 per ton in 2019 to \$110 per ton in 2020, based on 15,987 tons purchased. The effect on cost of sales was a decrease of \$39,455 in overall paper costs because less paper was purchased in 2020 as compared to 2019.

Selling, general and administrative expenses decreased \$254,154 from \$4,733,714 in 2019 to \$4,479,560 in 2020. The decrease in selling, general and administrative expenses is due primarily to an overall decrease in advertising expense and travel related expenses that were suspended due to the pandemic.

Interest expense on debt decreased to \$244,088 in 2020 from \$396,841 in 2019. The decrease is due primarily to the lower interest rate secured by refinancing with PNC.

In 2020, other income consists primarily of \$1.6 million of forgiveness income due to the SBA Paycheck Protection Program as explained in Note 11.

As a result of the foregoing, net income in 2020 was \$1,196,464 as compared to net income of \$401,433 in 2019.

## Liquidity and Capital Resources

Cash flows from operating activities and bank borrowings are the primary sources of liquidity. Net cash provided by operating activities amounted to \$0.5 million in 2021 and \$1.1 million in 2020.

Working capital was \$(1.4) million at December 31, 2021, as compared to \$(0.4) million at December 31, 2020, a decrease of \$1.0 million. Decreased working capital is primarily the result of increased paper costs of \$1.0 million.

Capital expenditures for new and improved facilities and equipment, which are financed primarily through internally generated funds and debt, were \$1.0 million in 2021 and \$0.7 million in 2020. The Company estimated capital expenditures for 2022 in the amount of \$1.0 million for continued projects.

Cash flows provided by financing activities were \$0.1 million in 2021 and cash flows used in financing activities were \$(0.2) million in 2020. Refer to Note 4 (Debt) for explanation.

Management believes that cash flows from operations, coupled with its credit facilities, are adequate for the Company to meet its future obligations.

## Disclosures About Contractual Obligations and Commercial Commitments:

### Cash Payments Due by Period

	Total	Within Year 1	2-3 Years	4-5 Years	After 5 Years
Short-term debt.....	\$ 1,868,110	\$ 1,868,110	\$ —	\$ —	\$ —
Long-term debt (includes current portion).....	2,800,013	306,153	625,497	556,468	1,311,895
Operating leases.....	51,569	23,011	27,416	1,142	—
	<u>\$ 4,719,692</u>	<u>\$ 2,197,274</u>	<u>\$ 652,913</u>	<u>\$ 557,610</u>	<u>\$ 1,311,895</u>

In addition to the aforementioned contractual obligations and commercial commitments, the Company has certain benefit plan obligations (see Note 7 of the Company's financial statements) the timing of which is presently unknown and is contingent upon the retirement dates of the respective participants.

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were \$36,036 in 2021. Lease payments subsequent to December 31, 2021 are as follows: 2022, \$23,011; 2023, \$13,708; 2024, \$13,708; 2025, \$1,142.

## Critical Accounting Policies

Management is required to make certain estimates and assumptions during the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

The significant accounting policies are described in Note 1 of the Notes to Financial Statements included in the Company's 2021 Annual Report. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management considers the following policies to have the potential for the most significant impact on the financial statements.

### *Pension and Other Postretirement Benefits*

The costs and obligations of the Company's pension and retiree medical plans are calculated using many assumptions to estimate the benefit that the employee earns while working, the amount of which cannot be completely determined until the benefit payments cease. The most significant assumptions, as presented in Post Employment Benefit Plans (Note 7 of the Notes to Financial Statements), include discount rate, expected return on plan assets and mortality rates. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. Actual results may differ substantially from these assumptions. These differences may significantly impact future pension or retiree medical expenses.

Annual pension and retiree expense is principally the sum of five components: 1) value of benefits earned by employees for working during the year; 2) increase in liability from interest; 3) administrative expenses (Pension Plan only); less 4) expected return on plan assets (Pension Plan only); and 5) other gains and losses as

described below. The expected return on plan assets is calculated by applying an assumed long-term rate of return to the fair value of plan assets. In any given year, actual returns can differ significantly from the expected return. Differences between the actual and expected return on plan assets are combined with gains or losses resulting from the revaluation of plan liabilities. Plan liabilities are revalued annually, based on updated assumptions and information about the individuals covered by the plan. The combined gain or loss, together with prior service costs or credits, are recognized in AOCI in accordance with ASC 715 (see Note 7 of the Notes to Financial Statements) and generally expensed evenly over the remaining years that employees are expected to work.

The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to make cash contributions to the Pension Plan as required in 2022. The Company's policy for funding the Supplemental Plan and Postretirement Benefit Plan is to contribute benefits in amounts as determined at the discretion of management. As of December 31, 2021 and 2020, these Plans were unfunded.

#### Inventories

Inventories are valued at the lower of cost, (first-in, first-out) or net realizable value and have been reduced by an allowance for excess and obsolete inventories. The estimate is based on management's review of inventories on hand compared to estimated future usage and sales. Cost includes material, labor and manufacturing overhead.

#### Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Company does not have any goodwill or identifiable intangible assets.

#### Deferred Income Tax

A majority of the deferred tax assets, which have been recorded by the Company, represent net operating loss carryforwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2021. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

#### Accounts Receivable

The Company estimates an allowance for doubtful accounts after considering the collectability of balances due, the credit worthiness of the customer and its current level of business with the customer. Actual results could differ from these estimates.

#### Inflation and Economy

The Company will continue to maintain a policy of constantly monitoring such factors as product demand and costs, and will adjust prices as these factors and the economic conditions warrant.

### **Inflation and Economy**

The Company will continue to maintain a policy of constantly monitoring such factors as product demand and costs, and will adjust prices as these factors and the economic conditions warrant.

**Summarized (unaudited) quarterly financial data of the Company for years 2021 and 2020 are as follows:**

**(in thousands of dollars except per share data)**

	<u>2021</u>				<u>2020</u>			
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	\$ 4,475	\$ 4,901	\$ 4,065	\$ 5,607	\$ 5,008	\$ 3,799	\$ 4,655	\$ 4,928
Gross profit	\$ 987	\$ 1,048	\$ 689	\$ 1,659	\$ 1,474	\$ 395	\$ 1,327	\$ 1,184
Net earnings (loss)	\$ (215)	\$ (71)	\$ (499)	\$ 380	\$ 147	\$ 776	\$ 46	\$ 227

Net earnings (loss) per common share:

Basic	\$ (0.60)	\$ (0.20)	\$ (1.38)	\$ 1.05	\$ 0.41	\$ 2.15	\$ 0.13	\$ 0.63
Diluted	\$ (0.60)	\$ (0.20)	\$ (1.38)	\$ 1.05	\$ 0.41	\$ 2.15	\$ 0.13	\$ 0.63

**Valuation and Qualifying Accounts  
for years 2021, 2020 and 2019:**

	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Profit and Loss</u>	<u>Accounts Written Off</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2021				
Allowance for doubtful accounts	\$ 46,000	\$ —	\$ —	\$ 46,000
Year Ended December 31, 2020				
Allowance for doubtful accounts	\$ 46,000	\$ —	\$ —	\$ 46,000
Year Ended December 31, 2019				
Allowance for doubtful accounts	\$ 46,000	\$ —	\$ —	\$ 46,000

## Board of Directors

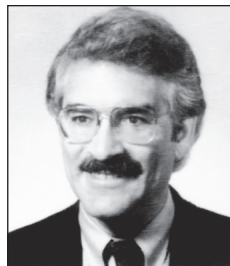
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**Jennifer D. Bartkovich**  
Corporate Secretary  
& Assistant Treasurer



**Ronald D. Fasano**  
Chief Financial Officer  
& Treasurer



**Michael R. Flicker**  
Attorney at Law



**Warren L. Flicker**  
Chairman of the Board,  
Chief Executive Officer



**John P. Outerbridge**  
Vice President,  
Carlson Wagonlit  
Harvey's Travel



**James M. Reiser**  
Retiree, Former Chief  
Financial Officer,  
Homasote Company

### Other Officer



**Peter Tindall**  
Vice President,  
Operations

#### Corporate Offices:

Homasote Company  
932 Lower Ferry Road,  
P.O. Box 7240  
West Trenton, New Jersey 08628-0240  
609-883-3300  
[www.homasote.com](http://www.homasote.com)

#### Stock Transfer Agent and Registrar

Computershare  
P.O. Box 505000  
Louisville, Kentucky 40233

**Common Stock Traded**  
[OTCMarkets.com](http://OTCMarkets.com)

#### Independent Auditors

Mercadien, P.C.,  
Certified Public Accountants  
Mail to:  
P.O. Box 7648  
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Located:  
3625 Quakerbridge Road  
Hamilton, New Jersey 08619



