



ANNUAL REPORT

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CREATIVE | RELIABLE | COMPOSITES
CORE MOLDING TECHNOLOGIES, INC.



Core Molding Technologies, Inc. is a manufacturer of sheet molding compound (SMC) and molder of thermoset and thermoplastic products. The Company produces high quality molded products, assemblies and SMC materials for varied markets, including medium and heavy-duty trucks, automotive, marine, home improvement, water management, agriculture, construction and other commercial markets. The Company offers customers a wide range of manufacturing processes to fit various program volume and investment requirements. These processes include compression molding of SMC, bulk molding compounds (BMC); resin transfer molding (RTM), liquid molding of dicyclopentadiene (DCPD), spray-up and hand-lay-up, glass mat thermoplastics (GMT), direct long-fiber thermoplastics (D-LFT) and structural foam and web injection molding. Core Molding Technologies has its headquarters in Columbus, Ohio, and operates production facilities in Columbus and Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota; Matamoros, Mexico, Escobedo, Mexico; and Cobourg, Ontario, Canada. Core's common stock is traded on the NYSE American LLC under the symbol "CMT."



INVESTOR INFORMATION

Share Trading

Shares of Core Molding Technologies common stock are traded on the NYSE American LLC under the symbol "CMT."

Notice of Annual Meeting

The Company's 2020 annual meeting will be held on June 15, 2020. The meeting will be held at the Company's Columbus, Ohio facility, 800 Manor Park Drive Columbus, Ohio 43228 and will convene at 9:00 a.m.

Investor Relations

Investor inquiries, including requests to obtain copies without charge of the Company's annual report as filed with the Securities & Exchange Commission, should be directed to:

Core Molding Technologies, Inc.
Investor Relations
800 Manor Park Drive
Columbus, OH 43228
Website: www.coremt.com

Stockholder Inquiries

Questions such as changes of address, name changes or lost certificates should be directed to the Company's stock transfer agent:

American Stock Transfer & Trust Co., LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449
info@amstock.com

SELECTED FINANCIAL HIGHLIGHTS (dollars in millions except per share numbers)

YEARS ENDED DECEMBER 31	2019	2018	2017	2016	2015
Net Sales	284.3	269.5	161.7	174.9	199.1
Operating Income (loss)	(11.5)	(3.1)	8.0	11.5	18.5
Net Income (loss)	(15.2)	(4.8)	5.5	7.4	12.1
Net Income (loss) per common share: Basic	(1.94)	(0.62)	0.71	0.97	1.59
Net Income (loss) per common share: Diluted	(1.94)	(0.62)	0.70	0.97	1.58
Stockholders' equity	84.4	98.9	101.9	96.8	88.7

CORPORATE OFFICERS

David L. Duvall
President and Chief Executive Officer

Renee R. Anderson
Executive Vice President of Human Resources

Eric Palomaki
Executive Vice President of Operations

John P. Zimmer
Executive Vice President, Secretary,
Treasurer and Chief Financial Officer

BOARD OF DIRECTORS

James L. Simonton, Chairman

Thomas R. Cellitti

James F. Crowley

David L. Duvall

Ralph O. Hellmold

Matthew E. Jauchius

Andrew O. Smith

To Our Shareholders

The past year was a year of significant foundational improvements in the Core Molding operational systems and processes. Our focus in 2019 was specifically to “Get the Basics Right” by investing and relentlessly driving the improvements in our daily operational execution. We implemented a Policy Deployment Process to help focus the organization on our common goals and highest priorities of Safety-People-Quality-Delivery-Cost (SPQDC). The results of any metric are only the score of how you played the game and we are excited to see the results in all operational areas has improved significantly:

- Safety Incident Rate reduced by 82%
- People (Glassdoor Rating) improved by 95%
- Quality (PPM) improved by 78%
- Delivery improved by 67%
- Cost (Scrap & Productivity) decreased by 47%.

The results are clearly seen in our Q1-2020 financial performance, where we have exceeded our original budget and returned Core Molding back to historical profitability levels. Our financial performance for the first two months of 2020 is a \$5.5 million (200%) improvement in operational profit compared to the same period in 2019. More importantly, we achieved this performance by improving the variable margin. In summary, the entire Core Molding team has done an outstanding job of completing the turn-around of our business. I am excited to state that we have officially completed the turn-around and this is just the beginning of Core driving to achieve the potential that Core Molding always had. We are now focused on leveraging our significantly improved operational model through a Go To Market process that provides the highest value solutions incorporating the largest process portfolio in the industry.

Looking Forward:

Our immediate priority is getting Core Molding, our employees, our families and our society through the COVID-19 pandemic. We are actively engaged with supporting our customers that are designated as “essential” to the infrastructure of North America and taking every precaution possible to keep our team members safe. I truly appreciate and I am proud of the way the Core team has responded by meeting our critical customer’s orders and keeping trucks on the road. We are working with local hospitals and the Ohio Manufacturers Alliance to do our part in helping to reduce the suffering caused by COVID-19. Our key business objective during this time is to: Maintain and prepare for future growth and new opportunities when this crisis subsides.

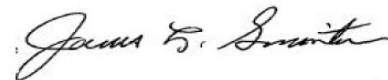
When the country recovers from COVID-19 Core Molding will be ready for growth, with an operational foundation that has been stabilized and focused on continuous improvement. We are strengthening and developing our Sales & Marketing function to truly leverage our *One Core* Go To Market strategy. We have the opportunity to provide the highest value solutions by utilizing the largest portfolio of composite processes in the industry.

In 2019 we created the operational foundation of our business and in 2020 our focus will be on how best can we grow our business and provide value to the market by leveraging our wide portfolio of composite solutions. We have built a platform to provide value to the market and our focus is to utilize this platform to aggressively grow our business.

Sincerely,



David L. Duvall
President and Chief Executive Officer



James L. Simonton
Chairman of the Board

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-12505

CORE MOLDING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	31-1481870
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
800 Manor Park Drive, Columbus, Ohio	43228-0183
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (614) 870-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01	NYSE American LLC
Preferred Stock purchase rights, par value \$0.01	NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2019, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant was approximately \$44,201,708, based upon the closing sale price of \$7.47 on the NYSE American LLC on June 30, 2019, the last business day of registrant's most recently completed second fiscal quarter. As of the close of business on March 12, 2020, the number of shares of registrant's common stock issued and outstanding was 8,221,864.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2020 definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year are incorporated herein by reference in Part III of this Form 10-K.

CORE MOLDING TECHNOLOGIES, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Part I

Item 1. Business	3
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	24
Item 2. Properties	24
Item 3. Legal Proceedings	26
Item 4. Mine Safety Disclosure	26

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchase of Equity Securities	27
Item 6. Selected Financial Data	28
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	41
Item 8. Financial Statements and Supplementary Data	42
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	77
Item 9A. Controls and Procedures	77
Item 9B. Other Information	77

Part III

Item 10. Directors, Executive Officers, and Corporate Governance	78
Item 11. Executive Compensation	78
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	78
Item 13. Certain Relationships, Related Transactions, and Director Independence	78
Item 14. Principal Accountant Fees and Services	78
Item 15. Exhibits and Financial Statement Schedules	79
Item 16. Form 10-K Summary	79

Part IV

Signatures	80
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Exhibit 23

Exhibit 24

Exhibit 31(a)

Exhibit 31(b)

Exhibit 32(a)

Exhibit 32(b)

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABEL LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

PART I

ITEM 1. BUSINESS

HISTORICAL DEVELOPMENT OF BUSINESS OF CORE MOLDING TECHNOLOGIES, INC.

In 1996, RYMAC Mortgage Investment Corporation (“RYMAC”) incorporated Core Molding Technologies, Inc. (“Core Molding Technologies” or the “Company”), formerly known as Core Materials Corporation before changing its name on August 28, 2002, for the purpose of acquiring the Columbus Plastics unit of Navistar, Inc. (“Navistar”), formerly known as International Truck & Engine Corporation. On December 31, 1996, RYMAC merged with and into the Company, with the Company as the surviving entity. Immediately after the merger, the Company acquired substantially all the assets and liabilities of the Columbus Plastics unit from Navistar in return for a secured note, which has been repaid, and 4,264,000 shares of newly issued common stock of the Company. On July 18, 2007, the Company entered into a stock repurchase agreement with Navistar, pursuant to which the Company repurchased 3,600,000 shares of the Company’s common stock, from Navistar. On August 16, 2013, Navistar sold its remaining 664,000 shares of common stock in a series of open market sales.

In 1998, the Company opened a second compression molding plant located in Gaffney, South Carolina as part of the Company’s growth strategy to expand its customer base. This facility provided the Company with additional capacity and a strategic location to serve both current and prospective customers.

In October 2001, the Company incorporated Core Composites Corporation as a wholly owned subsidiary under the laws of the State of Delaware. This entity was established for the purpose of holding and establishing operations for Airshield Corporation’s assets, which the Company acquired on October 16, 2001 (the “Airshield Asset Acquisition”) as part of the Company’s diversified growth strategy. Airshield Corporation was a privately held manufacturer and marketer of fiberglass reinforced plastic parts primarily for the truck industry. The Company purchased substantially all of the assets of Airshield Corporation through the United States Bankruptcy Court as Airshield Corporation had been operating under Chapter 11 bankruptcy protection since March 2001.

In conjunction with establishment of operations for the assets acquired in the Airshield Asset Acquisition, the Company established a Mexican subsidiary and leased a production facility in Mexico. In October 2001, the Company (5% owner) and Core Composites Corporation (95% owner) incorporated Corecomposites de Mexico, S. de R.L. de C.V. (“Corecomposites”) in Matamoros, Mexico. Corecomposites was organized to operate under a maquiladora program whereby substantially all products produced are exported back to Core Composites Corporation which sells such products to United States based external customers. In June of 2009, the Company completed construction and took occupancy of a new production facility in Matamoros, Mexico that replaced its leased facility.

In August 2005, the Company formed Core Composites Cincinnati, LLC, (“Core Composites Cincinnati”) a Delaware limited liability company and wholly owned subsidiary of the Company. This entity was formed for the purpose of establishing operations and holding assets acquired from the Cincinnati Fiberglass Division of Diversified Glass Inc., which the Company acquired in August, 2005. The Cincinnati Fiberglass Division of Diversified Glass, Inc. was a privately held manufacturer and distributor of fiberglass reinforced plastic components supplied primarily to the heavy-duty truck market. As a result of this acquisition, the Company leases a manufacturing facility in Batavia, Ohio.

In March 2015, the Company acquired substantially all of the assets of CPI Binani, Inc., a Minnesota based manufacturer and producer of direct long fiber thermoplastic products, and a wholly owned subsidiary of Binani Industries Limited, located in Winona, Minnesota (“CPI”). The purpose of the acquisition was to increase the Company’s process capabilities and diversify the Company’s customer base.

On January 16, 2018, 1137925 B.C Ltd., subsequently renamed Horizon Plastics International Inc., a wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement (the “Agreement”) with Horizon Plastics International Inc., 1541689 Ontario Inc., 2551024 Ontario Inc. and Horizon Plastics de Mexico, S.A. de C.V. (collectively “Horizon Plastics”). Pursuant to

the terms of the Agreement the Company acquired substantially all of the assets and assumed certain liabilities of Horizon Plastics. Horizon Plastics is a custom low-pressure structural plastic molder, which utilizes both structural foam and structural web process technologies, operating within two manufacturing facilities located in Cobourg, Canada and Escobedo, Mexico. The purpose of the acquisition was to increase the Company's process capabilities to include structural foam and structural web molding, expand its geographical footprint, and diversify the Company's customer base.

DESCRIPTION OF BUSINESS OF CORE MOLDING TECHNOLOGIES, INC.

Certain statements under this caption of this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance as opposed to historical items and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Such forward-looking statements involve known and unknown risks and are subject to uncertainties and factors relating to Core Molding Technologies' operations and business environment, all of which are difficult to predict and many of which are beyond Core Molding Technologies' control. Words such as "may," "will," "could," "would," "should," "anticipate," "predict," "potential," "continue," "expect," "intend," "plans," "projects," "believes," "estimates," "encouraged," "confident" and similar expressions are used to identify these forward-looking statements. These uncertainties and factors could cause Core Molding Technologies' actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

Core Molding Technologies believes that the following factors, among others, could affect its future performance and cause actual results to differ materially from those expressed or implied by forward-looking statements made in this Annual Report on Form 10-K: business conditions in the plastics, transportation, marine and commercial product industries (including slowdown in demand for truck production); federal and state regulations (including engine emission regulations); general economic, social, regulatory (including foreign trade policy) and political environments in the countries in which Core Molding Technologies operates; safety and security conditions in Mexico and Canada; dependence upon certain major customers as the primary source of Core Molding Technologies' sales revenues; efforts of Core Molding Technologies to expand its customer base; the ability to develop new and innovative products and to diversify markets, materials and processes and increase operational enhancements; the actions of competitors, customers, and suppliers; failure of Core Molding Technologies' suppliers to perform their obligations; the availability of raw materials; inflationary pressures; new technologies; regulatory matters; labor relations; the loss or inability of Core Molding Technologies to attract and retain key personnel; the Company's ability to successfully identify, evaluate and manage potential acquisitions and to benefit from and properly integrate any completed acquisitions, including the recent acquisition of Horizon Plastics; the risk that the integration of Horizon Plastics may be more difficult, time-consuming or costly than expected; expected revenue synergies and cost savings from acquisition of Horizon Plastics may not be fully realized within the expected timeframe; revenues following the acquisition of Horizon Plastics may be lower than expected; customer and employee relationships and business operations may be disrupted by the acquisition of Horizon Plastics; federal, state and local environmental laws and regulations; the availability of capital; the ability of Core Molding Technologies to provide on-time delivery to customers, which may require additional shipping expenses to ensure on-time delivery or otherwise result in late fees; risk of cancellation or rescheduling of orders; management's decision to pursue new products or businesses which involve additional costs, risks or capital expenditures; inadequate insurance coverage to protect against potential hazards; equipment and machinery failure; product liability and warranty claims; and other risks identified from time to time in Core Molding Technologies' other public documents on file with the Securities and Exchange Commission, including those described in Item 1A of this Annual Report on Form 10-K.

Core Molding Technologies and its subsidiaries operate in the composites market in a family of products known as "structural composites." Structural composites are combinations of resins and sometimes reinforcing fibers (typically glass or carbon) that are molded to shape. Core Molding Technologies is a manufacturer of sheet molding compound ("SMC") and molder of thermoset and thermoplastic products. The Company specializes in large-format moldings and offers a wide range of processes, including compression molding of SMC, glass mat thermoplastics ("GMT"), bulk molding compounds ("BMC"), direct long fiber thermoplastics ("D-LFT"), spray-up, hand-lay-up, resin transfer molding ("RTM"), structural foam and structural web injection molding ("SIM"), and reaction injection molding ("RIM"), utilizing dicyclopentadiene technology.

Structural composites compete largely against metals and have the strength to function well during prolonged use. Management believes that structural composite components offer many advantages over metals, including:

- heat resistance;
- corrosion resistance;
- lighter weight;
- lower cost;
- greater flexibility in product design;
- part consolidation for multiple piece assemblies;
- lower initial tooling costs for lower volume applications;
- high strength-to-weight ratio; and
- dent-resistance in comparison to steel or aluminum.

The largest markets for structural composites are transportation (automotive and truck), agriculture, construction, marine, and industrial applications. As of December 31, 2019, the Company operated seven production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota; Matamoros and Escobedo, Mexico; and Cobourg, Canada, which produce structural composite products. Our manufacturing facilities utilize various production processes; however, end products are similar and are not unique to a facility or customer base. Operating decision makers (officers of the Company) are headquartered in Columbus, Ohio and oversee all manufacturing operations for all products as well as oversee customer relationships with all customers. The Company supplies structural composite products to truck manufacturers, automotive suppliers, and manufacturers of marine and other commercial products. In general, product growth and diversification are achieved in several different ways: (1) resourcing of existing structural composite product from another supplier by an original equipment manufacturer ("OEM"); (2) obtaining new structural composite products through a selection process in which an OEM solicits bids; (3) successful marketing of structural composite products for previously non-structural composite applications; (4) successful marketing of structural composite products to OEMs outside of our traditional markets; (5) developing of new materials, technology and processes to meet current or prospective customer requirements; and (6) acquiring an existing business. The Company's efforts continue to be directed towards all six areas.

MAJOR COMPETITORS

The Company believes that it is one of the largest compounders and molders of structural composites using the SMC, spray-up, hand-lay-up, RTM, SIM, and D-LFT molding processes in North America. The Company faces competition from a number of other molders including, most significantly, Molded Fiber Glass Companies, Continental Structural Plastics, Ashley Industrial Molding, René Matériaux Composite Ltée ("RMC"), and The Composites Group. The Company believes that it is well positioned to compete based primarily on manufacturing capability and location, product quality, engineering capability, cost, and delivery. However, the industry remains highly competitive and some of the Company's competitors have greater financial resources, research and development facilities, design engineering, manufacturing, and marketing capabilities.

MAJOR CUSTOMERS

The Company had four major customers, Navistar, Volvo Group ("Volvo"), PACCAR Inc. ("PACCAR"), and Universal Forest Products ("UFP"), in 2019. Major customers are defined as customers whose current year sales individually consist of more than ten percent of total sales during any annual or interim reporting period in the current year. The loss of a significant portion of sales to one of these customers would have a material adverse effect on the business of the Company.

The North American truck market in which Navistar, Volvo, and PACCAR compete is highly competitive and the demand for heavy and medium-duty trucks is subject to considerable volatility as it moves in response to cycles in the overall business environment and is particularly sensitive to the industrial sector, which generates a significant portion of the freight tonnage hauled. Truck demand also depends on general economic conditions, among other factors.

UFP supplies forestry-based products to three market segments: retail, industrial, and construction. This is a highly-competitive business, with suppliers competing for a share of available shelf space at large “big box” retailers and independent contractors. As a discretionary product category, suppliers must also strive continuously to differentiate their products with unique designs, colors, and features, in addition to maintaining a constant focus on cost reduction. Demand for these products is driven by residential and commercial construction and general economic conditions, among other influences.

Relationship with Navistar

The Company has historically had a Comprehensive Supply Agreement with Navistar that provides for the Company to be the primary supplier of Navistar’s original equipment and service requirements for fiberglass reinforced parts, as long as the Company remains competitive in cost, quality, and delivery. The Company’s current Comprehensive Supply Agreement with Navistar is effective through November 2, 2021.

The Company makes products for Navistar’s Springfield, Ohio; Tulsa, Oklahoma; and Escobedo, Mexico assembly plants, as well as aftermarket products for service distribution centers. The Company works closely on new product development with Navistar’s engineering and research personnel. Products sold to Navistar include hoods, roofs, air deflectors, cab extenders, fender extensions, splash panels, and other components. Sales to Navistar amounted to approximately 20%, 20% and 25% of total sales for 2019, 2018, and 2017, respectively.

Relationship with Volvo

The Company makes products for Volvo’s New River Valley (Dublin, Virginia) and Macungie, Pennsylvania assembly plants, as well as aftermarket products for service distribution centers. The Company works closely on new product development with Volvo’s engineering and research teams. Products sold to Volvo include hoods, roofs, sunvisors, air deflectors, cab extenders and other components. Sales to Volvo amounted to approximately 17%, 17%, and 22% of total sales for 2019, 2018, and 2017, respectively.

Relationship with PACCAR

The Company makes products for PACCAR’s Chillicothe, Ohio; Denton, Texas; Renton, Washington; St. Therese (Canada); and Mexicali, Mexico assembly plants, as well as aftermarket products for service distribution centers. The Company also works closely on new product development with PACCAR’s engineering and research personnel. Products sold to PACCAR include hoods, roofs, back panels, air deflectors, air fairings, fenders, splash panels, cab extenders, and other components. Sales to PACCAR amounted to approximately 16%, 16%, and 18% of total sales for 2019, 2018, and 2017, respectively.

Relationship with UFP

The Company manufactures a line of outdoor living and home decor products as part of UFP’s broad offerings to “big box” retailers. These products are labeled and packaged for direct placement onto retail shelves, and are shipped to UFP distribution facilities primarily throughout North America. The Company works directly with UFP on innovative product advances that reduce cost and extend the appeal of the products to consumers. Sales to UFP amounted to approximately 9%, 10%, and 0% of total sales for 2019, 2018, and 2017, respectively.

OTHER CUSTOMERS

The Company also produces products for other truck manufacturers, the automotive industry, marine industry, commercial product industries, and various other customers and industries. Sales to these customers individually were all less than 10% of total sales for interim and annual reporting during 2019. Sales to these customers amounted to approximately 38%, 37% and 35% of total sales for 2019, 2018, and 2017, respectively.

GEOGRAPHIC INFORMATION

Substantially all of the Company's products are sold in U.S. dollars. The following table provides information related to the Company's sales by country, based on the ship to location of customers' production facilities, for the years ended December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
United States	\$ 178,953,000	\$ 181,207,000	\$ 103,513,000
Mexico	79,761,000	74,029,000	52,496,000
Canada	16,988,000	12,494,000	5,664,000
Other	8,588,000	1,755,000	—
Total	<u>\$ 284,290,000</u>	<u>\$ 269,485,000</u>	<u>\$ 161,673,000</u>

The following table provides information related to the location of the Company's property, plant and equipment, net, as of December 31:

	<u>2019</u>	<u>2018</u>
United States	\$ 39,132,000	\$ 37,778,000
Mexico	31,865,000	34,155,000
Canada	8,209,000	8,724,000
Total	<u>\$ 79,206,000</u>	<u>\$ 80,657,000</u>

PRODUCTS

Sheet Molding Compound (“SMC”)

SMC is primarily a combination of resins, fiberglass, fillers, and catalysts compounded and cured in sheet form, which is then used to manufacture compression-molded products, as discussed below. The Company also sells SMC to other molders.

The Company incorporates a sophisticated computer program in the process of compounding various complex SMC formulations tailored to meet customer needs. The program provides for the control of information during various production processes and data for statistical batch controls.

Closed Molded Products

The Company manufactures plastic products using compression molding, resin transfer molding, and injection molding. As of December 31, 2019, the Company owned 74 molding presses in its Columbus, Ohio facility (16); Matamoros, Mexico facility (21); Cobourg, Canada facility (19); Gaffney, South Carolina facility (10); Winona, Minnesota facility;(4) and Escobedo, Mexico (4). The Company's molding presses range in size from 250 to 5,000 tons.

Compression Molding of SMC - Compression molding is a process whereby SMC is molded to form by matched die steel molds through which a combination of heat and pressure are applied via a molding press. This process produces high quality, dimensionally consistent products. This process is typically used for high volume products. Higher volumes justify the customer's investment in matched die steel molds.

Large platen, high tonnage presses (2,000 tons or greater) provide the ability to mold very large reinforced plastic parts. The Company believes that it possesses a significant portion of the large platen, high tonnage molding capacity in the industry. To enhance the surface quality and the paint finish of our products, the Company uses both in-mold coating and vacuum molding processes.

In-mold coating is the process of injecting a liquid over the molded part surface and then applying pressure at elevated temperatures during an extended molding cycle. The liquid coating serves to fill and/or bridge surface porosity as well as provide a barrier against solvent penetration during subsequent top-coating operations.

Vacuum molding is the removal of air during the molding cycle for the purpose of reducing the amount of surface porosity. The Company believes that it is among the industry leaders in in-mold coating and vacuum molding applications, based on the size and complexity of parts molded.

Resin Transfer Molding (“RTM”) - This process employs two molds, typically a core and a cavity, similar to matched die molding. The composite is produced by placing glass mat, chopped strand, or continuous strand fiberglass in the mold cavity in the desired pattern. Parts used for cosmetic purposes typically have a gel coat applied to the mold surface. The core mold is then fitted to the cavity, and upon a satisfactory seal, a vacuum is applied. When the proper vacuum is achieved, the resin is injected into the mold to fill the part. Finally, the part is allowed to cure and is then removed from the mold and trimmed to shape. Fiberglass reinforced products produced from the RTM process exhibit a high quality surface on both sides of the part and excellent part thickness. The multiple insert tooling technique can be utilized in the RTM process to improve throughput based upon volume requirements.

Structural Foam and Web Injection Molding (“SIM”) - Structural foam and structural web are low-pressure injection molding processes that develop high-strength, rigid parts at low weight. This is accomplished by mixing a foaming agent (usually, nitrogen gas) with the melted polymer (structural foam process), or by injecting nitrogen gas into the mold cavity immediately after the plastic resin is injected (structural web molding). Structural foam produces a cellular interior structure that can provide twice the rigidity of a solid plastic molding. The structural web process pushes the plastic out to the mold cavity walls, uniformly packing out the entire mold and hollowing out thicker sections to create products of varying wall thicknesses. As a result, structural web

molded parts have a smoother, glossier finish than other low pressure parts. Both processes give part designers flexibility when designing products that need strength and stiffness at low weight.

Direct Long-Fiber Thermoplastics (“D-LFT”) - D-LFT molding employs two molds, typically a core and a cavity, similar to matched die molding. This is a process for compounding and molding thermoplastic materials with "long" fibers (typically, 0.5 inch or longer). Engineered thermoplastic pellets and performance additives are compounded in a screw extruder, to which chopped reinforcements (typically, glass fibers) are added and further extruded. A "charge" of material is cut to a precise weight, and this "charge" is directly moved to a compression or injection-transfer process, where it is molded into a finished part. The process allows for direct processing of the compounded material, bypassing the expense and delay of producing an intermediate product (pellets or sheets) as is used in other fiber-reinforced thermoplastic molding processes. The D-LFT process is an attractive option for products that have complex geometry, require high strength and stiffness, and benefit from the recyclability of a thermoplastic resin.

Reaction Injection Molding (“RIM”) - This is a process whereby a composite is produced through the injection of a two-component thermoset resin system utilizing dicyclopentadiene (“DCPD”) technology. DCPD technology involves injecting a liquid compound into matched die aluminum molds to form the part. In this process the mold is prepared, closed and the liquid compound is injected into the tool then cured. Additional finishing is required when the part is designated for top coat painting. The RIM process is an alternative to other closed mold processes for mid-volume parts that require a high level of impact resistance.

Open Molded Products

The Company produces reinforced plastic products using both the hand lay-up and spray-up methods of open molding at our Batavia, Ohio and Matamoros, Mexico locations. Part sizes weigh from a few pounds to several hundred pounds with surface quality tailored for the end use application.

Hand Lay-Up - This process utilizes a shell mold, typically the cavity, where glass cloth, either chopped strand or continuous strand glass mat, is introduced into the cavity. Resin is then applied to the cloth and rolled out to achieve a uniform wet-out from the glass and to remove any trapped air. The part is then allowed to cure and is removed from the mold. After removal, the part typically undergoes trimming to achieve the shape desired. Parts used for cosmetic purposes typically have a gel coat applied to the mold surface prior to the lay-up to improve the surface quality of the finished part. Parts produced from this process have a smooth outer surface and an unfinished or rough interior surface. These fiberglass-reinforced products are typically non-cosmetic components or structural reinforcements that are sold externally or used internally as components of larger assemblies.

Spray-Up - This process utilizes the same type of shell mold as hand-lay-up, but instead of using glass cloth to produce the composite part, a chopper/spray system is employed. Glass rovings and resin feed the chopper/spray gun. The resin coated, chopped glass is sprayed into the mold to the desired thickness. The resin coated glass in the mold is then rolled out to ensure complete wet-out and to remove any trapped air. The part is then allowed to cure, is removed from the mold, and is then trimmed to the desired shape. Parts used for cosmetic purposes typically have a gel coat applied to the mold surface prior to the resin-coated glass being sprayed into the mold to improve the surface quality of the finished part. Parts produced from this process have a smooth outer surface and an unfinished or rough interior surface.

Assembly, Machining, and Paint Products

Many of the products molded by the Company are assembled, machined, and prime painted or topcoat painted to result in a completed product used by the Company's customers.

The Company has demonstrated manufacturing flexibility that accommodates a range of low volume hand assembly and machining work, to high volume, highly automated assembly and machining systems. Robotics are used as deemed productive for material

handling, machining, and adhesive applications. In addition to conventional machining methods, water-jet cutting technology is also used where appropriate. The Company also utilizes paint booths and batch ovens in its facilities. The Company generally contracts with outside providers for higher volume applications that require top coat paint.

RAW MATERIALS

The principal raw materials used in the Company's processes are unsaturated polyester; vinyl ester; polyethylene, polypropylene and dicyclopentadiene resins; fiberglass; and filler. Other significant raw materials include adhesives for assembly of molded components, in-mold coating, gel-coat, prime paint for preparation of cosmetic surfaces, and hardware (primarily metal components). Many of the raw materials used by the Company are crude oil based, natural gas based and downstream components, and therefore, the costs of certain raw materials can be affected by changes in costs of these underlying commodities. Due to fluctuating commodity prices, suppliers are typically reluctant to enter into long-term contracts. The Company generally has supplier alternatives for each raw material, and regularly evaluates its supplier base for certain supplies, repair items, and components to improve its overall purchasing position.

BACKLOG

The Company relies on production schedules provided by its customers to plan and implement production. These schedules are normally provided on a weekly basis and typically considered firm for approximately four weeks. Some customers update these schedules daily for changes in demand, allowing them to run their inventories on a "just-in-time" basis. The ordered backlog of four weeks of expected shipments was approximately \$20.7 million (all of which the Company shipped during the first month of 2020) and \$22.7 million at December 31, 2019 and 2018, respectively.

CAPACITY CONSTRAINTS

Capacity utilization is measured based on standard cycle times and a standard work week, which can range from five days per week, three-shifts per day to seven days per week, three-shifts per day, depending on the facility and molding process. During times when demand exceeds the standard five day, three-shift capacity, the Company will work weekends to create additional capacity, which can provide capacity utilization percentages greater than 100%. During 2019, the Company has used various methods from overtime to a weekend manpower crew to support the customers' production requirements.

The approximate SMC production line capacity utilization was 73% and 77% for the years ended December 31, 2019 and 2018, respectively.

The Company measures facility capacity in terms of its large molding presses (2,000 tons or greater) for the Columbus, Ohio, Gaffney, South Carolina, Winona, Minnesota and the SMC molding at the Matamoros, Mexico facility. The Company owned 28 large molding presses at these facilities at December 31, 2019. The combined approximate large press capacity utilization in these production facilities was 83% and 91% for the years ended December 31, 2019 and 2018, respectively. The decreased utilization mainly resulted from improved production efficiency, product mix and equipment up-time.

The Company measures facility capacity in terms of its large molding presses (750 tons or greater) for the Cobourg, Canada facility. The Company owned 7 large molding presses at this facility at December 31, 2019. The combined approximate large press capacity utilization in this facility was 72% and 52% for the years ended December 31, 2019 and 2018, respectively.

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT

Capital expenditures totaled approximately \$7.5 million, \$5.8 million and \$4.3 million in 2019, 2018, and 2017 respectively. These capital expenditures primarily consisted of building and equipment improvements and additional production equipment to manufacture parts.

The Company continuously engages in product development. Research and development activities focus on developing new material formulations, new structural composite products, new production capabilities and processes, and improving existing products and manufacturing processes. The Company does not maintain a separate research and development organization or facility, but uses its production equipment, as necessary, to support these efforts and cooperates with its customers and its suppliers in research and development efforts. Likewise, manpower to direct and advance research and development is integrated with the existing manufacturing, engineering, production, and quality organizations. Management of the Company has estimated that costs related to research and development were approximately \$1.2 million, \$1.0 million and \$0.8 million in 2019, 2018, and 2017, respectively.

ENVIRONMENTAL COMPLIANCE

The Company's manufacturing operations are subject to federal, state, and local environmental laws and regulations, which impose limitations on the discharge of hazardous and non-hazardous pollutants into the air and waterways. The Company has established and implemented standards for the treatment, storage, and disposal of hazardous waste. The Company's policy is to conduct its business with due regard for the preservation and protection of the environment. The Company's environmental waste management process involves the regular auditing of hazardous waste accumulation points, hazardous waste activities, authorized treatment, and storage and disposal facilities. As part of the Company's environmental policy, all manufacturing employees are trained on waste management and other environmental issues.

The Company holds various environmental operating permits for its production facilities in the U.S., Mexico, and Canada as required by U.S., Mexican and Canadian state and federal regulations. The Company has substantially complied with all requirements of these operating permits.

EMPLOYEES

As of December 31, 2019, the Company employed a total of 1,821 employees, which consists of 764 employees in its United States operations, 795 employees in its Mexico operations and 262 employees in its Canada operation. Of these 1,821 employees, 341 employees at the Company's Columbus, Ohio facility are covered by a collective bargaining agreement with the International Association of Machinists and Aerospace Workers ("IAM"), which extends to August 9, 2022; 635 employees at the Company's Matamoros, Mexico facility are covered by a collective bargaining agreement with Sindicato de Jornaleros y Obreros, which extends to January 10, 2021; 216 employees at the Company's Cobourg, Canada facility are covered by a collective bargaining agreement with United Food & Commercial Workers Canada ("UFCW"), which extends to November 1, 2021; and 35 employees at the Company's Escobedo, Mexico facility are covered by a collective bargaining agreement with Sindicato de trabajadores de la industria metalica y del comercio del estado de Nuevo Leon Presidente Benito Juarez Garcia C.T.M., which extends to February 1, 2020 and an extension is currently being negotiated.

PATENTS, TRADE NAMES, AND TRADEMARKS

The Company will evaluate, apply for, and maintain patents, trade names, and trademarks where it believes that such patents, trade names, and trademarks are reasonably required to protect its rights in its products. The Company has increased its activity related to trademark protection in recent years, including the federal registration of the trademarks N-sulGuard®, Featherlite®, Airilite®, FeatherliteXL®, Econolite®, Hydrilite®, and Mirilite®. However, the Company does not believe that any single patent, trade name, or trademark or related group of such rights is materially important to its business or its ability to compete.

SEASONALITY & BUSINESS CYCLE

The Company's business is affected annually by the production schedules of its customers. Certain of the Company's customers typically shut down their operations on an annual basis for a period of one to several weeks during the Company's third quarter. Certain customers also typically shut down their operations during the last week of December. As a result, demand for the Company's products typically decreases during the third and fourth quarters. Demand for medium and heavy-duty trucks, marine,

automotive, and commercial products also fluctuates on an economic, cyclical and seasonal basis, causing a corresponding fluctuation for demand of the Company's products.

AVAILABLE INFORMATION

We maintain a website at www.coremt.com. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports, and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the SEC. These materials are also available from the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

The following risk factors describe various risks that may affect our business, financial condition, and operations. References to “we,” “us,” and “our” in this “Risk Factors” section refer to Core Molding Technologies and its subsidiaries, unless otherwise specified or unless the context otherwise requires.

Our business has concentration risks associated with significant customers.

Sales to four customers constituted approximately 62% of our 2019 total sales. No other customer accounted for more than 10% of our total sales for this period. The loss of any significant portion of sales to any of our significant customers could have a material adverse effect on our business, results of operations, and financial condition.

Accounts receivable balances with four customers accounted for 49% of accounts receivable at December 31, 2019. The Company performs ongoing credit evaluations of its customers’ financial condition and maintains reserves for potential bad debt losses. If the financial conditions of any of these customers were to deteriorate, impacting their ability to pay their receivables, our reserves may not be adequate which could have a material adverse effect on our business, results of operations, or financial condition.

We are continuing to engage in efforts intended to strengthen and expand our relations with significant customers, as well as provide support for our entire customer base. We have supported our position with customers through direct and active contact through our sales, quality, engineering, and operational personnel. We cannot make any assurances that we will maintain or improve our customer relationships, whether these customers will continue to do business with us as they have in the past or whether we will be able to supply these customers or any of our other customers at current levels.

Our business is affected by the cyclical and overall nature of the industries and markets that we serve.

The North American heavy and medium-duty truck industries are highly cyclical. In 2019, approximately 58% of our product sales were in these industries. These industries and markets fluctuate in response to factors that are beyond our control, such as general economic conditions, interest rates, federal and state regulations (including engine emissions regulations, tariffs, import regulations, and other taxes), consumer spending, fuel costs, and our customers' inventory levels and production rates. Our manufacturing operations have a significant fixed cost component. Accordingly, during periods of changing demands, including an increase or slowdown in truck demand, the profitability of our operations may change proportionately more than revenues from operations. In addition, our operations are typically seasonal as a result of regular customer maintenance shutdowns, which typically vary from year to year based on production demands and occur in the third and fourth quarter of each calendar year. This seasonality may result in decreased net sales and profitability during the third and fourth fiscal quarters of each calendar year. Weakness in overall economic conditions or in the markets that we serve, or significant reductions by our customers in their inventory levels or future production rates, could result in decreased demand for our products and could have a material adverse effect on our business, results of operations, or financial condition.

We may not be able to achieve the efficiencies, savings and other benefits anticipated from our cost reduction, margin improvement and other business optimization initiatives.

In [2019] we began implementing a turnaround plan to optimize and improve our performance and enhance our competitive position by reducing cost, increasing efficiencies and enhancing our business. Initiatives currently in process or implemented [in the past several years] include the implementing new operational systems focused on improved quality performance, labor productivity, scrap and overhead spend reductions. The successful implementation of these and other operational improvements as part of our turnaround plan present significant organizational design and other challenges. We may not achieve targeted benefits or achieve them within our expected timetable. Unexpected delays, increased costs, adverse effects on our internal control environment, inability to retain and motivate employees, or other challenges arising from these initiatives could adversely affect our ability to realize the anticipated savings or other intended benefits of these activities. Additionally, the scope of these operational stabilization efforts require a substantial amount of management and operational resources to implement it effectively.

These and related demands on our resources may divert the Company's attention from our ongoing business operations, which could also impact our competitive position as well as have a material adverse effect on our business, results of operations or financial conditions.

Price increases in raw materials and availability of raw materials could adversely affect our operating results and financial condition.

We purchase resins and fiberglass for use in production as well as hardware and other components for product assembly. The prices for purchased materials are affected by the prices of material feed stocks such as crude oil, natural gas, and downstream components, as well as processing capacity versus demand. We attempt to reduce our exposure to increases by working with suppliers, evaluating new suppliers, improving material efficiencies, and when necessary through sales price adjustments to customers. If we are unsuccessful in developing ways to mitigate these raw material increases we may not be able to improve productivity or realize savings from cost reduction programs sufficiently to help offset the impact of these increased raw material costs. As a result, higher raw material costs could result in declining margins and operating results.

Cost reduction and quality improvement initiatives by original equipment manufacturers could have a material adverse effect on our business, results of operations, or financial condition.

We are primarily a components supplier to the heavy and medium-duty truck industries, which are characterized by a small number of original equipment manufacturers ("OEMs") that are able to exert considerable pressure on components suppliers to reduce costs, improve quality, and provide additional design and engineering capabilities. Given the fragmented nature of the industry, OEMs continue to demand and receive price reductions and measurable increases in quality through their use of competitive selection processes, rating programs, and various other arrangements. We may be unable to generate sufficient production cost savings in the future to offset such price reductions. OEMs may also seek to save costs by purchasing components from suppliers that are geographically closer to their production facilities or relocating production to locations with lower cost structures and purchasing components from suppliers with lower production costs. These decisions by OEMs could require us to shift production between our facilities, move production lines between our facilities, or open new facilities to remain competitive. Shifting production, moving production lines, or opening new locations could result in significant costs required for capital investment, transfer expenses, and operating costs. Additionally, OEMs have generally required component suppliers to provide more design engineering input at earlier stages of the product development process, the costs of which have, in some cases, been absorbed by the suppliers. To the extent that the Company does not meet the quality standards or demands of quality improvement initiatives sought by OEMs, or does not match the quality of suppliers of comparable products, OEMs may choose to purchase from these alternative suppliers, and as a result the Company may lose existing or new business with OEMs. Future price reductions, increased quality standards, and additional engineering capabilities required by OEMs may reduce our profitability and have a material adverse effect on our business, results of operations, or financial condition.

We may be subject to product liability claims, recalls or warranty claims, which could have a material adverse effect on our business, results of operations, or financial condition.

As a components supplier to OEMs, we face a business risk of exposure to product liability claims in the event that our products malfunction and result in personal injury or death. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the award of damages. In addition, we may be required to participate in recalls involving components sold by us if any prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims in order to maintain positive customer relationships. While we do maintain product liability insurance, it may not be sufficient to cover all product liability claims, and as a result, any product liability claim brought against us could have a material adverse effect on our results of operations. Further, we warrant the quality of our products under limited warranties, and as such, we are subject to risk of warranty claims in the event that our products do not conform to our customers' specifications. Such warranty claims may result in costly product recalls, significant repair costs, and damage to our reputation, all of which would adversely affect our results of operations.

We operate in highly competitive markets, and if we are unable to effectively compete it may negatively impact future operating results, sales, and earnings.

The markets in which we operate are highly competitive. We compete with a number of other manufacturers that produce and sell similar products. Our products primarily compete on the basis of capability, product quality, cost, and delivery. Some of our competitors have greater financial resources, research and development facilities, design engineering, manufacturing, and marketing capabilities. If we are unable to develop new and innovative products, diversify the markets, materials, and processes we utilize and increase operational enhancements, we may fall behind competitors or lose the ability to achieve competitive advantages. In the highly competitive market in which we operate, this may negatively impact our ability to retain existing customers or attract new customers, and if that occurs, it may negatively impact future operating results, sales, and earnings.

We may be subject to additional shipping expense or late fees if we are not able to meet our customers' on-time demand for our products.

We must continue to meet our customers' demand for on-time delivery of our products. Factors that could result in our inability to meet customer demands include a failure by one or more of our suppliers to supply us with the raw materials and other resources that we need to operate our business effectively and an unforeseen spike in demand for our products, which would create capacity constraints, among other factors. If this occurs, we may be required to incur additional shipping expenses to ensure on-time delivery or otherwise be required to pay late fees, which could have a material adverse effect on our business, results of operations, or financial condition.

If we fail to attract and retain key personnel our business could be harmed.

Our success largely depends on the efforts and abilities of our key personnel. Their skills, experience, and industry contacts significantly benefit us. The inability to retain key personnel could have a material adverse effect on our business, results of operations, or financial condition. Our future success will also depend in part upon our continuing ability to attract and retain highly qualified personnel.

Work stoppages or other labor issues at our facilities or at our customers' facilities could adversely affect our operations.

As of December 31, 2019, unions at our Columbus, Ohio, Matamoros and Escobedo, Mexico, and Cobourg Canada facilities represented approximately 67% of our entire workforce. As a result, we are subject to the risk of work stoppages and other labor-relations matters. The current Columbus, Ohio, Matamoros and Escobedo, Mexico, and Cobourg, Canada union contracts extend through August 7, 2022, January 10, 2021, February 1, 2020 and November 1, 2021, respectively. Any prolonged work stoppage or strike at either our Columbus, Ohio; Matamoros and Escobedo, Mexico; or Cobourg, Canada unionized facilities could have a material adverse effect on our business, results of operations, or financial condition. Any failure by us to reach a new agreement upon expiration of such union contracts may have a material adverse effect on our business, results of operations, or financial condition.

In addition, if any of our customers or suppliers experience a material work stoppage, that customer may halt or limit the purchase of our products or that supplier may interrupt supply of our necessary production components. This could cause us to shut down production facilities relating to these products, which could have a material adverse effect on our business, results of operations, or financial condition.

Changes in the legal, regulatory, and social responses to climate change, including any possible effect on energy prices, could adversely affect our business and reduce our profitability.

It is possible that various proposed legislative or regulatory initiatives related to climate changes, such as cap-and-trade systems, increased limits on emissions of greenhouse gases and fuel efficiency standards, or other measures, could in the future have a material impact on us, our customers, or the markets we serve, thereby resulting in a material adverse effect on our financial condition or results of operation. For example, customers in the transportation (automotive and truck) industry could be required to incur greater costs in order to comply with such initiatives, which could have an adverse impact on their profitability or

viability. This could in turn lead to further changes in the structure of the transportation industry that could reduce demand for our products. We are also reliant on energy to manufacture our products, with our operating costs being subject to increase if energy costs rise. During periods of higher energy costs we may not be able to recover our operating cost increases through production efficiencies and price increases. While we may hedge our exposure to higher prices via future energy purchase contracts, increases in energy prices for any reason (including as a result of new initiatives related to climate change) will increase our operating costs and likely reduce our profitability.

Our foreign operations in Mexico and Canada subject us to risks that could negatively affect our business.

We operate manufacturing facilities in Matamoros and Escobedo, Mexico and Cobourg, Canada. As a result, a significant portion of our business and operations is subject to the risk of changes in economic conditions, tax systems, consumer preferences, social conditions, safety and security conditions, and political conditions inherent in Mexico and Canada, including changes in the laws and policies that govern foreign investment, as well as changes in United States laws and regulations relating to foreign trade and investment. Changes in laws and regulations related to foreign trade and investment may have an adverse effect on our results of operations, financial condition, or cash flows.

Fluctuations in foreign currency exchange rates could adversely affect our results of operations, cash flow, liquidity, or financial condition.

Because of our international operations, we are exposed to risk associated with value changes in foreign currencies, which may adversely affect our business. Historically, our reported net sales, earnings, cash flow, and financial condition have been subjected to fluctuations in foreign exchange rates. Our primary exchange rate exposure is with the Canadian dollar and the Mexican peso against the U.S. dollar. While we actively manage the exposure of our foreign currency risk as part of our overall financial risk management policy, we believe we may experience losses from foreign currency exchange rate fluctuations, and such losses could adversely affect our sales, earnings, cash flow, liquidity, or financial condition.

Our business is subject to risks associated with manufacturing equipment and infrastructure.

We convert raw materials into molded products through a manufacturing process at each production facility. While we maintain insurance covering our manufacturing and production facilities, including business interruption insurance, a catastrophic loss of the use of all or a portion of our facilities due to accident, fire, explosion, or natural disaster, whether short or long-term, could have a material adverse effect on our business, results of operations, or financial condition.

Unexpected failures of our equipment and machinery may result in production delays, revenue loss, and significant repair costs, as well as injuries to our employees. Any interruption in production capability may require us to make large capital expenditures to remedy the situation, which could have a negative impact on our profitability and cash flows. Our business interruption insurance may not be sufficient to offset the lost revenues or increased costs that we may experience during a disruption of our operations. Because we supply our products to OEMs, a temporary or long-term business disruption could result in a permanent loss of customers. If this were to occur, our future sales levels and therefore our profitability could be materially adversely affected.

Our business is subject to risks associated with new business awards. In order to recognize profit from new business, we must accurately estimate product costs as part of the quoting process and implement effective and efficient manufacturing processes. Expected future sales from business awards may not materialize. We may not realize the sales or operating results that we anticipate from new business awards, and we may experience difficulties in meeting the production demands of new business awards.

The success of our business relies on our ability to produce products which meet the quality, performance, and price expectations of our customers. Our ability to recognize profit is largely dependent upon accurately identifying the costs associated with the manufacturing of our products, and executing the manufacturing process in a cost effective manner. There can be no assurance that all costs will be accurately identified during the Company's quoting process or that the expected level of manufacturing efficiency will be achieved. As a result we may not realize the anticipated operating results related to new business awards.

We will continue to pursue, and may be awarded, new business from existing or new customers. The Company may make capital investments, which may be material to the Company, in order to meet the expected production requirements of existing or new customers related to these business awards, and to support the potential production demands which may result from continued sales growth. The anticipated impact on the Company's sales and operating results related to these business awards, for various reasons, may not materialize. Any delays or production difficulties encountered in connection with these business awards, and any change in customer demand, could adversely impact our business, results of operations, and liquidity, and the benefits we anticipate may never materialize.

Our insurance coverage may be inadequate to protect against the potential hazards incident to our business.

We maintain property, business interruption, stop loss for healthcare and workers' compensation, director and officer, product liability, and casualty insurance coverage, but such insurance may not provide adequate coverage against potential claims, including losses resulting from war risks, terrorist acts, or product liability claims relating to products we manufacture. Consistent with market conditions in the insurance industry, premiums and deductibles for some of our insurance policies have been increasing and may continue to increase in the future. In some instances, some types of insurance may become available only for reduced amounts of coverage, if at all. In addition, there can be no assurance that our insurers would not challenge coverage for certain claims. If we were to incur a significant liability for which we were not fully insured or that our insurers disputed, it could have a material adverse effect on our financial position.

Our business will be adversely impacted if the coronavirus outbreak spreads widely or otherwise impacts our manufacturing and supply chain or demand for our products

The extent that the coronavirus outbreak will spread widely and its impact on our results will depend on future developments, which are highly uncertain and unpredictable. Our facilities and suppliers could be directly impacted by actions taken to contain the virus. In addition, our facilities are dependent upon raw materials produced by others, and to the extent that our suppliers are impacted by the virus it likely will reduce the availability, or result in delays, of raw materials to us, which in turn could interrupt our ability to produce and sell completed products. Recently there have been circumstances of freight channels being interrupted and increases in the freight prices, which also could impact our business. These and other unforeseen consequences associated with the virus could have a material adverse effect on our business, financial condition and results of operations.

In addition to Horizon Plastics in 2018, we have made acquisitions and may make acquisitions in the future. We may not realize the operating results that we anticipate from these acquisitions or from acquisitions we may make in the future, and we may experience difficulties in integrating the acquired businesses or may inherit significant liabilities related to such businesses.

We explore opportunities to acquire businesses that we believe are related to our core competencies from time to time, some of which may be material to us. We expect such acquisitions will produce operating results consistent with our other operations; however, we cannot provide assurance that this assumption will prove correct with respect to any acquisition.

Any acquisitions, including the acquisition of Horizon Plastics, may present significant challenges for our management due to the increased time and resources required to properly integrate management, employees, information systems, accounting controls, personnel, and administrative functions of the acquired business with those of ours and to manage the combined company on a going forward basis. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of these businesses could adversely impact our business, results of operations, and liquidity, and the benefits we anticipate may never materialize.

If we are unable to meet future capital requirements, our business may be adversely affected.

As we grow our business, we may have to incur significant capital expenditures. We may make capital investments to, among other things, build new or upgrade our facilities, purchase leased facilities and equipment, and enhance our production processes. We cannot assure you that we will have, or be able to obtain, adequate funds to make all necessary capital expenditures when

required, or that the amount of future capital expenditures will not be materially in excess of our anticipated or current expenditures. If we are unable to make necessary capital expenditures we may not have the capability to support our customer demands, which in turn could reduce our sales and profitability and impair our ability to satisfy our customers' expectations. In addition, even if we are able to invest sufficient resources, these investments may not generate net sales that exceed our expenses, generate any net sales at all, or result in any commercially acceptable products.

We may not achieve expected efficiencies related to the proximity of our customers' production facilities to our manufacturing facilities, or with respect to existing or future production relocation plans.

Certain facilities are located in close proximity to our customers in order to minimize both our customers' and our own costs. If any of our customers were to move or if nearby facilities are closed, that may impact our ability to remain competitive. Additionally, our competitors could build a facility that is closer to our customers' facilities which may provide them with a geographic advantage. Any of these events might require us to move closer to our customers, build new facilities, or shift production between our current facilities to meet our customers' needs, resulting in additional cost and expense.

Our products may be rendered obsolete or less attractive if there are changes in technology, regulatory requirements, or competitive processes.

Changes in technology, regulatory requirements, and competitive processes may render certain products obsolete or less attractive. Future chemical regulations may restrict our ability to manufacture products, cause us to incur substantial expenditures to comply with them, and subject us to liability for adverse environmental or health effects linked to the manufacture of our products. Failure to comply with future regulations may subject us to penalties or other enforcement actions. Our ability to anticipate changes in these areas will be a significant factor in our ability to remain competitive. If we are unable to identify or compensate for any one of these changes it may have a material adverse effect on our business, results of operations, or financial condition.

Our stock price can be volatile.

Our stock price can fluctuate widely in response to a variety of factors. Factors include actual or anticipated variations in our quarterly operating results, our relatively small public float, changes in securities analysts' estimates of our future earnings, and the loss of major customers, or significant business developments relating to us or our competitors, and other factors, including those described in this "Risk Factors" section. Our common stock also has a low average daily trading volume, which limits a person's ability to quickly accumulate or quickly divest themselves of large blocks of our stock. In addition, a low average trading volume can lead to significant price swings even when a relatively few number of shares are being traded.

We are subject to environmental, occupational health and safety rules and regulations that may require us to make substantial expenditures or expose us to financial or other obligations including substantial damages, penalties, fines, civil or criminal sanctions, and remediation costs that could adversely affect our results.

Our operations, facilities, and personnel are subject to extensive and evolving laws and regulations pertaining to air emissions, wastewater discharges, the handling and disposal of solid and hazardous materials and wastes, health and safety, the investigation and remediation of contamination, and the protection of the environment and natural resources. It is difficult to predict the future interpretations and developments of environmental and health and safety laws and regulations or their impact on our future results and cash flows. Continued compliance could result in significant increases in capital expenditures and operating costs. In addition, we may be exposed to obligations or involved from time to time in administrative or legal proceedings relating to environmental, health and safety or other regulatory matters, and may incur financial and other obligations relating to such matters.

Certain senior management employees have entered into potentially costly severance arrangements with us if terminated by the employee for good reason.

We have entered into executive employment agreements with executive officers that provide for significant severance payments in the event such employee's employment with us is terminated by the employee for good reason (as defined in the employment agreement). Good reason includes one or more of the following occurring within one year of a change in control: (i) a material reduction in base salary, (ii) a material diminution in the executive's position and/or duties, (iii) a material breach of the employment agreement by the person or other entity then controlling the Company, or (iv) a disavowal of the employment agreement by the person or other entity then controlling the Company. A change in control occurs when (a) one person (as defined in the employment agreement), or more than one person acting as a group, acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, (b) a majority of the members of the Company's Board of Directors (the "Board") are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election, or (c) the sale of all or substantially all of the Company's assets. These agreements would make it costly for the employment of certain of our senior management employees to be terminated and such costs may also discourage potential acquisition proposals, which may negatively affect our stock price.

Economic conditions and disruptions in the financial markets could have an adverse effect on our business, financial condition, and results of operations.

Disruptions in the financial markets could have a material adverse effect on our liquidity and financial condition if our ability to borrow money from our existing lenders were to be impaired. Disruptions in the financial markets may also have a material adverse impact on the availability and cost of credit in the future. Our ability to pay our debt or refinance our obligations will depend on our future performance, which could be affected by, among other things, prevailing economic conditions. Disruptions in the financial markets may also have an adverse effect on the U.S. and world economies, which would have a negative impact on demand for our products. In addition, tightening of credit markets may have an adverse impact on our customers' ability to finance the sale of new trucks or our suppliers' ability to provide us with raw materials, either of which could adversely affect our business and results of operations.

Our provision for income tax, adverse tax audits, or changes in tax policy could have an adverse effect on our business, financial condition, and results of operations.

We are subject to income taxes in the United States and Mexico and, beginning in 2018, Canada. Our provision for income taxes and cash flow related to taxes may be negatively impacted by: (1) changes in the mix of earnings taxable in jurisdictions with different statutory rates, (2) changes in tax laws and accounting principles, (3) changes in the valuation of our deferred tax assets and liabilities, (4) discovery of new information during the course of tax return preparation, (5) increases in nondeductible expenses, or (6) difficulties in repatriating earnings held abroad in a tax efficient manner.

Tax audits may also negatively impact our business, financial condition, and results of operations. We are subject to continued examination of our income tax returns, and tax authorities may disagree with our tax positions and assess additional tax. We regularly evaluate the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from examinations will not have a negative impact on our future financial condition and operating results.

Our ability to maintain effective internal control over financial reporting may be insufficient to allow us to accurately report our financial results or prevent fraud, and this could cause our financial statements to become materially misleading and adversely affect the trading price of our common stock.

We require effective internal control over financial reporting in order to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud.

Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial statements and effectively prevent fraud, our financial statements could become materially misleading, which could adversely affect the trading price of our common stock.

If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls or if we experience difficulties in their implementation, our business, financial condition, and operating results could be harmed. Any material weakness could affect investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing, or additional financing on favorable terms, could be materially and adversely affected. This, in turn, could materially and adversely affect our business, financial condition, and the market value of our stock and require us to incur additional costs to improve our internal control systems and procedures. In addition, perceptions of the Company among customers, suppliers, lenders, investors, securities analysts, and others could also be adversely affected. We cannot assure that any material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers, and business partners, and personally identifiable information of our employees, in our data centers and on our networks. The secure maintenance of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disclosure, or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption of our operations, damage to our reputation, and cause a loss of confidence in our products, which could adversely affect our business, revenues, and competitive position.

Our manufacturing capacity, labor force, and operations may not be appropriate for future levels of demand and may materially adversely affect our gross margins and operating results.

When market demand increases, we must have available manufacturing capacity and must increase our labor force to meet increases in customer demand. We have continued to experience a significant ramp up in overall demand in the heavy-duty truck market, along with the launch of several new programs. Given the current high demand levels, the Company has experienced asset capacity constraints and difficulty hiring, training and retaining labor in a tightening labor market, which has resulted in increased manufacturing inefficiencies and the inability to consistently meet customer delivery and quality requirements, including for several of the Company's major customers. Additional expenses that we realized in 2019 and 2018 as a result of these inefficiencies include increased hiring, training, wages, overtime, non-local third party contract labor, including travel and local lodging, scrap, rework, expedited premium shipping, returns, customer charges and repairs and maintenance.

If we continue to experience manufacturing inefficiencies, we may continue to incur additional expenses as described above and may reduce demand through the possible temporary or permanent move of business (which may include major customers' business) to other manufacturers, which would adversely affect our gross margins and operating results.

Ongoing difficulty in hiring, training, and retaining skilled labor could result in increased cost overruns, an inability to satisfy customer demands, and otherwise adversely affect our business.

We depend on skilled labor in the manufacturing of our products. Given the high demand levels in 2019 and 2018, we have experienced difficulty hiring, training, and retaining labor in a tightening labor market, which has resulted in increased manufacturing inefficiencies and the inability to consistently meet customer delivery and quality requirements, including for several of the Company's major customers. Recent difficulties in securing skilled labor have resulted in increased hiring and

training costs, increased overtime to meet demand, increased wage rates to attract and retain operators, the use of non-local third party contract labor, and higher scrap and rework costs due to inexperienced workers. Continuation of such difficulties in securing labor could result in increased cost, an inability to satisfy customer demands, and an inability to maintain or increase production rates which would adversely affect our business.

In the event we engage in any restructuring of our manufacturing operations to address operational efficiencies, such actions may be disruptive to our business and may not result in anticipated cost savings.

Management continuously evaluates our facilities and operations in an effort to make our business more efficient. During 2019 and 2018, we have continued to experience asset capacity constraints and difficulty hiring, training, and retaining labor in a tightening labor market, which has resulted in increased manufacturing inefficiencies and the inability to consistently meet customer delivery and quality requirements, including for several of the Company's major customers. As management continues to evaluate our facilities and operations in an effort to make our business more efficient, as well as whether to move certain customers' business in order to minimize production constraints, we may incur additional costs, asset impairments, and restructuring charges in connection with changes to operations, that to the extent incurred in the future could adversely affect our future earnings and cash flows. Such actions may be disruptive to our business. Furthermore, we may not realize the cost savings that we expect to realize as a result of such actions.

We have incurred impairment charges that eliminated the carrying value of our goodwill associated with Core Traditional and partially eliminated Horizon Plastics goodwill business reporting units in the past; in the future we may be required to incur additional impairment charges on a portion or all of the carrying value of our goodwill or other intangible assets associated with our reporting units, which may adversely affect our financial condition and results of operations.

Each year, and more frequently on an interim basis if appropriate, we are required by ASC Topic 350, "Intangibles--Goodwill and Other," to assess the carrying value of our indefinite lived intangible assets and goodwill to determine whether the carrying value of those assets is impaired. Such assessment and determination involves significant judgments to estimate the fair value of our reporting units, including estimating future cash flows, near term and long term revenue growth, and determining appropriate discount rates, among other assumptions. As part of the Company's annual impairment assessment at December 31, 2018, we concluded that the carrying value of the goodwill associated with our traditional business reporting unit was greater than fair value, which resulted in a goodwill impairment charge of \$2,403,000, representing all of the goodwill related to our traditional business reporting unit. Due to the Company's financial performance and continued depressed stock price, the Company performed a quantitative analysis for both of its reporting units at September 30, 2019. During 2019, the Company incurred a loss of margin in its Horizon Plastics reporting unit caused by selling price decreases that the Company has not been able to fully offset with material cost reductions. As a result of the quantitative analysis, the Company concluded that the carrying value of Horizon Plastics was greater than the fair value, which resulted in a goodwill impairment charge of \$4,100,000 at September 30, 2019 representing 19% of the goodwill related to the Horizon Plastics reporting unit. See *Note 2 - Summary of Significant Accounting Policies* and *Note 9 - Goodwill and Intangibles*, within the notes to our accompanying consolidated financial statements for further discussion regarding goodwill impairment. The Company will continue to evaluate the HPI reporting unit goodwill on an annual basis as required by ASC Topic 350. If operating earnings consistently fall below forecasted operating earnings, we would perform an interim or annual goodwill impairment analysis. Should that analysis conclude that the reporting unit's fair value were to be below carrying value a goodwill impairment charge would be necessary. Any such charges could materially adversely affect our financial results in the periods in which they are recorded.

Our failure to comply with our debt covenants or the terms of the Forbearance Agreement under which we are presently operating could have a material adverse effect on our business, financial condition, or results of operations.

The Company's amended and restated credit agreement dated January 16, 2018, as amended from time to time (the "A/R Credit Agreement"), with KeyBank National Association as the administrative agent (the "Administrative Agent") and various other financial institutions thereto as lenders (the "Lenders"), contains certain covenants. As of September 30, 2019 the Company was in breach of its fixed charge covenant under the A/R Credit Agreement and on November 22, 2019 entered into a forbearance agreement with the Lenders, as subsequently amended (as amended, the "Forbearance Agreement"). A breach of any of the

milestones established in the Forbearance Agreement could result in a default under our A/R Credit Agreement. Based on current financial projections, the Company does not believe that it will be compliant with the financial covenants beyond the negotiated Forbearance Period and therefore is pursuing the restructuring or refinancing of its existing obligations under the Amended A/R Credit Agreement. If we were unable to effectively restructure or finance our existing obligations, default under the Forbearance Agreement could result in the acceleration of the total due related to the A/R Credit Agreement. If a default of the Forbearance Agreement were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Any of these events, if they occur, could materially adversely affect our results of operations, financial condition, and cash flows.

We have substantial debt under our A/R Credit Agreement and may incur substantial additional debt, which could adversely affect our financial health, reduce our profitability, limit our ability to obtain financing in the future and pursue certain business opportunities and reduce the value of your investment.

As of December 31, 2019, we had an aggregate principal amount of \$49.5 million of outstanding debt. In fiscal year 2019, we incurred \$4.1 million of interest expense, net of the impact of interest rate swaps, related to this debt.

The amount of our debt or such other obligations could have important consequences for holders of our common stock, including, but not limited to: a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes; our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and other purposes may be impaired in the future; we are exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest; we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns; our ability to refinance indebtedness may be limited or the associated costs may increase; our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing may be impaired in the future; it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness; we may be more vulnerable to general adverse economic and industry conditions; and our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business units.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or refinance our debt. We cannot make assurances that we will be able to refinance our debt on terms acceptable to us, or at all. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot make assurances that we will be able to refinance any of our indebtedness, or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. We could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Subject to certain exceptions, our Term Loans and Revolving Loans, which we have defined in *Note 10 - Debt* to our consolidated financial statements, restrict our ability to dispose of assets and how we use the proceeds from any such dispositions. We cannot make assurances that we will be able to consummate those dispositions, or if we do, what the timing of the dispositions will be or whether the proceeds that we realize will be adequate to meet our debt service obligations, when due.

Cybersecurity attacks may threaten our confidential information, disrupt operations and result in harm to our reputation and adversely impact our business and financial performance.

Cybersecurity attacks across industries, including ours, are increasing in sophistication and frequency and may range from uncoordinated individual attempts to measures targeted specifically at us. These attacks include but are not limited to, malicious software or viruses, attempts to gain unauthorized access to, or otherwise disrupt, our information systems, attempts to gain

unauthorized access to business, proprietary or other confidential information, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Cybersecurity failures may be caused by employee error, malfeasance, system errors or vulnerabilities, including vulnerabilities of our vendors, suppliers, and their products. We have been subject to cybersecurity attacks in the past. Based on information known to date, past attacks have not had a material impact on our financial condition or results of operations. We may experience such attacks in the future, potentially with more frequency or sophistication.

Failures of our IT systems as a result of cybersecurity attacks or other disruptions could result in a breach of critical operational or financial controls and lead to a disruption of our operations, commercial activities or financial processes. Cybersecurity attacks or other disruptions impacting significant customers and/or suppliers could also lead to a disruption of our operations or commercial activities. Despite our attempts to implement safeguards on our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyberattacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could have a material adverse effect on our business financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owned four production facilities as of December 31, 2019 that are situated in Columbus, Ohio; Gaffney, South Carolina; Winona, Minnesota; and Matamoros, Mexico, and leases production facilities in Batavia, Ohio; Cobourg, Canada; and Escobedo, Mexico; and a distribution center in Brownsville, Texas.

The Columbus, Ohio plant is located at 800 Manor Park Drive on approximately 28 acres of land. The Company acquired the property at 800 Manor Park Drive in 1996 as a result of the Asset Purchase Agreement with Navistar. The Company added approximately 6,000 square feet to the Columbus plant during 2014 in connection with its SMC capacity expansion. The current 338,000 square feet of available floor space at the Columbus, Ohio plant is comprised of the following:

	<u>Approximate Square Feet</u>
Manufacturing/Warehouse	322,000
Office	<u>16,000</u>
Total	<u><u>338,000</u></u>

The Gaffney, South Carolina plant, which was opened in 1998, is located at 24 Commerce Drive, Meadow Creek Industrial Park on approximately 21 acres of land. The Company added approximately 28,800 square feet to the Gaffney plant during 2016. The approximate 139,800 square feet of available floor space at the Gaffney, South Carolina plant is comprised of the following:

	<u>Approximate Square Feet</u>
Manufacturing/Warehouse	134,800
Office	<u>5,000</u>
Total	<u><u>139,800</u></u>

The Winona, Minnesota plant which was acquired in 2015 is located at 1700 Wilkie Drive. The facility consists of approximately 87,000 square feet on approximately 7 acres comprised of the following:

	<u>Approximate Square Feet</u>
Manufacturing/Warehouse	81,000
Office	<u>6,000</u>
Total	<u><u>87,000</u></u>

The Matamoros, Mexico plant which was opened in 2009 is located at Guillermo Gonzalez Camarena y Thomas Alva Edison Manzana, Matamoros, Tamaulipas, Mexico. The facility consists of approximately 478,000 square feet on approximately 22 acres comprised of the following:

	<u>Approximate Square Feet</u>
Manufacturing/Warehouse	463,000
Office	<u>15,000</u>
Total	<u><u>478,000</u></u>

The Columbus, Ohio; Gaffney, South Carolina; Winona, Minnesota; and Matamoros, Mexico properties are subject to liens and security interests as a result of the properties being pledged by the Company as collateral for its debt as described in *Note 10 - Debt* in Part II, Item 8 of this Annual Report on Form 10-K.

The Company leases a production plant in Batavia, Ohio located at 4174 Half Acre Road on approximately 9 acres of land. On July 23, 2019, a new 5 year lease was executed commencing on August 1, 2019 and ending on July 31, 2024. The approximate 108,000 square feet of available floor space at the Batavia, Ohio plant is comprised of the following:

	Approximate Square Feet
Manufacturing/Warehouse	104,000
Office	4,000
Total	<u>108,000</u>

The Company leases a production plant in Cobourg, Canada located at 3 West Street on approximately 10 acres of land. The current lease agreement, which includes an option to extend the lease up to 10 years, expired in June 2019. The Company is currently negotiating an extension. The approximate 247,000 square feet of available floor space at the Cobourg, Canada plant is comprised of the following:

	Approximate Square Feet
Manufacturing/Warehouse	241,000
Office	6,000
Total	<u>247,000</u>

The Company leases a production plant in Escobedo, Mexico located at Avenida Internacional #220, Parque Industrial VYNMSA Escobedo, C.P. 66053, Escobedo, Nuevo Leon, Mexico on approximately 3 acres of land. The current lease agreement expires in March 2021. The approximate 61,000 square feet of available floor space at the Escobedo, Mexico plant is comprised of the following:

	Approximate Square Feet
Manufacturing/Warehouse	59,000
Office	2,000
Total	<u>61,000</u>

The Company leases a warehouse and distribution center in Brownsville, Texas located at 1385 Cheers Street on approximately 2 acres of land. A new lease agreement was executed on July 22, 2019 extending the lease terms through October 2022, with an option to extend the lease for 36 months. The approximate 42,000 square feet of available floor space at the Brownsville, Texas location is comprised of the following:

	Approximate Square Feet
Warehouse/Distribution	39,000
Office	3,000
Total	<u>42,000</u>

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is presently not involved in any legal proceedings which in the opinion of management are likely to have a material adverse effect on the Company's consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASE OF EQUITY SECURITIES

The Company's common stock is traded on the NYSE American LLC under the symbol "CMT".

The table below sets forth the high and low sale prices of the Company for each full quarterly period within the two most recent fiscal years for which such stock was traded.

Core Molding Technologies, Inc.		High	Low
Fourth Quarter	2019	\$ 6.49	\$ 2.80
Third Quarter	2019	7.58	5.75
Second Quarter	2019	8.50	6.73
First Quarter	2019	9.00	6.79
Fourth Quarter	2018	\$ 8.60	\$ 6.37
Third Quarter	2018	15.32	6.58
Second Quarter	2018	18.09	13.53
First Quarter	2018	22.36	16.47

The Company's common stock was held by 370 holders of record on March 12, 2020.

The Company ended the \$0.05 per share quarterly dividend after the May 2018 declaration. The Company made no payments for cash dividends during 2019 and made payments of \$792,000 and \$786,000 for cash dividends during 2018 and 2017, respectively.

Equity Compensation Plan Information

The following table shows certain information concerning our common stock to be issued in connection with our equity compensation plans as of December 31, 2019:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options or Vesting	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance
Equity compensation plans approved by stockholders	566,031	\$ 9.62	744,697

There were 8,303 stock repurchases during the three months ended December 31, 2019. All stock was purchased to satisfy tax withholding obligation upon vesting of restricted stock awards.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the audited consolidated financial statements of the Company. The information set forth below should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations,” the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

(In thousands, except per share data)	Years Ended December 31,				
	2019	2018	2017	2016	2015
Operating Data:					
Product sales	\$ 268,987	\$ 256,217	\$ 148,623	\$ 146,624	\$ 189,103
Tooling sales	15,303	13,268	13,050	28,258	9,965
Net sales	284,290	269,485	161,673	174,882	199,068
Gross margin	21,506	27,141	24,631	27,906	36,252
Operating income (loss)	(11,528)	(3,100)	7,941	11,527	18,498
Net income (loss)	(15,223)	(4,782)	5,459	7,411	12,050
Earnings (Loss) Per Share Data:					
Net income (loss) per common share:					
Basic	\$ (1.94)	\$ (0.62)	\$ 0.71	\$ 0.97	\$ 1.59
Diluted	\$ (1.94)	\$ (0.62)	\$ 0.70	\$ 0.97	\$ 1.58
Balance Sheet Data:					
Total assets	\$ 179,306	\$ 201,198	\$ 138,578	\$ 133,455	\$ 139,803
Working capital	(22,609)	40,111	40,369	38,590	31,534
Long-term debt	—	55,159	3,750	6,750	9,750
Stockholders' equity	84,426	98,929	101,893	96,766	88,733
Return on beginning equity	(15)%	(5)%	6%	8%	16%
Book value per share	\$ 10.72	\$ 12.72	\$ 13.21	\$ 12.67	\$ 11.68

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements under this caption of this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance as opposed to historical items and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Such forward-looking statements involve known and unknown risks and are subject to uncertainties and factors relating to Core Molding Technologies' operations and business environment, all of which are difficult to predict and many of which are beyond Core Molding Technologies' control. Words such as "may," "will," "could," "would," "should," "anticipate," "predict," "potential," "continue," "expect," "intend," "plans," "projects," "believes," "estimates," "confident" and similar expressions are used to identify these forward-looking statements. These uncertainties and factors could cause Core Molding Technologies' actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

Core Molding Technologies believes that the following factors, among others, could affect its future performance and cause actual results to differ materially from those expressed or implied by forward-looking statements made in this Annual Report on Form 10-K: business conditions in the plastics, transportation, marine and commercial product industries (including slowdown in demand for truck production); federal and state regulations (including engine emission regulations); general economic, social, regulatory (including foreign trade policy) and political environments in the countries in which Core Molding Technologies operates; safety and security conditions in Mexico and Canada; dependence upon certain major customers as the primary source of Core Molding Technologies' sales revenues; efforts of Core Molding Technologies to expand its customer base; the ability to develop new and innovative products and to diversify markets, materials and processes and increase operational enhancements; the actions of competitors, customers, and suppliers; failure of Core Molding Technologies' suppliers to perform their obligations; the availability of raw materials; inflationary pressures; new technologies; regulatory matters; labor relations; the loss or inability of Core Molding Technologies to attract and retain key personnel; the Company's ability to successfully identify, evaluate and manage potential acquisitions and to benefit from and properly integrate any completed acquisitions, including the recent acquisition of Horizon Plastics; the risk that the integration of Horizon Plastics may be more difficult, time-consuming or costly than expected; expected revenue synergies and cost savings from acquisition of Horizon Plastics may not be fully realized within the expected timeframe; revenues following the acquisition of Horizon Plastics may be lower than expected; customer and employee relationships and business operations may be disrupted by the acquisition of Horizon Plastics; federal, state and local environmental laws and regulations; the availability of capital; the ability of Core Molding Technologies to provide on-time delivery to customers, which may require additional shipping expenses to ensure on-time delivery or otherwise result in late fees; risk of cancellation or rescheduling of orders; management's decision to pursue new products or businesses which involve additional costs, risks or capital expenditures; inadequate insurance coverage to protect against potential hazards; equipment and machinery failure; product liability and warranty claims; and other risks identified from time to time in Core Molding Technologies' other public documents on file with the Securities and Exchange Commission, including those described in Item 1A of this Annual Report on Form 10-K.

DESCRIPTION OF THE COMPANY

Core Molding Technologies and its subsidiaries operate in the composites market as one operating segment as a molder of thermoplastic and thermoset structural products. The Company's operating segment consists of two component reporting units, Core Traditional and Horizon Plastics. The Company offers customers a wide range of manufacturing processes to fit various program volume and investment requirements. These processes include compression molding of sheet molding compound ("SMC"), bulk molding compounds ("BMC"), resin transfer molding ("RTM"), liquid molding of dicyclopentadiene ("DCPD"), spray-up and hand-lay-up, glass mat thermoplastics ("GMT"), direct long-fiber thermoplastics ("D-LFT") and structural foam and structural web injection molding ("SIM"). Core Molding Technologies serves a wide variety of markets, including the medium and heavy-duty truck, marine, automotive, agriculture, construction, and other commercial products. Product sales to medium and heavy-duty truck markets accounted for 58% of the Company's sales for the year ended December 31, 2019 and 56% and 68% for the years ended December 31, 2018 and 2017, respectively. The demand for Core Molding Technologies'

products is affected by economic conditions in the United States, Mexico, and Canada. Core Molding Technologies' manufacturing operations have a significant fixed cost component. Accordingly, during periods of changing demand, the profitability of Core Molding Technologies' operations may change proportionately more than revenues from operations.

In 1996, Core Molding Technologies acquired substantially all of the assets and assumed certain liabilities of Columbus Plastics, a wholly owned operating unit of Navistar's truck manufacturing division since its formation in late 1980. Columbus Plastics, located in Columbus, Ohio, was a compounder and compression molder of SMC. In 1998, Core Molding Technologies began operations at its second facility in Gaffney, South Carolina, and in 2001, Core Molding Technologies added a production facility in Matamoros, Mexico by acquiring certain assets of Airshield Corporation. As a result of this acquisition, Core Molding Technologies expanded its fiberglass molding capabilities to include the spray up, hand-lay-up open mold processes and RTM closed molding. In 2005, Core Molding Technologies acquired certain assets of the Cincinnati Fiberglass Division of Diversified Glass, Inc., a Batavia, Ohio-based, privately held manufacturer and distributor of fiberglass reinforced plastic components supplied primarily to the heavy-duty truck market. In 2009, the Company completed construction of a new production facility in Matamoros, Mexico that replaced its leased facility. In March 2015, the Company acquired substantially all of the assets of CPI Binani, Inc., a wholly owned subsidiary of Binani Industries Limited, located in Winona, Minnesota ("CPI"), which expanded the Company's process capabilities to include D-LFT and diversified the customer base. In January 2018, the Company acquired substantially all the assets of Horizon Plastics, which has manufacturing operations in Cobourg, Ontario and Escobedo, Mexico. This acquisition expanded the Company's customer base, geographic footprint, and process capabilities to include structural foam and structural web molding.

BUSINESS OVERVIEW

General

The Company's business and operating results are directly affected by changes in overall customer demand, operational costs and performance and leverage of our fixed cost and selling, general and administrative ("SG&A") infrastructure.

Product sales fluctuate in response to several factors including many that are beyond the Company's control, such as general economic conditions, interest rates, government regulations, consumer spending, labor availability, and our customers' production rates and inventory levels. Product sales consist of demand from customers in many different markets with different levels of cyclicity and seasonality. The North American truck market, which is highly cyclical, accounted for 58% and 56% of the Company's product revenue for the years ended December 31, 2019 and 2018, respectively.

Operating performance is dependent on the Company's ability to manage changes in input costs for items such as raw materials, labor, and overhead operating costs. Performance is also affected by manufacturing efficiencies, including items such as on time delivery, quality, scrap, and productivity. Market factors of supply and demand can impact operating costs. In periods of rapid increases or decreases in customer demand, the Company is required to ramp operations activity up or down quickly which may impact manufacturing efficiencies more than in periods of steady demand.

Operating performance is also dependent on the Company's ability to effectively launch new customer programs, which are typically extremely complex in nature. The start of production of a new program is the result of a process of developing new molds and assembly equipment, validation testing, manufacturing process design, development and testing, along with training and often hiring employees. Meeting the targeted levels of manufacturing efficiency for new programs usually occurs over time as the Company gains experience with new tools and processes. Therefore, during a new program launch period, start-up costs and inefficiencies can affect operating results.

Results of 2019 Overview

Core Molding Technologies recorded a net loss in 2019 of \$15,223,000, or \$(1.94) per basic and diluted share, compared with a net loss of \$4,782,000, or \$(0.62) per basic and diluted share in 2018. Product sales in 2019 increased 5% from 2018, and operating income declined 272%. Higher demand from our truck and marine customers were the primary drivers of the sales increase, while the decrease in operating income was largely due to increased manufacturing inefficiencies at several of the Company's facilities, a higher goodwill impairment charge, and higher operating and SG&A costs.

In the second half of 2018, the Company started experiencing manufacturing inefficiencies as a result of the significant production demand in the heavy-duty truck market. Given the high demand levels, the Company experienced difficulty hiring, training and retaining labor in a tightening labor market at several manufacturing facilities. This, coupled with asset capacity and reliability constraints, resulted in increased manufacturing inefficiencies and the inability to consistently meet customers' delivery and quality requirements, including for several of the Company's major customers. During the fourth quarter of 2018, the Company hired a new CEO who began to implement a turnaround plan to improve customer delivery and quality performance and reduce manufacturing inefficiencies. The turnaround plan included additional spending to improve equipment and labor stability. Management believes that during 2019 the operational benefits of the turnaround plan are being realized as customer delivery and quality levels have begun to improve. While management believes these improvements have been successful as an operational matter and were the primary focus of the turnaround plan, operational efficiency improvements at the plants have not yet resulted in anticipated levels of financial improvements.

The Company's financial performance had started to reflect the benefits of the turnaround improvements during the third quarter of 2019, however sales volumes from products were 19% lower in the fourth quarter, as compared to the third quarter, which had an adverse effect on operating income in the fourth quarter.

As part of the turnaround plan, management has implemented customer price increases where margin on product is not meeting the Company's profitability model, and are evaluating relationships with major customers to assess ongoing profitability of those relationships. The Company previously announced that on November 15, 2019 it had provided notice to the Volvo Group ("Volvo") of the Company's intention to terminate its agreement with Volvo, with such termination to become effective twelve months from the date of notice, absent the parties reaching mutually agreeable terms upon which to continue their relationship. In March 2020, the Company and Volvo mutually agreed to new terms to continue to supply Volvo and the Company revoked its termination notice. Sales to Volvo amounted to approximately 17%, 17%, and 22% of total sales for 2019, 2018, and 2017, respectively.

Looking forward, the Company anticipates that 2020 product sales levels will decrease as compared to 2019, due to lower demand from heavy duty truck customers. Heavy duty truck customers as well as industry analysts are forecasting a decrease in Class 8 truck sales of approximately 34% in 2020 compared to 2019. Management continues to aggressively implement the Company's turnaround plan to improve operational inefficiencies and financial performance while still managing and reacting to the softening truck production forecasts.

2019 Compared to 2018

Net sales for 2019 totaled \$284,290,000, which was an increase from the \$269,485,000 reported for 2018. Included in total sales were tooling project sales of \$15,303,000 for 2019 and \$13,268,000 for 2018. Tooling project sales result primarily from customer approval and acceptance of molds and assembly equipment specific to their products as well as other non-production services. These sales are sporadic in nature and fluctuate in regard to scope and related revenue on a period-to-period basis. Total product sales for 2019, excluding tooling project sales, totaled \$268,987,000, representing a 5% increase from the \$256,217,000 reported for 2018. The increase in product sales is primarily the result of increased sales to our truck and marine customers of \$11,707,000 and \$3,144,000, respectively.

Gross margin was approximately 7.6% of sales in 2019 and 10.1% in 2018. The gross margin decrease, as a percent of sales, was due to unfavorable product mix and production inefficiencies of 4.2%. These reductions were offset by net changes in selling price and material costs of 1.3% and favorable changes in customer chargebacks of 0.4%.

Selling, general and administrative expense ("SG&A") totaled \$28,934,000 in 2019, compared to \$27,838,000 in 2018. The increase in SG&A expense primarily resulted from higher labor and benefit costs of \$1,144,000 and higher insurance costs of \$327,000 offset by lower professional and outside services of \$1,017,000. For the year ended December 31, 2018, the Company incurred one-time acquisition fees of \$1,289,000.

Goodwill impairment totaled \$4,100,000 and \$2,403,000 in 2019 and 2018, respectively, based on the Company's annual and interim goodwill impairment assessment for its reporting units. See *Note 2 - Summary of Significant Accounting Policies*, for further details.

Net interest expense totaled \$4,144,000 for the year ended December 31, 2019, compared to net interest expense of \$2,394,000 for the year ended December 31, 2018. The increase in interest expense was primarily due to a higher average outstanding debt balance as well as higher interest rates in 2019.

Income tax benefit was approximately 2% of total loss before income taxes in 2019 and 12% in 2018. The effective income tax rate in both years is a result of the net effect of taxable losses in a lower statutory rate tax jurisdictions being offset by taxable income in higher statutory rate tax jurisdictions. Additionally, the effective rate in 2019 includes the impact of recording a full valuation allowance against net deferred tax assets in the United States of approximately \$3,267,000.

Net loss for 2019 was \$15,223,000 or \$(1.94) per basic and diluted share, compared with net loss of \$4,782,000 or \$(0.62) per basic and diluted share for 2018.

Comprehensive loss totaled \$15,970,000 in 2019, compared to a comprehensive loss of \$4,735,000 in 2018. The decrease was primarily related to higher net loss of \$10,441,000 and a change in net actuarial adjustments of \$1,630,000 for other post-retirement benefit obligations offset by a change in hedging derivatives of \$836,000. The net actuarial changes in 2018 and 2019 were primarily due to changes in discount rate.

2018 Compared to 2017

Net sales for 2018 totaled \$269,485,000, which was an increase from the \$161,673,000 reported for 2017. Included in total sales were tooling project sales of \$13,268,000 for 2018 and \$13,050,000 for 2017. Tooling project sales result primarily from customer approval and acceptance of molds and assembly equipment specific to their products as well as other non-production services. These sales are sporadic in nature and fluctuate in regard to scope and related revenue on a period-to-period basis. Total product sales for 2018, excluding tooling project sales, totaled \$256,217,000, representing a 72% increase from the \$148,623,000 reported for 2017. The increase in product sales is primarily the result of new sales from the acquisition of Horizon Plastics totaling \$62,603,000 and higher demand from truck customers of \$44,991,000.

Gross margin was approximately 10.1% of sales in 2018 and 15.2% in 2017. The gross margin decrease, as a percent of sales, was due to unfavorable product mix and production inefficiencies of 8.1%, net changes in selling price and material costs of 1.1% and unfavorable sales returns of 0.6%, offset by higher leverage of fixed costs of 2.5% and favorable impact of 2.0% from the Horizon Plastic acquisition.

Selling, general and administrative expense ("SG&A") totaled \$27,838,000 in 2018, compared to \$16,690,000 in 2017. The increase in SG&A expense primarily resulted from additional ongoing SG&A costs of \$3,681,000 related to Horizon Plastics, higher professional and outside services of \$2,292,000, higher intangible amortization of \$1,819,000, higher labor and benefit costs of \$994,000, one-time severance costs of \$858,000 and one-time acquisition fees of \$693,000.

Goodwill impairment totaled \$2,403,000 in 2018, based on the Company's annual goodwill impairment assessment for the Core Traditional reporting unit. See *Note 2 - Summary of Significant Accounting Policies*, for further details.

Net interest expense totaled \$2,394,000 for the year ended December 31, 2018, compared to net interest expense of \$245,000 for the year ended December 31, 2017. The increase in interest expense was primarily due to a higher average outstanding debt balance in 2018.

Income tax expense was approximately 12% of total income before income taxes in 2018 and 30% in 2017. The change in effective income tax rate primary relates to the net effect of taxable losses in a lower statutory rate tax jurisdictions being offset by taxable income in higher statutory rate tax jurisdictions.

Net loss for 2018 was \$4,782,000 or \$(0.62) per basic and diluted share, compared with net income of \$5,459,000 or \$0.71 per basic and \$0.70 per diluted share for 2017.

Comprehensive loss totaled \$4,735,000 in 2018, compared to comprehensive income of \$4,953,000 in 2017. The decrease was primarily related to lower net income of \$10,241,000 and a change in hedging derivatives of \$418,000 offset by a change in net actuarial adjustments of \$971,000 for other post-retirement benefit obligations. In 2018, the Company recorded a net actuarial gain of \$910,000 compared to an actuarial loss of \$417,000 in 2017. The 2018 gain and the 2017 loss were primarily due to a change in discount rate.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company's primary sources of funds have been cash generated from operating activities and borrowings from third parties. Primary cash requirements are for operating expenses, capital expenditures, repayments of debt, and acquisitions. The Company from time to time will enter into foreign exchange contracts and interest rate swaps to mitigate risk of foreign exchange and interest rate volatility. As of December 31, 2019, the Company had outstanding foreign exchange contracts with notional amounts totaling \$15,358,000, compared to \$27,588,000 outstanding as of December 31, 2018. As of December 31, 2019, the Company also had outstanding interest rate swaps with notional amounts totaling \$29,750,000, compared to \$32,375,000 outstanding as of December 31, 2018.

Cash provided by operating activities totaled \$16,701,000 for the year ended December 31, 2019. Net loss of \$15,223,000 negatively impacted operating cash flows. Non-cash deductions of depreciation and amortization, and goodwill impairment charge included in net loss amounted to \$10,376,000 and \$4,100,000, respectively. Decreases in working capital resulted in cash provided by operating activities of \$18,285,000. Changes in working capital primarily related to decreases in accounts receivable and inventory, due to a decreases in sales volume and reduction in certain customer payment terms.

Cash used in investing activities totaled \$7,460,000 for the year ended December 31, 2019, primarily related to purchases of property, plant and equipment for new programs and equipment improvements at the Company's production facilities. The Company anticipates spending approximately \$9,000,000 during 2020 on property, plant and equipment purchases for all of the Company's operations. The Company anticipates using cash from operations and its revolving line of credit to finance this capital investment. At December 31, 2019, purchase commitments for capital expenditures in progress were approximately \$336,000.

Cash used in financing activities totaled \$9,276,000 for the year ended December 31, 2019. Cash activity primarily consisted of net repayments of revolving loans of \$5,368,000, net scheduled repayments of principal on outstanding term loans of \$3,375,000, and payment of deferred loan costs of \$435,000.

At December 31, 2019, the Company had \$1,856,000 of cash on hand and an available revolving line of credit of \$15,992,000. If a material adverse change in the financial position of the Company should occur, or if actual sales or expenses are substantially different than what has been forecasted, the Company's liquidity and ability to obtain further financing to fund future operating and capital requirements could be negatively impacted.

Debt and Credit Facilities

On January 16, 2018, the Company entered into an Amended and Restated Credit Agreement (the "A/R Credit Agreement") with KeyBank National Association as administrative agent (the "Administrative Agent") and various financial institutions party thereto as lenders (the "Lenders"). Pursuant to the terms of the A/R Credit Agreement (i) the Company may borrow revolving loans in the aggregate principal amount of up to \$40,000,000 (the "U.S. Revolving Loans") from the Lenders and term loans in the aggregate principal amount of up to \$32,000,000 from the Lenders, (ii) the Company's wholly-owned subsidiary, Horizon Plastics International, Inc., (the "Subsidiary") may borrow revolving loans in an aggregate principal amount of up to \$10,000,000 from the Lenders (which revolving loans shall reduce the availability of the U.S. Revolving Loans to the Company on a dollar-for-dollar basis) and term loans in an aggregate principal amount of up to \$13,000,000 from the Lenders, (iii) the Company obtained a Letter of Credit Commitment of \$250,000, of which \$160,000 has been issued and (iv) the Company repaid the outstanding term loan balance of \$6,750,000. The A/R Credit Agreement is secured by a guarantee of each U.S. and Canadian subsidiary of the Company, and by a lien on substantially all of the present and future assets of the Company and its U.S. and

Canadian subsidiaries, except that only 65% of the stock issued by Corecomposites de Mexico, S. de R.L. de C.V. has been pledged.

Concurrent with the closing of the A/R Credit Agreement the Company borrowed the \$32,000,000 term loan and \$2,000,000 from the U.S. Revolving loan and the Subsidiary borrowed the \$13,000,000 term loan and \$2,500,000 from revolving loans to provide \$49,500,000 of funding for the acquisition of Horizon Plastics.

On March 14, 2019, the Company entered into the first amendment ("First Amendment") to the A/R Credit Agreement with the Lenders. Pursuant to the terms of the First Amendment, the Company and Lenders agreed to modify certain terms of the A/R Credit Agreement. These modifications included (1) implementation of an availability block on the U.S. Revolving Loans reducing availability from \$40,000,000 to \$32,500,000, (2) modification to the definition of EBITDA to add back certain one-time expenses, (3) waiver of non-compliance with the leverage covenant as of December 31, 2018 and modification of the leverage ratio definition and covenant to eliminate testing of the leverage ratio until December 31, 2019, (4) waiver of non-compliance with the fixed charge covenant as of December 31, 2018 and modification of the fixed charge coverage ratio definition and covenant requirement, (5) implementation of a capital expenditure spend limit of \$7,500,000 during the first six months of 2019 and \$12,500,000 for the full year 2019, (6) an increase of the applicable interest margin spread for existing term and revolving loans, and (7) an increase in the commitment fees on any unused U.S. Revolving Loans.

On November 22, 2019, the Company entered into a forbearance agreement (the "Forbearance Agreement") with the Lenders. Pursuant to the Forbearance Agreement, the Borrowers and the Lenders acknowledged and confirmed that an event of default occurred under the A/R Credit Agreement resulting from the Borrowers failure to maintain the required Fixed Charge Coverage Ratio (as defined in the A/R Credit Agreement") for the fiscal quarter ended September 30, 2019. The Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the A/R Credit Agreement through March 13, 2020, as long as the Company satisfies the conditions set forth in the Forbearance Agreement, including, (i) the Borrowers shall remain current on all loan payments during the forbearance period, (ii) on or before December 6, 2019, the Administrative Agent and Lenders shall each receive a copy of a report of Huron Consulting Group containing findings and observations in respect of the businesses and operations of the Company and the Borrowers shall deliver a strategic alternative assessment in respect of the Borrowers' operations and financing, (iii) on or before December 15, 2019, the Administrative Agent and Lenders shall each receive a copy of appraisals of machinery and equipment and inventory appraisals, and the Borrowers shall have determined and proposed a new capital structure to the Administrative Agent and Lenders, (iv) on or before February 14, 2020, the Borrowers shall have obtained a definitive, written commitment from involved parties and/or lenders providing the basis for implementation of a new capital structure, and (v) on or before March 13, 2020, the Borrowers shall have closed on a new capital structure, acceptable to the Administrative Agents and Lenders. The Forbearance Agreement also implemented a new availability block with respect to the U.S. Revolving Loans portion of the A/R Credit Agreement, reducing availability from \$32,500,000 to \$28,000,000 and increasing the applicable margin for existing term and revolving loans, as well as increasing the commitment fees on any unused U.S. Revolving Loans.

On March 13, 2020, the Company entered into an Amendment to the Forbearance Agreement (the "Amended Forbearance Agreement") with the Lenders. Pursuant to the terms of the Amended Forbearance Agreement, the Company and Lenders agreed to modify certain terms of the A/R Credit Agreement and Forbearance Agreement and extend the Forbearance Agreement through May 29, 2020. The modifications include (1) a reduction in the U.S. Revolving Loan to \$25,000,000 with an availability block of \$5,000,000 which can be borrowed with the unanimous approval of the lenders, (2) a change of interest rate to LIBOR plus 650 basis points for all outstanding loans, (3) forbear compliance with the leverage covenant and fixed charge covenant through May 29, 2020, and (4) implementation of a capital expenditure spend limit of \$3,500,000 from the effective date of the Amended Forbearance Agreement through May 29, 2020.

The Amended Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the Credit Agreement through May 29, 2020, as long as the Company satisfies the conditions set forth in the Amended Forbearance Agreement, including, (i) on or before March 31, 2020, the borrowers shall have obtained an executed term sheet from involved parties and/or lenders providing the basis for implementation of a new capital structure and defined due diligence parameters, (ii) on or before May 15, 2020 the Borrowers

shall have obtained an executed definitive, written commitment from the New Lenders to enter into a definitive agreement to effect the refinancing, and (iii) on or before May 29, 2020, the borrowers shall have closed on a new capital structure.

As a result of the Amended Forbearance Agreement not extending beyond a year, the Company's remaining long-term debt under the A/R Credit Agreement, consisting of \$49,451,000 in borrowings under the revolving credit commitment and the loan commitments, was classified as a current liability in the Company's consolidated balance sheet as of December 31, 2019. As a result, the Company's current liabilities exceeded its current assets by \$22,609,000 as of December 31, 2019. If the Lenders were to call the loans or demand repayment of all existing borrowings, this could result in the Company being unable to meet its working capital obligations.

Bank Covenants

The Company is required to meet certain financial covenants included in the A/R Credit Agreement with respect to leverage ratios, fixed charge ratios and capital expenditures. As of September 30, 2019, the Company was in default with its fixed charge coverage ratios associated with the loans made under the A/R Credit Agreement as described above. As a result of this default the Company and the Administrative Agent on behalf of the Lenders entered into a Forbearance Agreement to address the non-compliance and establish milestones for the Company related to restructuring of its existing debt. Effective March 13, 2020, the Company entered into an Amended Forbearance Agreement to modify existing and establish new milestones.

The Company is required to meet certain financial covenants included in the A/R Credit Agreement with respect to leverage ratios and fixed charge ratios and capital expenditures, as well as other customary affirmative and negative covenants. As of September 30, 2019, the Company was not in compliance with its financial covenants. The following table presents the financial covenants specified in our A/R Credit Agreement, as modified by the First Amendment, and the actual covenant calculations as of December 31, 2019:

	Financial Covenants	Actual Covenants as of December 31, 2019
Fixed Charge Coverage Ratio ^(A)	Minimum 1.00	0.59
Leverage Ratio	3.25 or Lower	9.18

^(A) The terms of the A/R Credit Agreement that the fixed charge coverage ratio will be maintained at a minimum of 1.00 and 1.10 on each of December 31, 2019 and March 31, 2020, and from June 30, 2020 and thereafter set at a minimum of 1.15.

The Amended A/R Credit Agreement also provides a capital expenditure limit covenant, whereby capital expenditures as defined in the Amended A/R Credit Agreement are limited to an aggregate of \$12,500,000 for the twelve months ended December 31, 2019. As of December 31, 2019 capital expenditures for 2019 have amounted to \$7,460,000.

Based on current financial projections, the Company does not believe that it will be compliant with the financial covenants beyond the negotiated forbearance period and therefore is pursuing the restructuring or refinancing of its existing obligations under the A/R Credit Agreement.

The Company has engaged Huron Transactional Advisor's to facilitate a full marketing process for refinancing the A/R Credit Agreement. Management and Huron are evaluating term sheets submitted by potential lending sources. The Company is considering financing options including an asset backed lending facility using the Company's accounts receivable and inventories as security, term loans secured with the Company's real estate and machinery and equipment, sale and leaseback of Company owned real estate and potential equity financing. Any new financing remains subject to asset appraisals, field exams, financial projection due diligence, real estate environmental reviews, and other customary legal documentation.

Shelf Registration

On November 14, 2017 the Company filed a universal shelf Registration Statement on Form S-3 (the “Registration Statement”) with the SEC in accordance with the Securities Act of 1933, as amended, which became effective on November 20, 2017. The Registration Statement registered common stock, preferred stock, debt securities, warrants, depositary shares, rights, units, and any combination of the foregoing, for a maximum aggregate offering price of up to \$50 million, which may be sold from time to time. The terms of any securities offered under the Registration Statement and intended use of proceeds will be established at the times of the offerings and will be described in prospectus supplements filed with the SEC at the times of the offerings. The Registration Statement has a three year term.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET TRANSACTIONS

The Company has the following minimum commitments under contractual obligations, including purchase obligations, as defined by the SEC. A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on the Company’s balance sheet under accounting principles generally accepted in the United States. Based on this definition, the table below includes only those contracts which include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

The following table provides aggregated information about the maturities of contractual obligations and other long-term liabilities as of December 31, 2019:

	2020	2021	2022	2023	2024 and after	Total
Long-term debt ^(C)	\$ 49,451,000	\$ —	\$ —	\$ —	\$ —	\$ 49,451,000
Interest ^{(A)(C)}	2,740,000	—	—	—	—	2,740,000
Operating lease obligations	1,433,000	1,174,000	1,102,000	1,000,000	530,000	5,239,000
Contractual commitments for capital expenditures ^(B)	336,000	—	—	—	—	336,000
Post retirement benefits	1,233,000	470,000	497,000	519,000	6,441,000	9,160,000
Total	<u>\$ 55,193,000</u>	<u>\$ 1,644,000</u>	<u>\$ 1,599,000</u>	<u>\$ 1,519,000</u>	<u>\$ 6,971,000</u>	<u>\$ 66,926,000</u>

^(A) Variable interest rates were as of December 31, 2019.

^(B) Includes \$158,000 recorded on the balance sheet in accounts payable at December 31, 2019.

^(C) The Company has classified all of its long-term debt as current due non-compliance with its debt covenants under the A/R Credit Agreement and subsequent entry into a Forbearance Agreement with the Lenders. The Company anticipates restructuring its current outstanding debt by May 29, 2020.

As of December 31, 2019, the Company had no significant off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management’s Discussion and Analysis of Financial Condition and Results of Operations discuss the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to accounts receivable, inventories, goodwill and other long-lived assets, self-insurance, post retirement benefits, and income taxes. Management bases its estimates and judgments

on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Accounts Receivable Allowances

Management maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company has determined that a \$50,000 allowance for doubtful accounts is needed at December 31, 2019 and \$25,000 allowance was needed at December 31, 2018. Management also records estimates for customer returns and deductions, discounts offered to customers, and for price adjustments. Should customer returns and deductions, discounts, and price adjustments fluctuate from the estimated amounts, additional allowances may be required. The Company had an allowance for estimated chargebacks of \$476,000 at December 31, 2019 and \$2,344,000 at December 31, 2018. There have been no material changes in the methodology of these calculations.

Inventories

Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or net realizable value. The inventories are accounted for using the first-in, first-out (FIFO) method of determining inventory costs. Inventory quantities on-hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based on historical and anticipated usage. The Company has recorded an allowance for slow moving and obsolete inventory of \$898,000 at December 31, 2019 and \$957,000 at December 31, 2018.

Long-Lived Assets

Long-lived assets consist primarily of property, plant and equipment and finite-lived intangibles. The Company acquired substantially all of the assets of Horizon Plastics on January 16, 2018, which resulted in approximately \$16,770,000 of finite-lived intangibles and \$12,994,000 of property, plant and equipment, all of which were recorded at fair value. The recoverability of long-lived assets is evaluated by an analysis of operating results and consideration of other significant events or changes in the business environment. The Company evaluates, whether impairment exists for long-lived assets on the basis of undiscounted expected future cash flows from operations before interest. There was no impairment of the Company's long-lived assets for the years ended December 31, 2019, 2018 and 2017.

Goodwill

The purchase consideration of acquired businesses have been allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase consideration over the fair value of the net assets acquired was allocated to goodwill. The Company accounts for goodwill in accordance with FASB ASC Topic 350, *Intangibles - Goodwill and Other*. FASB ASC Topic 350 prohibits the amortization of goodwill and requires these assets be reviewed for impairment at each reporting unit. As a result of the Horizon Plastics acquisition on January 16, 2018 and the status of its integration, the Company established two reporting units, Core Traditional and Horizon Plastics.

The annual impairment tests of goodwill may be completed through qualitative assessments, however the Company may elect to bypass the qualitative assessment and proceed directly to a quantitative impairment test for any reporting unit in any period. The Company may resume the qualitative assessment for any reporting unit in any subsequent period.

Under a qualitative and quantitative approach, the impairment test for goodwill consists of an assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount. As part of the qualitative assessment, the Company considers relevant events and circumstances that affect the fair value or carrying amount of the Company. Such events and circumstances could include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, reporting unit specific events and capital markets pricing. The Company places more weight on the events and circumstances that most affect the Company's fair value or carrying amount. These factors are all considered by management in

reaching its conclusion about whether to perform step one of the impairment test. If the Company elects to bypass the qualitative assessment for any reporting unit, or if a qualitative assessment indicates it is more-likely-than-not that the estimated carrying value of a reporting unit exceeds its fair value, the Company proceeds to a quantitative approach.

Due to the Company's financial performance and continued depressed stock price, the Company performed a quantitative analysis for both of its reporting units at September 30, 2019. During 2019, the Company incurred a loss of margin in its Horizon Plastics reporting unit caused by selling price decreases that the Company has not been able to fully offset with material cost reductions. As a result of the quantitative analysis, the Company concluded that the carrying value of Horizon Plastics was greater than the fair value, which resulted in a goodwill impairment charge of \$4,100,000 at September 30, 2019 representing 19% of the goodwill related to the Horizon Plastics reporting unit. The company performed a qualitative assessment at December 31, 2019, indicating no additional goodwill impairment related to the Horizon Plastics reporting unit.

The Company's annual impairment assessment at December 31, 2018 consisted of a quantitative analysis for both reporting units. It concluded that the carrying value of Core Traditional was greater than the fair value, which resulted in a goodwill impairment charge of \$2,403,000, representing all the goodwill related to the Core Traditional reporting unit. The analysis of the Company's other reporting unit, Horizon Plastics, indicated no goodwill impairment charge, based on historical performance and financial projections at that time, as the excess of the estimated fair value over the carrying value of its invested capital was approximately 23% of the book value of its net assets.

There was impairment of the Company's goodwill in 2019 and 2018 of \$4,100,000 and \$2,403,000, respectively. There was no impairment of the Company's goodwill for the year ended December 2017.

Self-Insurance

The Company is self-insured with respect to Columbus and Batavia, Ohio, Gaffney, South Carolina, Winona, Minnesota and Brownsville, Texas for medical, dental and vision claims and Columbus and Batavia, Ohio for workers' compensation claims, all of which are subject to stop-loss insurance thresholds. The Company is also self-insured for dental and vision with respect to its Cobourg, Canada location. The Company has recorded an estimated liability for self-insured medical, dental and vision claims incurred but not reported and worker's compensation claims incurred but not reported at December 31, 2019 and December 31, 2018 of \$1,203,000 and \$960,000, respectively.

Post Retirement Benefits

Management records an accrual for post retirement costs associated with the health care plan sponsored by the Company for certain employees. Should actual results differ from the assumptions used to determine the reserves, additional provisions may be required. In particular, increases in future healthcare costs above the assumptions could have an adverse effect on the Company's operations. The effect of a change in healthcare costs is described in *Note 13 - Post Retirement Benefits*, Core Molding Technologies had a liability for post retirement healthcare benefits based on actuarially computed estimates of \$9,160,000 at December 31, 2019 and \$8,076,000 at December 31, 2018.

Revenue Recognition

The Company historically has recognized revenue from two streams, product revenue and tooling revenue. Product revenue is earned from the manufacture and sale of sheet molding compound and thermoset and thermoplastic products. Revenue from product sales is generally recognized as products are shipped, as the Company transfers control to the customer and is entitled to payment upon shipment. In certain circumstances, the Company recognizes revenue from product sales when products are produced and the customer takes control at our production facility.

Tooling revenue is earned from manufacturing multiple tools, molds and assembly equipment as part of a tooling program for a customer. Given that the Company is providing a significant service of producing highly interdependent component parts of the tooling program, each tooling program consists of a single performance obligation to provide the customer the capability to produce a single product. Based on the arrangement with the customer, the Company recognizes revenue either at a point in time or over time. When the Company does not have an enforceable right to payment, the Company recognizes tooling revenue at a point in time. In such cases, the Company recognizes revenue upon customer acceptance, which is when the customer has legal title to the tools. The Company historically recognized all tooling revenue at a point in time, upon customer acceptance, before the adoption of ASU 2014-09.

Certain tooling programs include an enforceable right to payment. In those cases, the Company recognizes revenue over time based on the extent of progress towards completion of its performance obligation. The Company uses a cost-to-cost measure of progress for such contracts because it best depicts the transfer of value to the customer and also correlates with the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Under the cost-to-cost measure of progress, progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Income Taxes

The Company evaluates the balance of deferred tax assets that will be realized based on the premise that the Company is more likely than not to realize deferred tax benefits through the generation of future taxable income. Management reviews all available evidence, both positive and negative, to assess the long-term earnings potential of the Company using a number of alternatives to evaluate financial results in economic cycles at various industry volume conditions. Other factors considered are the Company's relationships with its major customers, and any recent customer diversification efforts. The projected availability of taxable income to realize the tax benefits from the reversal of temporary differences before expiration of these benefits are also considered. The Company evaluates provisions and deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available evidence.

As of December 31, 2019 the Company had a deferred tax asset of \$5,293,000 of which \$3,267,000 is related to tax positions in the United States, \$1,555,000 related to tax positions in Canada and \$471,000 related to tax positions in Mexico. During 2019, the Company recorded a valuation allowance against all deferred tax assets in the United States, due to cumulative losses over the last three years and uncertainty related to the Company's ability to realize net loss carryforwards and other net deferred tax assets in the future. The Company believes that the deferred tax assets associated with the Canadian and Mexican tax jurisdictions are more-likely-than-not to be realizable based on estimates of future taxable income and the Company's ability to carryback losses.

Management recognizes the financial statement effects of a tax position when it is more likely than not the position will be sustained upon examination.

Recent Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period.

In accordance with ASU 2016-02, the Company elected not to recognize lease assets and lease liabilities for leases with a term of twelve months or less. The ASU requires a modified retrospective transition method, or a transition method option further described within ASU 2018-11, with the option to elect a package of practical expedients that permits the Company to: (1) not reassess whether expired or existing contracts contain leases, (2) not reassess lease classification for existing or expired leases and (3) not consider whether previously capitalized initial direct costs would be appropriate under the new standard. The Company elected to apply the package of practical expedients.

The Company adopted ASU No. 2016-02 as of January 1, 2019, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption without restating previously reported periods. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification.

In addition, the Company elected the practical expedient to determine the lease term for existing leases. In the application of practical expedient, the Company evaluated the buildings leased and the current financial performance of the plant associated, which resulted in the determination that most renewal options would be reasonably certain in determining the expected lease term.

Adoption of the new standard resulted in the recording of additional net right of use assets and lease liabilities of \$4,490,000 and \$4,428,000, respectively, as of January 1, 2019. The present value of lease liabilities has been measured using the Company's revolving loan borrowing rates as of December 31, 2018 (one day prior to initial application). Additionally, ROU assets for these operating leases have been measured as the initial measurement of applicable lease liabilities adjusted for any unamortized initial prepaid/accrued rent and any ASC Topic 420 liabilities. The standard did not materially impact the Company's consolidated statement of income (loss) or statement of cash flows.

Current expected credit loss (CECL)

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses," which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. Subsequent to issuing ASU 2016-13, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," for the purpose of clarifying certain aspects of ASU 2016-13. ASU 2018-19 has the same effective date and transition requirements as ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," which is effective with the adoption of ASU 2016-13. In May 2019, the FASB issued ASU 2019-05, "Financial Instruments - Credit Losses (Topic 326)," which is also effective with the adoption of ASU 2016-13. In October 2019, the FASB voted to delay the implementation date for certain companies, including those that qualify as a smaller reporting company under SEC rules, until January 1, 2023, with revised ASU's expected to be issued in November 2019. We will adopt this ASU on its effective date of January 1, 2023. We do not expect the adoption of this ASU to have a material impact on our consolidated financial position, results of operations, cash flows, or presentation thereof.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Core Molding Technologies' primary market risk results from changes in the price of commodities used in its manufacturing operations. Core Molding Technologies is also exposed to fluctuations in interest rates and foreign currency fluctuations associated with the Mexican Peso and Canadian Dollar. Core Molding Technologies does not hold any material market risk sensitive instruments for trading purposes.

Core Molding Technologies has the following three items that are sensitive to market risks at December 31, 2019: (1) Revolving Loans and the Term Loan under the A/R Credit Agreement which bears a variable interest rate; (2) foreign currency purchases in which the Company purchases Mexican Pesos or Canadian Dollars with United States dollars to meet certain obligations that arise due to operations at the facilities located in Mexico or Canada; and (3) raw material purchases in which Core Molding Technologies purchases various resins and fiberglass for use in production. The prices and availability of these materials are affected by the prices of crude oil and natural gas as well as processing capacity versus demand.

Assuming a hypothetical 10% change in short-term interest rates, interest paid on the Company's Revolving Loan and Term Loan would impact the interest paid by the Company, as the interest rate on these loans is based upon LIBOR; however, it would not have a material effect on earnings before taxes.

Assuming a hypothetical 10% decrease in the United States dollar to Mexican Peso or Canadian Dollar exchange rates, the Company would be impacted by an increase in operating costs, which would have an adverse effect on operating margins. To mitigate risk associated with foreign currency exchange, the Company from time to time will enter into forward contracts to exchange a fixed amount of U.S. dollars for a fixed amount of Mexican Pesos or Canadian Dollars, which will be used to fund future Mexican Peso or Canadian Dollar cash flows, see *Note 15 - Fair Value of Financial Instruments*.

Assuming a hypothetical 10% increase in commodity prices, Core Molding Technologies would be impacted by an increase in raw material costs, which would have an adverse effect on operating margins.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
Core Molding Technologies, Inc. and Subsidiaries
Columbus, Ohio

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Core Molding Technologies, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and Schedule II (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Explanatory Paragraph - Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's current liabilities exceed its current assets as of December 31, 2019 as a result of being under a forbearance agreement with its lenders and not securing alternative financing. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the

design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP

We have served as the Company's auditor since 2009.

Columbus, Ohio

March 13, 2020

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Income (Loss)

	Years Ended December 31,		
	2019	2018	2017
Net sales	\$ 284,290,000	\$ 269,485,000	\$ 161,673,000
Total cost of sales	<u>262,784,000</u>	<u>242,344,000</u>	<u>137,042,000</u>
Gross margin	21,506,000	27,141,000	24,631,000
Selling, general and administrative expense	28,934,000	27,838,000	16,690,000
Goodwill impairment	4,100,000	2,403,000	—
Total expenses	<u>33,034,000</u>	<u>30,241,000</u>	<u>16,690,000</u>
Operating income (loss)	(11,528,000)	(3,100,000)	7,941,000
Other income and expense			
Net periodic post-retirement benefit	(94,000)	(48,000)	(49,000)
Net interest expense	4,144,000	2,394,000	245,000
Total other income and expense	<u>4,050,000</u>	<u>2,346,000</u>	<u>196,000</u>
Income (loss) before income taxes	(15,578,000)	(5,446,000)	7,745,000
Income taxes:			
Current	705,000	1,048,000	2,630,000
Deferred	(1,060,000)	(1,712,000)	(344,000)
Total income taxes	<u>(355,000)</u>	<u>(664,000)</u>	<u>2,286,000</u>
Net income (loss)	<u>\$ (15,223,000)</u>	<u>\$ (4,782,000)</u>	<u>\$ 5,459,000</u>
Net income (loss) per common share:			
Basic	<u>\$ (1.94)</u>	<u>\$ (0.62)</u>	<u>\$ 0.71</u>
Diluted	<u>\$ (1.94)</u>	<u>\$ (0.62)</u>	<u>\$ 0.70</u>
Weighted average shares outstanding:			
Basic	<u>7,830,000</u>	<u>7,750,000</u>	<u>7,690,000</u>
Diluted	<u>7,830,000</u>	<u>7,750,000</u>	<u>7,747,000</u>

See notes to consolidated financial statements.

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Other Comprehensive Income (Loss)

	Years Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ (15,223,000)	\$ (4,782,000)	\$ 5,459,000
Other comprehensive income (loss):			
Foreign currency hedging derivatives:			
Unrealized hedge gain (loss)	1,202,000	(452,000)	5,000
Income tax benefit (expense)	(286,000)	87,000	(2,000)
Interest rate hedging derivatives:			
Unrealized hedge gain (loss)	(641,000)	(65,000)	—
Income tax benefit (expense)	146,000	15,000	—
Post retirement benefit plan adjustments:			
Net actuarial (loss) gain	(985,000)	1,081,000	(268,000)
Prior service costs	(496,000)	(496,000)	(496,000)
Income tax benefit (expense)	313,000	(123,000)	255,000
Comprehensive income (loss)	\$ (15,970,000)	\$ (4,735,000)	\$ 4,953,000

See notes to consolidated financial statements.

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,856,000	\$ 1,891,000
Accounts receivable, net	32,424,000	45,468,000
Inventories:		
Raw materials and components	13,041,000	17,278,000
Work in process	1,818,000	2,034,000
Finished goods	6,823,000	6,453,000
Total inventories, net	21,682,000	25,765,000
Contract assets	888,000	3,915,000
Foreign sales tax receivable	2,627,000	1,789,000
Prepaid expenses and other current assets	1,748,000	1,474,000
Total current assets	61,225,000	80,302,000
Right of use asset	4,484,000	—
Property, plant and equipment, net	79,206,000	80,657,000
Deferred tax asset	2,026,000	1,153,000
Goodwill	17,376,000	21,476,000
Intangibles, net	13,464,000	15,413,000
Other non-current assets	1,525,000	2,197,000
Total Assets	\$ 179,306,000	\$ 201,198,000
Liabilities and Stockholders' Equity:		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	\$ 37,443,000	\$ 3,230,000
Current portion of revolving debt	12,008,000	—
Accounts payable	19,910,000	25,450,000
Contract liabilities	3,698,000	1,686,000
Current portion of post retirement benefits liability	1,233,000	1,157,000
Accrued liabilities:		
Compensation and related benefits	5,515,000	5,154,000
Other	4,027,000	3,514,000
Total current liabilities	83,834,000	40,191,000
Lease liability	3,119,000	—
Long-term debt	—	37,784,000
Revolving debt	—	17,375,000
Post retirement benefits liability	7,927,000	6,919,000
Total Liabilities	94,880,000	102,269,000
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock — \$0.01 par value, authorized shares - 10,000,000; no shares outstanding at December 31, 2019 and December 31, 2018	—	—
Common stock — \$0.01 par value, authorized shares - 20,000,000; outstanding shares: 7,877,945 at December 31, 2019 and 7,776,164 at December 31, 2018	79,000	78,000
Paid-in capital	34,772,000	33,208,000
Accumulated other comprehensive income, net of income taxes	1,370,000	2,117,000
Treasury stock — at cost, 3,806,355 shares at December 31, 2019 and 3,790,308 shares at December 31, 2018	(28,501,000)	(28,403,000)
Retained earnings	76,706,000	91,929,000
Total Stockholders' Equity	84,426,000	98,929,000
Total Liabilities and Stockholders' Equity	\$ 179,306,000	\$ 201,198,000

See notes to consolidated financial statements.

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity

	Common Stock Outstanding		Paid-In Capital	Accumulated Other Comprehensive	Treasury Stock	Retained Earnings	Total Stockholders'
	Shares	Amount					
Balance at January 1, 2017	7,635,093	\$ 76,000	\$ 30,134,000	\$ 2,414,000	\$ (27,781,000)	\$ 91,923,000	\$ 96,766,000
Net income						5,459,000	5,459,000
Cash dividends paid						(786,000)	(786,000)
Change in post retirement benefits, net of tax benefit of \$255,000				(509,000)			(509,000)
Unrealized foreign currency hedge gain, net of tax of \$2,000				3,000			3,000
Adoption of Accounting Standards Update 2018-02				162,000		(162,000)	—
Purchase of treasury stock	(19,533)				(372,000)		(372,000)
Restricted stock vested	95,717	1,000					1,000
Share-based compensation			1,331,000				1,331,000
Balance at December 31, 2017	<u>7,711,277</u>	<u>\$ 77,000</u>	<u>\$ 31,465,000</u>	<u>\$ 2,070,000</u>	<u>\$ (28,153,000)</u>	<u>\$ 96,434,000</u>	<u>\$ 101,893,000</u>
Impact of change in accounting policy						1,069,000	1,069,000
Balance at January 1, 2018	<u>7,711,277</u>	<u>77,000</u>	<u>31,465,000</u>	<u>2,070,000</u>	<u>(28,153,000)</u>	<u>97,503,000</u>	<u>102,962,000</u>
Net loss						(4,782,000)	(4,782,000)
Cash dividends paid						(792,000)	(792,000)
Change in post retirement benefits, net of tax of \$123,000				462,000			462,000
Unrealized foreign currency hedge (loss), net of tax benefit of \$87,000				(365,000)			(365,000)
Change in interest rate swaps, net of tax benefit of \$15,000				(50,000)			(50,000)
Purchase of treasury stock	(17,180)				(250,000)		(250,000)
Restricted stock vested	82,067	1,000					1,000
Share-based compensation			1,743,000				1,743,000
Balance at December 31, 2018	<u>7,776,164</u>	<u>\$ 78,000</u>	<u>\$ 33,208,000</u>	<u>\$ 2,117,000</u>	<u>\$ (28,403,000)</u>	<u>\$ 91,929,000</u>	<u>\$ 98,929,000</u>
Net loss						(15,223,000)	(15,223,000)
Change in post retirement benefits, net of tax benefit of \$313,000				(1,168,000)			(1,168,000)
Unrealized foreign currency hedge gain, net of tax of \$286,000				916,000			916,000
Change in interest rate swaps, net of tax benefit of \$146,000				(495,000)			(495,000)
Purchase of treasury stock	(16,047)				(98,000)		(98,000)
Restricted stock vested	117,828	1,000					1,000
Share-based compensation			1,564,000				1,564,000
Balance at December 31, 2019	<u>7,877,945</u>	<u>\$ 79,000</u>	<u>\$ 34,772,000</u>	<u>\$ 1,370,000</u>	<u>\$ (28,501,000)</u>	<u>\$ 76,706,000</u>	<u>\$ 84,426,000</u>

See notes to consolidated financial statements.

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended		
	2019	2018	2017
Cash flows from operating activities:			
Net income (loss)	\$ (15,223,000)	\$ (4,782,000)	\$ 5,459,000
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	10,376,000	9,384,000	6,240,000
Deferred income taxes	(873,000)	(1,739,000)	(597,000)
Goodwill impairment	4,100,000	2,403,000	—
Mark-to-market of interest rate swap	67,000	159,000	—
Share-based compensation	1,564,000	1,743,000	1,331,000
Loss on foreign currency	33,000	5,000	8,000
Change in operating assets and liabilities, net of effects of acquisition:			
Accounts receivable	13,044,000	(17,945,000)	(295,000)
Inventories	4,083,000	(5,783,000)	(2,547,000)
Prepaid and other assets	2,587,000	(528,000)	(2,934,000)
Accounts payable	(4,849,000)	7,822,000	5,347,000
Accrued and other liabilities	3,420,000	3,122,000	(4,719,000)
Post retirement benefits liability	(1,628,000)	(389,000)	(381,000)
Net cash (used in) provided by operating activities	16,701,000	(6,528,000)	6,912,000
Cash flows from investing activities:			
Purchase of property, plant and equipment	(7,460,000)	(5,801,000)	(4,259,000)
Purchase of assets of Horizon Plastics	—	(63,005,000)	—
Net cash used in investing activities	(7,460,000)	(68,806,000)	(4,259,000)
Cash flows from financing activities:			
Gross borrowings on revolving loans	194,414,000	133,848,000	—
Gross repayment on revolving loans	(199,782,000)	(116,473,000)	—
Proceeds from term loan	—	45,000,000	—
Payment of principal of term loan	(3,375,000)	(10,125,000)	(3,000,000)
Payment of deferred loan costs	(435,000)	(763,000)	—
Payments related to the purchase of treasury stock	(98,000)	(250,000)	(372,000)
Cash dividends paid	—	(792,000)	(786,000)
Net cash (used in) provided by financing activities	(9,276,000)	50,445,000	(4,158,000)
Net change in cash and cash equivalents	(35,000)	(24,889,000)	(1,505,000)
Cash and cash equivalents at beginning of year	1,891,000	26,780,000	28,285,000
Cash and cash equivalents at end of year	\$ 1,856,000	\$ 1,891,000	\$ 26,780,000
Cash paid for:			
Interest (net of amounts capitalized)	\$ 3,869,000	\$ 2,261,000	\$ 247,000
Income taxes	\$ 1,284,000	\$ 1,033,000	\$ 2,411,000
Non Cash:			
Fixed asset purchases in accounts payable	\$ 158,000	\$ 871,000	\$ 278,000

See notes to consolidated financial statements.

Core Molding Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Presentation

Core Molding Technologies and its subsidiaries operate in the composites market as one operating segment as a molder of thermoplastic and thermoset structural products. The Company's operating segment consists of two component reporting units, Core Traditional and Horizon Plastics. The Company produces and sells molded products for varied markets, including medium and heavy-duty trucks, automobiles, marine, construction and other commercial markets. The Company offers customers a wide range of manufacturing processes to fit various program volume and investment requirements. These processes include compression molding of sheet molding compound ("SMC"), bulk molding compounds ("BMC"), resin transfer molding ("RTM"), liquid molding of dicyclopentadiene ("DCPD"), spray-up and hand-lay-up, glass mat thermoplastics ("GMT"), direct long-fiber thermoplastics ("D-LFT") and structural foam and structural web injection molding ("SIM"). As of December 31, 2019, Core Molding Technologies has its headquarters in Columbus, Ohio, and operates seven production facilities in Columbus and Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota; Matamoros and Escobedo, Mexico; and Cobourg, Ontario, Canada. All produce structural composite products.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of all subsidiaries after elimination of all intercompany accounts, transactions, and profits.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Significant estimates relate to allowances for doubtful accounts, inventory reserves, self-insurance reserves related to healthcare and workers compensation, deferred taxes, post retirement benefits, progress billings for tooling, goodwill and long-lived assets. Actual results could differ from those estimates.

Going Concern - Under FASB ASU 2014-15, "Presentation of Financial Statements - Going Concern," management is required to evaluate conditions or events as related to uncertainties that raise substantial doubt about the Company's ability to continue as a going concern and to provide related financial disclosures, as applicable. Our consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As further discussed in *Note 10 - Debt*, as of December 31, 2019, the Company was not in compliance with the fixed charge coverage ratio requirement under the Company's Amended and Restated Credit Agreement, dated January 16, 2018 (the "A/R Credit Agreement"), with KeyBank National Association as the administrative agent (the "Administrative Agent") and various other financial institutions thereto as lenders (the "Lenders").

On November 22, 2019, the Company entered into a forbearance agreement (the "Forbearance Agreement") with the Lenders. Pursuant to the Forbearance Agreement, the Borrowers and the Lenders acknowledged and confirmed that an event of default occurred under the A/R Credit Agreement resulting from the Borrowers failure to maintain the required Fixed Charge Coverage Ratio (as defined in the A/R Credit Agreement") for the fiscal quarter ended September 30, 2019. The Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the A/R Credit Agreement through March 13, 2020, as long as the Company satisfies the conditions set forth in the Forbearance Agreement, including, (i) the Borrowers shall remain current on all loan payments during the forbearance period, (ii) on or before December 6, 2019, the Administrative Agent and Lenders shall each receive a copy of a report of Huron Consulting Group containing findings and observations in respect of the businesses and operations of the Company and the Borrowers shall deliver a strategic alternative assessment in respect of the Borrowers' operations and financing, (iii) on or before December 15, 2019, the Administrative Agent and Lenders shall each receive a copy of appraisals of machinery and equipment and inventory appraisals, and the Borrowers shall have determined and proposed a new capital structure to the Administrative Agent and Lenders, (iv) on or before February 14, 2020, the Borrowers shall have obtained a definitive, written commitment

from involved parties and/or lenders providing the basis for implementation of a new capital structure, and (v) on or before March 13, 2020, the Borrowers shall have closed on a new capital structure, acceptable to the Administrative Agents and Lenders. The Forbearance Agreement also implemented a new availability block with respect to the U.S. Revolving Loans portion of the A/R Credit Agreement, reducing availability from \$32,500,000 to \$28,000,000 and increasing the applicable margin for existing term and revolving loans, as well as increasing the commitment fees on any unused U.S. Revolving Loans.

On March 13, 2020, the Company entered into the first Amendment to the Forbearance Agreement (the “Amended Forbearance Agreement”) with the Lenders. Pursuant to the terms of the Amended Forbearance Agreement, the Company and Lenders agreed to modify certain terms of the Forbearance Agreement and extend the Forbearance Agreement through May 29, 2020. The modifications include (1) a reduction in the U.S. Revolving Loan to \$25,000,000 with an availability block of \$5,000,000 which can be borrowed with the approval of the lenders, (2) a change of interest rate to LIBOR rate plus 650 basis points, (3) forebear compliance with the leverage covenant and fixed charge covenant through May 29, 2020, and (4) implementation of a capital expenditure spend limit of \$3,500,000 from the effective date of the Amended Forbearance Agreement through May 29, 2020, (5) an increase in the commitment fees on any unused U.S. Revolving Loans.

The Amended Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the Credit Agreement through May 29, 2020, as long as the Company satisfies the conditions set forth in the Amended Forbearance Agreement, including, (i) on or before March 31, 2020, the borrowers shall have obtained an executed term sheet from involved parties and/or lenders providing the basis for implementation of a new capital structure and defined due diligence parameters, (ii) on or before May 15, 2020 the Borrowers shall have obtained an executed definitive, written commitment from the New Lenders to enter into a definitive agreement to effect the refinancing, and (iii) on or before May 29, 2020, the borrowers shall have closed on a new capital structure.

As a result of the Amended Forbearance Agreement not extending beyond a year, the Company’s remaining long-term debt under the A/R Credit Agreement, consisting of \$49,451,000 in borrowings under the revolving credit commitment and the loan commitments, was classified as a current liability in the Company’s consolidated balance sheet as of December 31, 2019. As a result, the Company’s current liabilities exceeded its current assets by \$22,609,000 as of December 31, 2019. If the Lenders were to call the loans or demand repayment of all existing borrowings, this could result in the Company being unable to meet its working capital obligations.

The Company is evaluating several financing options to refinance some or all of the current obligations under the A/R Credit Agreement. The Company is considering financing options including an asset backed lending facility using the Company’s accounts receivable and inventories as security, term loans secured with the Company’s real estate and machinery and equipment, sale and leaseback of Company owned real estate and potential equity financing. The Company has obtained term sheets as a result of its marketing efforts and are evaluating alternatives. Any new financing remains subject to asset appraisals, field exams, financial projection due diligence, real estate environmental reviews, and other customary legal documentation.

While the Company has executed an Amended Forbearance Agreement with existing Lenders, it can not guarantee that all conditions of the Amended Forbearance Agreement will be met, or predict if the Lenders will exercise their rights and remedies under the A/R Credit Agreement beyond the term of the Amended Forbearance Agreement. Additionally, since the Company has no firm commitments for additional financing, there can be no assurances that the Company will be able to secure additional financing on terms that are acceptable to the Company, or at all. As there can be no assurance that the Company will be able to successfully implement its refinancing plan, these conditions raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the financial statements are issued. The Company's consolidated financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

Management has been executing on its turnaround plan that started in December of 2018 and has been successful in improving equipment uptime, improving employee retention and reducing premium freight costs for expediting shipments to customers. While management believes these improvements have been successful and were the priority of the turnaround plan, operational efficiency improvements at the plants did not result in the level of financial improvements anticipated for 2019. Higher material usage and labor variances have impacted earnings and caused us to not meet forecasts established in the first quarter of 2019

when the Company entered into the First Amendment. Management remains focused on the operational turnaround and improving the financial performance of the Company in 2020. Management has, or is in the process of taking, the following actions to improve financial performance at its operating facilities:

- Reorganized the Company's leadership through the hiring of a new Chief Executive Officer, Executive Vice President of Operations, and Executive Vice President of Human Resources
- Improved operational management team through hiring of new plant managers at several of our plants to provide stronger leadership
- Developed specific action plans focused on reducing material usage and improving labor productivity
- Implemented business and financial management systems to monitor performance by plant and drive improvement through timely identification of operational challenges
- Engaged Huron Consulting Services to evaluate the Company's turnaround financial projections, review with management various strategic alternatives that could result in a financing arrangement supported by projected future performance and serve as the Company's financial adviser to work through modification or refinancing of the existing A/R Credit Agreement
- Engaged a third party firm to appraise the Company's assets in order to assess the financing capacity available from those assets
- Implemented IATF certification process, which is a quality management system that provides for continual improvement, defect prevention and reduction of variation and waste in manufacturing processes.
- Implemented inventory management systems to reduce stock outage events which cause downtime and labor inefficiency
- Implemented customer price increases where margin on product was not meeting profitability targets, and evaluated relationships with major customers to assess ongoing profitability of those relationships
- Reduced debt outstanding on the revolving line of credit by negotiating improved payment terms with significant customers
- Established revised commercial terms with Volvo to allow for continued supply of product and rescinded the supply termination notification communicated to Volvo in November 2019
- Implemented cost saving measures and actions to align controllable spending and labor workforce to reduced sales volumes in the current truck market
- Implementation of technical training programs specific to the Company's products and processes
- Improved free cash flow through reduction of working capital
- Utilization of Kaizen techniques, process mapping and multi-functional problem solving teams to improve operational performance and reduce waste

Revenue Recognition - The Company historically has recognized revenue from two streams, product revenue and tooling revenue. Product revenue is earned from the manufacture and sale of sheet molding compound and thermoset and thermoplastic products. Revenue from product sales is generally recognized as products are shipped, as the Company transfers control to the customer and is entitled to payment upon shipment. In certain circumstances, the Company recognizes revenue from product sales when products are produced and the customer takes control at our production facility.

Tooling revenue is earned from manufacturing multiple tools, molds and assembly equipment as part of a tooling program for a customer. Given that the Company is providing a significant service of producing highly interdependent component parts of the tooling program, each tooling program consists of a single performance obligation to provide the customer the capability to produce a single product. Based on the arrangement with the customer, the Company recognizes revenue either at a point in time or over time. When the Company does not have an enforceable right to payment, the Company recognizes tooling revenue at a point in time. In such cases, the Company recognizes revenue upon customer acceptance, which is when the customer has legal title to the tools. The Company historically recognized all tooling revenue at a point in time, upon customer acceptance, before the adoption of ASU 2014-09.

Certain tooling programs include an enforceable right to payment. In those cases, the Company recognizes revenue over time based on the extent of progress towards completion of its performance obligation. The Company uses a cost-to-cost measure of

progress for such contracts because it best depicts the transfer of value to the customer and also correlates with the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Under the cost-to-cost measure of progress, progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Cash and Cash Equivalents - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash is held primarily in two banks in 2 separate jurisdictions. The Company had \$1,856,000 cash on hand at December 31, 2019 and had \$1,891,000 on hand at December 31, 2018.

Accounts Receivable Allowances - Management maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company has determined that a \$50,000 allowance for doubtful accounts is needed at December 31, 2019 and \$25,000 allowance was needed at December 31, 2018. Management also records estimates for customer returns and deductions, discounts offered to customers, and for price adjustments. Should customer returns and deductions, discounts, and price adjustments fluctuate from the estimated amounts, additional allowances may be required. The Company had an allowance for estimated chargebacks of \$476,000 at December 31, 2019 and \$2,344,000 at December 31, 2018. There have been no material changes in the methodology of these calculations.

Inventories - Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or net realizable value. The inventories are accounted for using the first-in, first-out (FIFO) method of determining inventory costs. Inventory quantities on-hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based on historical and anticipated usage. The Company has recorded an allowance for slow moving and obsolete inventory of \$898,000 at December 31, 2019 and \$957,000 at December 31, 2018.

Contract Assets/Liabilities - Contract assets and liabilities represent the net cumulative customer billings, vendor payments and revenue recognized for tooling programs. For tooling programs where net revenue recognized and vendor payments exceed customer billings, the Company recognizes a contract asset. For tooling programs where net customer billings exceed revenue recognized and vendor payments, the Company recognizes a contract liability. Customer payment terms vary by contract and can range from progress payments based on work performed or one single payment once the contract is completed. Contract assets are generally classified as current. During the years ended December 31, 2019 and December 31, 2018, the Company recognized no impairments on contract assets. Contract liabilities are also generally classified as current. The Company recognized revenue related to contract liabilities. of \$1,240,000 at December 31, 2019 and \$449,000 at December 31, 2018.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. The carrying amount of long-lived assets is evaluated annually to determine if adjustment to the depreciation period or to the unamortized balance is warranted.

Ranges of estimated useful lives for computing depreciation are as follows:

Land improvements	20 years
Buildings and improvements	20 - 40 years
Machinery and equipment	3 - 15 years
Tools, dies and patterns	3 - 5 years

Depreciation expense was \$8,187,000, \$7,361,000 and \$6,190,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Long-Lived Assets - Long-lived assets consist primarily of property, plant and equipment and finite-lived intangibles. The Company acquired substantially all of the assets of Horizon Plastics on January 16, 2018, which resulted in approximately \$16,770,000 of finite-lived intangibles and \$12,994,000 of property, plant and equipment, all of which were recorded at fair value. The recoverability of long-lived assets is evaluated by an analysis of operating results and consideration of other significant events or changes in the business environment. The Company evaluates, whether impairment exists for long-lived assets on the basis of undiscounted expected future cash flows from operations before interest. There was no impairment of the Company's long-lived assets for the years ended December 31, 2019, 2018 and 2017.

Goodwill - The purchase consideration of acquired businesses have been allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase consideration over the fair value of the net assets acquired was allocated to goodwill. The Company accounts for goodwill in accordance with FASB ASC Topic 350, *Intangibles - Goodwill and Other*. FASB ASC Topic 350 prohibits the amortization of goodwill and requires these assets be reviewed for impairment at each reporting unit. As a result of the Horizon Plastics acquisition on January 16, 2018 and the status of its integration, the Company established two reporting units, Core Traditional and Horizon Plastics.

The annual impairment tests of goodwill may be completed through qualitative assessments, however the Company may elect to bypass the qualitative assessment and proceed directly to a quantitative impairment test for any reporting unit in any period. The Company may resume the qualitative assessment for any reporting unit in any subsequent period.

Under a qualitative and quantitative approach, the impairment test for goodwill consists of an assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount. As part of the qualitative assessment, the Company considers relevant events and circumstances that affect the fair value or carrying amount of the Company. Such events and circumstances could include changes in economic conditions, industry and market conditions, cost factors, overall financial performance, reporting unit specific events and capital markets pricing. The Company places more weight on the events and circumstances that most affect the Company's fair value or carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform step one of the impairment test. If the Company elects to bypass the qualitative assessment for any reporting unit, or if a qualitative assessment indicates it is more-likely-than-not that the estimated carrying value of a reporting unit exceeds its fair value, the Company proceeds to a quantitative approach.

Due to the Company's financial performance and continued depressed stock price, the Company performed a quantitative analysis for both of its reporting units at September 30, 2019. During 2019, the Company incurred a loss of margin in its Horizon Plastics reporting unit caused by selling price decreases that the Company has not been able to fully offset with material cost reductions. As a result of the quantitative analysis, the Company concluded that the carrying value of Horizon Plastics was greater than the fair value, which resulted in a goodwill impairment charge of \$4,100,000 at September 30, 2019 representing 19% of the goodwill related to the Horizon Plastics reporting unit. The company performed a qualitative assessment at December 31, 2019, indicating no additional goodwill impairment related to the Horizon Plastics reporting unit.

The Company's annual impairment assessment at December 31, 2018 consisted of a quantitative analysis for both reporting units. It concluded that the carrying value of Core Traditional was greater than the fair value, which resulted in a goodwill impairment charge of \$2,403,000, representing all the goodwill related to the Core Traditional reporting unit. The analysis of the Company's other reporting unit, Horizon Plastics, indicated no goodwill impairment charge, based on historical performance and financial projections at that time, as the excess of the estimated fair value over the carrying value of its invested capital was approximately 23% of the book value of its net assets.

There was no impairment of the Company's goodwill for the year ended December 2017.

Income Taxes - The Company records deferred income taxes for differences between the financial reporting basis and income tax basis of assets and liabilities. A detailed breakout is located in *Note 12 - Income Taxes*.

Self-Insurance - The Company is self-insured with respect to Columbus and Batavia, Ohio, Gaffney, South Carolina, Winona, Minnesota and Brownsville, Texas for medical, dental and vision claims and Columbus and Batavia, Ohio for workers' compensation claims, all of which are subject to stop-loss insurance thresholds. The Company is also self-insured for dental and

vision with respect to its Cobourg, Canada location. The Company has recorded an estimated liability for self-insured medical, dental and vision claims incurred but not reported and worker's compensation claims incurred but not reported at December 31, 2019 and December 31, 2018 of \$1,203,000 and \$960,000, respectively.

Post Retirement Benefits - Management records an accrual for post retirement costs associated with the health care plan sponsored by the Company for certain employees. Should actual results differ from the assumptions used to determine the reserves, additional provisions may be required. In particular, increases in future healthcare costs above the assumptions could have an adverse effect on the Company's operations. The effect of a change in healthcare costs is described in *Note 13 - Post Retirement Benefits*. Core Molding Technologies had a liability for post retirement healthcare benefits based on actuarially computed estimates of \$9,160,000 at December 31, 2019 and \$8,076,000 at December 31, 2018.

Fair Value of Financial Instruments - The Company's financial instruments consist of long-term debt, revolving loans, interest rate swaps, foreign currency hedges, accounts receivable, and accounts payable. The carrying amount of these financial instruments approximated their fair value. Further detail is located in *Note 15 - Fair Value of Financial Instruments*.

Concentration Risks - The Company has concentration risk related to significant amounts of sales and accounts receivable with certain customers. The Company had four major customers during 2019, Navistar, Volvo, PACCAR, and UFP. Major customers are defined as customers whose current year sales individually consist of more than ten percent of total sales during any annual or interim reporting period in the current year. Sales to four major customers comprised 62%, 65% and 65% of total sales in 2019, 2018 and 2017, respectively (see *Note 4 - Major Customers*). Concentrations of accounts receivable balances with four customers accounted for 49% and 64% of accounts receivable at December 31, 2019 and 2018, respectively. The Company performs ongoing credit evaluations of its customers' financial condition. The Company maintains reserves for potential bad debt losses, and such bad debt losses have been historically within the Company's expectations. Sales to all customers' manufacturing and service locations in Mexico and Canada totaled 34%, 32% and 36% of total sales for 2019, 2018 and 2017, respectively.

As of December 31, 2019, the Company employed a total of 1,821 employees, which consisted of 764 employees in its United States operations, 795 employees in its Mexican operations and 262 employees in its Canadian operation. Of these 1,821 employees, 341 are covered by a collective bargaining agreement with the International Association of Machinists and Aerospace Workers ("IAM"), which extends to August 7, 2022, and 635 are covered by a collective bargaining agreement with Sindicato de Jornaleros y Obreros, which extends to December 31, 2019. Additionally, 216 employees at the Company's Cobourg, Canada facility are covered by a collective bargaining agreement with United Food & Commercial Workers Canada ("UFCW"), which extends to November 1, 2021; and 35 employees at the Company's Escobedo, Mexico facility are covered by a collective bargaining agreement with Sindicato de trabajadores de la industria metalica y del comercio del estado de Nuevo Leon Presidente Benito Juarez Garcia C.T.M., which extends to February 1, 2020 and an extension is currently being negotiated.

Earnings per Common Share - Basic earnings per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed similarly but include the effect of the assumed exercise of dilutive stock options and vesting of restricted stock under the treasury stock method. A detailed computation of earnings per share is located in *Note 3 - Net Income (Loss) per Common Share*.

Research and Development - Research and development activities focus on developing new material formulations, new products, new production capabilities and processes, and improving existing products and manufacturing processes. The Company does not maintain a separate research and development organization or facility, but uses its production equipment, as necessary, to support these efforts and cooperates with its customers and its suppliers in research and development efforts. Likewise, manpower to direct and advance research and development is integrated with the existing manufacturing, engineering, production, and quality organizations. Research and development costs, which are expensed as incurred, totaled approximately \$1,171,000, \$1,032,000 and \$848,000 in 2019, 2018 and 2017.

Foreign Currency Adjustments - The functional currency for the Mexican and Canadian operations is the United States Dollar. All foreign currency asset and liability amounts are remeasured into United States Dollars at end-of-period exchange rates.

Income statement accounts are translated at the weighted monthly average rates. Gains and losses resulting from translation of foreign currency financial statements into United States Dollars and gains and losses resulting from foreign currency transactions are included in current results of operations. Net foreign currency translation and transaction activity is included in selling, general and administrative expense. This activity resulted in a gain of \$229,000, \$88,000 and \$30,000 in 2019, 2018 and 2017, respectively.

Recent Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period.

In accordance with ASU 2016-02, the Company elected not to recognize lease assets and lease liabilities for leases with a term of twelve months or less. The ASU requires a modified retrospective transition method, or a transition method option further described within ASU 2018-11, with the option to elect a package of practical expedients that permits the Company to: (1) not reassess whether expired or existing contracts contain leases, (2) not reassess lease classification for existing or expired leases and (3) not consider whether previously capitalized initial direct costs would be appropriate under the new standard. The Company elected to apply the package of practical expedients.

The Company adopted ASU No. 2016-02 as of January 1, 2019, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption without restating previously reported periods. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification.

In addition, the Company elected the practical expedient to determine the lease term for existing leases. In the application of practical expedient, the Company evaluated the buildings leased and the current financial performance of the plant associated, which resulted in the determination that most renewal options would be reasonably certain in determining the expected lease term.

Adoption of the new standard resulted in the recording of additional net right of use assets and lease liabilities of \$4,490,000 and \$4,428,000, respectively, as of January 1, 2019. The present value of lease liabilities has been measured using the Company's revolving loan borrowing rates as of December 31, 2018 (one day prior to initial application). Additionally, ROU assets for these operating leases have been measured as the initial measurement of applicable lease liabilities adjusted for any unamortized initial prepaid/accrued rent and any ASC Topic 420 liabilities. The standard did not materially impact the Company's consolidated statement of income (loss) or statement of cash flows.

Current expected credit loss (CECL)

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses," which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. Subsequent to issuing ASU 2016-13, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," for the purpose of clarifying certain aspects of ASU 2016-13. ASU 2018-19 has the same effective date and transition requirements as ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," which is effective with the adoption of ASU 2016-13. In May 2019, the FASB issued ASU 2019-05, "Financial Instruments - Credit Losses (Topic 326)," which is also effective with the adoption of ASU 2016-13. In October 2019, the FASB voted to delay the implementation date for certain companies, including those that qualify as a smaller reporting

company under SEC rules, until January 1, 2023, with revised ASU's expected to be issued in November 2019. We will adopt this ASU on its effective date of January 1, 2023. We do not expect the adoption of this ASU to have a material impact on our consolidated financial position, results of operations, cash flows, or presentation thereof.

3. Net Income (Loss) per Common Share

Net income (loss) per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed similarly but includes the effect of the assumed exercise of dilutive stock options and restricted stock under the treasury stock method.

The Company's restricted shares are entitled to receive dividends and voting rights applicable to the Company's common stock, irrespective of any vesting requirement. Accordingly, the restricted shares are considered a participating security and the Company is required to apply the two-class method to consider the impact of the restricted shares on the calculation of basic and diluted earnings per share. The Company is currently in a net loss position and is therefore not required to present the two-class method; however, in the event the Company is in a net income position, the two-class method must be applied by allocating all earnings during the period to common shares and restricted shares.

The computation of basic and diluted net income (loss) per common share is as follows:

	December 31,		
	2019	2018	2017
Net income (loss)	\$ (15,223,000)	\$ (4,782,000)	\$ 5,459,000
Weighted average common shares outstanding — basic	7,830,000	7,750,000	7,690,000
Effect of dilutive securities	—	—	57,000
Weighted average common and potentially issuable common shares outstanding — diluted	<u>7,830,000</u>	<u>7,750,000</u>	<u>7,747,000</u>
Basic net income (loss) per common share	\$ (1.94)	\$ (0.62)	\$ 0.71
Diluted net income (loss) per common share	\$ (1.94)	\$ (0.62)	\$ 0.70

4. Major Customers

The Company had four major customers during 2019, Navistar, Volvo, PACCAR, and UFP. Major customers are defined as customers whose current year sales individually consist of more than ten percent of total sales during any annual or interim reporting period in the current year. The loss of a significant portion of sales to Navistar, Volvo, PACCAR, or UFP would have a material adverse effect on the business of the Company.

The following table presents sales revenue for the above-mentioned customers for the years ended December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Navistar product sales	\$ 54,798,000	\$ 52,347,000	\$ 39,609,000
Navistar tooling sales	2,084,000	2,806,000	159,000
Total Navistar sales	<u>56,882,000</u>	<u>55,153,000</u>	<u>39,768,000</u>
Volvo product sales	48,487,000	46,063,000	27,627,000
Volvo tooling sales	262,000	97,000	8,089,000
Total Volvo sales	<u>48,749,000</u>	<u>46,160,000</u>	<u>35,716,000</u>
PACCAR product sales	44,543,000	38,027,000	26,481,000
PACCAR tooling sales	1,525,000	6,425,000	2,932,000
Total PACCAR sales	<u>46,068,000</u>	<u>44,452,000</u>	<u>29,413,000</u>
UFP product sales	25,395,000	27,906,000	—
UFP tooling sales	—	240,000	—
Total UFP sales	<u>25,395,000</u>	<u>28,146,000</u>	<u>—</u>
Other product sales	95,764,000	91,874,000	54,906,000
Other tooling sales	11,432,000	3,700,000	1,870,000
Total other sales	<u>107,196,000</u>	<u>95,574,000</u>	<u>56,776,000</u>
Total product sales	268,987,000	256,217,000	148,623,000
Total tooling sales	15,303,000	13,268,000	13,050,000
Total sales	<u>\$ 284,290,000</u>	<u>\$ 269,485,000</u>	<u>\$ 161,673,000</u>

5. Foreign Operations

Primarily all of the Company's product is sold to U.S. based customers in U.S. dollars. The following table provides information related to sales by country, based on the ship to location of customers' production facilities, for the years ended December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
United States	\$ 178,953,000	\$ 181,207,000	\$ 103,513,000
Mexico	79,761,000	74,029,000	52,496,000
Canada	16,988,000	12,494,000	5,664,000
Other	8,588,000	1,755,000	—
Total	<u>\$ 284,290,000</u>	<u>\$ 269,485,000</u>	<u>\$ 161,673,000</u>

The following table provides information related to the location of property, plant and equipment, net, as of December 31:

	<u>2019</u>	<u>2018</u>
United States	\$ 39,132,000	\$ 37,778,000
Mexico	31,865,000	34,155,000
Canada	8,209,000	8,724,000
Total	<u>\$ 79,206,000</u>	<u>\$ 80,657,000</u>

6. Property, Plant, and Equipment

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 6,009,000	\$ 6,009,000
Buildings	43,375,000	43,042,000
Machinery and equipment	118,366,000	108,661,000
Tools, dies, and patterns	1,516,000	1,419,000
Additions in progress	<u>1,615,000</u>	<u>5,014,000</u>
Total	170,881,000	164,145,000
Less accumulated depreciation	<u>(91,675,000)</u>	<u>(83,488,000)</u>
Property, plant and equipment, net	<u>\$ 79,206,000</u>	<u>\$ 80,657,000</u>

Additions in progress at December 31, 2019 and 2018 relate to building improvements and equipment purchases that were not yet completed and placed in service at year end. At December 31, 2019, commitments for capital expenditures in progress were \$336,000 and included \$158,000 recorded on the balance sheet in accounts payable. At December 31, 2018, commitments for capital expenditures in progress were \$3,461,000, and included \$871,000 recorded on the balance sheet in accounts payable.

7. Leases

The Company has operating leases with fixed payment terms primarily associated with buildings and warehouses. The Company's leases have remaining lease terms of less than two years to five years, some of which include options to extend the lease for six years. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Consolidated Balance Sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease.

The Company used the applicable incremental borrowing rate at implementation date to measure lease liabilities and ROU assets. The incremental borrowing rate used by the Company was based on baseline rates and adjusted by the credit spreads commensurate with the Company's secured borrowing rate. At each reporting period when there is a new lease initiated, the Company will utilize its incremental borrowing rate to perform lease classification tests on lease components and to measure ROU assets and lease liabilities.

The components of lease expense were as follows:

	<u>December 31, 2019</u>
Operating lease cost	<u>\$ 1,430,000</u>
Total net lease cost	<u>\$ 1,430,000</u>

Other supplemental balance sheet information related to leases was as follows:

	<u>December 31, 2019</u>
Operating lease:	
Current operating lease right of use assets	\$ —
Noncurrent operating lease right of use assets	4,484,000
Total operating lease right of use assets	<u>\$ 4,484,000</u>
	<u>December 31, 2019</u>
Current operating lease liabilities ^(A)	\$ 1,304,000
Noncurrent operating lease liabilities	3,119,000
Total operating lease liabilities	<u>\$ 4,423,000</u>
Weighted average remaining lease term (in years):	
Operating leases	4.0
Weighted average discount rate:	
Operating lease	4.9%

^(A) Current operating lease liability included in "Other Accrued Liabilities" on the Consolidated Balance Sheet.

Other information related to leases were as follows:

	<u>December 31, 2019</u>
Cash Paid for amounts included in the measurement of lease liabilities	
Operating cash flow from operating leases ^(B)	\$ 1,455,000

^(B) Cash flow from operating lease included in "Prepaid and other assets" on the Consolidated Statements of Cash Flows.

As of December 31, 2019, maturities of lease liabilities were as follows:

	<u>Operating Leases</u>
2020	\$ 1,433,000
2021	1,174,000
2022	1,102,000
2023	1,000,000
2024	530,000
Total lease payments	<u>5,239,000</u>
Less: imputed interest	(816,000)
Total lease obligations	4,423,000
Less: current obligations	<u>(1,304,000)</u>
Long-term lease obligations	<u>\$ 3,119,000</u>

As of December 31, 2018, maturities of lease liabilities were as follows:

	<u>Operating Leases</u>
2019	\$ 1,291,000
2020	1,099,000
2021	838,000
2022	766,000
2023	661,000
2024 and Thereafter	<u>331,000</u>
Total minimum lease payments	<u>\$ 4,986,000</u>

8. Horizon Plastics Acquisition

On January 16, 2018, 1137925 B.C Ltd., subsequently renamed Horizon Plastics International Inc., a wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement (the "Agreement") with Horizon Plastics International Inc., 1541689 Ontario Inc., 2551024 Ontario Inc. and Horizon Plastics de Mexico, S.A. de C.V. (collectively "Horizon Plastics"). Pursuant to the terms of the Agreement the Company acquired substantially all of the assets and assumed certain specified liabilities of Horizon Plastics for a cash purchase of \$62,457,000. The purchase price was subject to working capital adjustments resulting in an increase in the purchase price of \$548,000.

The acquisition was funded through a combination of cash on hand and borrowings under the Amended and Restated Credit Agreement ("A/R Credit Agreement"), further described in *Note 10 - Debt*, entered into with KeyBank National Association as Administrative Agent and various other financial institutions on January 16, 2018.

The purpose of the acquisition was to increase the Company's structural composite process capabilities to include structural foam and structural web molding, expand its geographical footprint, and diversify the Company's customer base.

Consideration was allocated to assets acquired and liabilities assumed based on their fair values as of the acquisition date as follows:

Accounts Receivable	\$ 7,677,000
Inventory	6,523,000
Other Current Assets	832,000
Property and Equipment	12,994,000
Intangibles	16,770,000
Goodwill	21,476,000
Accounts Payable	(3,181,000)
Other Current Liabilities	<u>(86,000)</u>
	<u>\$ 63,005,000</u>

The purchase price included consideration for strategic benefits, including an assembled workforce, operational infrastructure and synergistic revenue opportunities, which resulted in the recognition of goodwill. The goodwill is deductible for income tax purposes.

The company incurred \$1,289,000 and \$596,000 of expense in 2018 and 2017, respectively, associated with the acquisition, which is recorded in selling, general and administrative expense.

The amount allocated to intangible assets has been attributed to the following categories and will be amortized over the useful lives of each individual asset identified on a straight-line basis as follows:

Acquired Intangible Assets	Estimated Fair Value	Estimated Useful Life (Years)
Non-competition Agreement	\$ 1,810,000	5
Trademarks	1,610,000	10
Developed Technology	4,420,000	7
Customer Relationships	8,930,000	12
Total	<u>\$ 16,770,000</u>	

Pro Forma Information

The unaudited pro forma information for the combined results of the Company has been prepared as if the 2018 acquisitions had taken place on January 1, 2017. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2017 and the unaudited pro forma information does not purport to be indicative of future financial operating results.

	Pro forma for the year ended December 31,	
	2018	2017
Net revenue	\$ 272,153,000	\$ 222,015,000
Net income (loss)	(3,788,000)	8,121,000
Net income (loss) per common share:		
Basic	(0.49)	1.06
Diluted	(0.49)	1.05

The unaudited pro forma net income includes the following adjustments that would have been recorded had the 2018 acquisition taken place on January 1, 2017.

	Pro forma for the year ended December 31,	
	2018	2017
Depreciation expense	\$ 55,000	\$ 50,000
Amortization expense	78,000	1,876,000
Interest (income) expense	(208,000)	1,705,000
Non-recurring transaction costs	(1,289,000)	(596,000)
Income tax expense (benefit)	253,000	(880,000)

9. Goodwill and Intangibles

Goodwill activity for the year ended December 31, 2019 and December 31, 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 21,476,000	\$ 2,403,000
Additions	—	21,476,000
Impairment	(4,100,000)	(2,403,000)
Balance at end of year	<u>\$ 17,376,000</u>	<u>\$ 21,476,000</u>

Due to the Company's financial performance and continued depressed stock price, the Company performed a quantitative analysis for both of its reporting units at September 30, 2019. During 2019, the Company incurred a decrease in margin in its Horizon Plastics reporting unit caused by selling price decreases that the Company has not yet been able to fully offset with material cost reductions. As a result of the quantitative analysis, the Company concluded that the carrying value of Horizon Plastics was greater than the fair value, which resulted in a goodwill impairment charge of \$4,100,000 at September 30, 2019 representing 19% of the

goodwill related to the Horizon Plastics reporting unit. The company performed a qualitative assessment at December 31, 2019, indicating no additional goodwill impairment related to the Horizon Plastics reporting unit.

The Company's annual impairment assessment at December 31, 2018 consisted of a quantitative analysis for both the Core Traditional and Horizon Plastics reporting units. It concluded that the carrying value of Core Traditional was greater than the fair value, which resulted in a goodwill impairment charge of \$2,403,000. The analysis of the Company's other reporting unit, Horizon Plastics, indicated no goodwill impairment charge as the excess of the estimated fair value over the carrying value of its invested capital was approximately 23% of the book value of its net assets.

Intangible assets at December 31, 2019 were comprised of the following:

Definite-lived Intangible Assets	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	25 Years	\$ 250,000	\$ (48,000)	\$ 202,000
Trademarks	10 Years	1,610,000	(315,000)	1,295,000
Non-competition Agreement	5 Years	1,810,000	(709,000)	1,101,000
Developed Technology	7 Years	4,420,000	(1,237,000)	3,183,000
Customer Relationships	10-12 Years	9,330,000	(1,647,000)	7,683,000
Total		<u>\$ 17,420,000</u>	<u>\$ (3,956,000)</u>	<u>\$ 13,464,000</u>

Intangible assets at December 31, 2018 were comprised of the following:

Definite-lived Intangible Assets	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	25 Years	\$ 250,000	\$ (38,000)	\$ 212,000
Trademarks	10 Years	1,610,000	(154,000)	1,456,000
Non-competition Agreement	5 Years	1,810,000	(347,000)	1,463,000
Developed Technology	7 Years	4,420,000	(605,000)	3,815,000
Customer Relationships	10-12 Years	9,330,000	(863,000)	8,467,000
Total		<u>\$ 17,420,000</u>	<u>\$ (2,007,000)</u>	<u>\$ 15,413,000</u>

The aggregate intangible asset amortization expense was \$1,949,000 for the year ended December 31, 2019 and amortization expense is expected to be same each year through the year ended December 31, 2022 and \$1,587,000 for the year ended December 31, 2023. The Company incurred \$1,869,000 and \$50,000 amortization expense for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2019, future intangible amortization were as follows:

	<u>Amortization Expense</u>
2020	\$ 1,949,000
2021	1,949,000
2022	1,949,000
2023	1,602,000
2024	1,587,000
2025 and thereafter	4,428,000
Total intangibles as of December 31, 2019	<u>13,464,000</u>

10. Debt

Long-term debt consists of the following at:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Term loans payable, interest at a variable rate (6.30% and 4.34% at December 31, 2019 and 2018, respectively) with monthly payments of interest and quarterly payments of principal through January 2023.	\$ 38,250,000	\$ 41,625,000
Revolving loans, interest at a variable rate (6.04% and 4.39% at December 31, 2019 and 2018, respectively)	12,008,000	17,375,000
Total	50,258,000	59,000,000
Less deferred loan costs	(807,000)	(611,000)
Less current portion	(49,451,000)	(3,230,000)
Long-term debt	<u>\$ —</u>	<u>\$ 55,159,000</u>

Credit Agreement

On January 16, 2018, the Company entered into an Amended and Restated Credit Agreement ("A/R Credit Agreement") with KeyBank National Association as administrative agent (the "Administrative Agent") and various financial institutions party thereto as lenders (the "Lenders"). Pursuant to the terms of the A/R Credit Agreement (i) the Company may borrow revolving loans in the aggregate principal amount of up to \$40,000,000 (the "U.S. Revolving Loans") from the Lenders and term loans in the aggregate principal amount of up to \$32,000,000 from the Lenders, (ii) the Company's wholly-owned subsidiary, Horizon Plastics International, Inc., (the "Subsidiary") may borrow revolving loans in an aggregate principal amount of up to \$10,000,000 from the Lenders (which revolving loans shall reduce the availability of the U.S. Revolving Loans to the Company on a dollar-for-dollar basis) and term loans in an aggregate principal amount of up to \$13,000,000 from the Lenders, (iii) the Company obtained a Letter of Credit Commitment of \$250,000, of which \$160,000 has been issued and (iv) the Company repaid the outstanding term loan balance of \$6,750,000. The A/R Credit Agreement is secured by a guarantee of each U.S. and Canadian subsidiary of the Company, and by a lien on substantially all of the present and future assets of the Company and its U.S. and Canadian subsidiaries, except that only 65% of the stock issued by Corecomposites de Mexico, S. de R.L. de C.V. has been pledged.

Concurrent with the closing of the A/R Credit Agreement the Company borrowed the \$32,000,000 term loan and \$2,000,000 from the U.S. Revolving loan and the Subsidiary borrowed the \$13,000,000 term loan and \$2,500,000 from revolving loans to provide \$49,500,000 of funding for the acquisition of Horizon Plastics.

On March 14, 2019, the Company entered into the first amendment (“First Amendment”) to the A/R Credit Agreement with the Lenders. Pursuant to the terms of the First Amendment, the Company and Lenders agreed to modify certain terms of the A/R Credit Agreement. These modifications included (1) implementation of an availability block on the U.S. Revolving Loans reducing availability from \$40,000,000 to \$32,500,000, (2) modification to the definition of EBITDA to add back certain one-time expenses, (3) waiver of non-compliance with the leverage covenant as of December 31, 2018 and modification of the leverage ratio definition and covenant to eliminate testing of the leverage ratio until December 31, 2019, (4) waiver of non-compliance with the fixed charge covenant as of December 31, 2018 and modification of the fixed charge coverage ratio definition and covenant requirement, (5) implementation of a capital expenditure spend limit of \$7,500,000 during the first six months of 2019 and \$12,500,000 for the full year 2019, (6) an increase of the applicable interest margin spread for existing term and revolving loans, and (7) an increase in the commitment fees on any unused U.S. Revolving Loans.

On November 22, 2019, the Company entered into a forbearance agreement (the "Forbearance Agreement") with the Lenders. Pursuant to the Forbearance Agreement, the Borrowers and the Lenders acknowledged and confirmed that an event of default occurred under the A/R Credit Agreement resulting from the Borrowers failure to maintain the required Fixed Charge Coverage Ratio (as defined in the A/R Credit Agreement”) for the fiscal quarter ended September 30, 2019. The Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the A/R Credit Agreement through March 13, 2020, as long as the Company satisfies the conditions set forth in the Forbearance Agreement, including, (i) the Borrowers shall remain current on all loan payments during the forbearance period, (ii) on or before December 6, 2019, the Administrative Agent and Lenders shall each receive a copy of a report of Huron Consulting Group containing findings and observations in respect of the businesses and operations of the Company and the Borrowers shall deliver a strategic alternative assessment in respect of the Borrowers’ operations and financing, (iii) on or before December 15, 2019, the Administrative Agent and Lenders shall each receive a copy of appraisals of machinery and equipment and inventory appraisals, and the Borrowers shall have determined and proposed a new capital structure to the Administrative Agent and Lenders, (iv) on or before February 14, 2020, the Borrowers shall have obtained a definitive, written commitment from involved parties and/or lenders providing the basis for implementation of a new capital structure, and (v) on or before March 13, 2020, the Borrowers shall have closed on a new capital structure, acceptable to the Administrative Agents and Lenders. The Forbearance Agreement also implemented a new availability block with respect to the U.S. Revolving Loans portion of the A/R Credit Agreement, reducing availability from \$32,500,000 to \$28,000,000 and increasing the applicable margin for existing term and revolving loans, as well as increasing the commitment fees on any unused U.S. Revolving Loans.

On March 13, 2020, the Company entered into the first Amendment to the Forbearance Agreement (the “Amended Forbearance Agreement”) with the Lenders. Pursuant to the terms of the Amended Forbearance Agreement, the Company and Lenders agreed to modify certain terms of the Forbearance Agreement and extend the Forbearance Agreement through May 29, 2020. The modifications include (1) a reduction in the U.S. Revolving Loan to \$25,000,000 with an availability block of \$5,000,000 which can be borrowed with the approval of the lenders, (2) a change of interest rate to LIBOR rate plus 650 basis points, (3) forbear compliance with the leverage covenant and fixed charge covenant through May 29, 2020, and (4) implementation of a capital expenditure spend limit of \$3,500,000 from the effective date of the Amended Forbearance Agreement through May 29, 2020.

The Amended Forbearance Agreement provides that the Administrative Agent and Lenders shall forbear from the exercise of rights and remedies pursuant to the Loan Documents described in the Credit Agreement through May 29, 2020, as long as the Company satisfies the conditions set forth in the Amended Forbearance Agreement, including, (i) on or before March 31, 2020, the borrowers shall have obtained an executed term sheet from involved parties and/or lenders providing the basis for implementation of a new capital structure and defined due diligence parameters, (ii) on or before May 15, 2020 the Borrowers shall have obtained an executed definitive, written commitment from the New Lenders to enter into a definitive agreement to effect the refinancing, and (iii) on or before May 29, 2020, the borrowers shall have closed on a new capital structure.

As a result of the Amended Forbearance Agreement not extending beyond a year, the Company’s remaining long-term debt under the A/R Credit Agreement, consisting of \$49,451,000 in borrowings under the revolving credit commitment and the loan commitments, was classified as a current liability in the Company’s consolidated balance sheet as of December 31, 2019. As a result, the Company’s current liabilities exceeded its current assets by \$22,609,000 as of December 31, 2019. If the Lenders were to call the loans or demand repayment of all existing borrowings, this could result in the Company being unable to meet its working capital obligations.

Term Loans

The \$45,000,000 Term Loans were used to finance the acquisition of Horizon Plastics. This commitment has fixed quarterly principal payments payable over a five-year period. Borrowings made pursuant to these loans bear interest, payable monthly at 30 day LIBOR plus a basis point margin spread from 225 to 450 based on the Company's leverage ratio and was set at 450 basis points as of December 31, 2019.

Revolving Loans

The Company has available \$28,000,000 of variable rate revolving loans of which \$12,008,000 is outstanding as of December 31, 2019. These revolving loans are scheduled to mature in January 2023, and are classified as current on the balance sheet. Borrowings made on the revolving loans bear interest, payable monthly at 30 day LIBOR plus a basis point margin spread from 225 to 450 based on the Company's leverage ratio and was set at 450 basis points as of December 31, 2019.

Annual maturities of long-term debt are as follows:

2020	\$ 49,451,000
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Interest Rate Swaps

The Company entered into two interest rate swap agreements that became effective January 18, 2018 and continue through January 2023, one of which was designated as a cash flow hedge for \$25,000,000 of the \$32,000,000 term loan to the Company mentioned above and the other designated as a cash flow hedge for \$10,000,000 of the \$13,000,000 term loan to the Subsidiary mentioned above. Under these agreements, the Company pays a fixed rate of 2.49% to the counterparty and receives 30 day LIBOR for both cash flow hedges. The fair value of the interest rate swaps was a liability of \$706,000 and \$65,000 at December 31, 2019 and 2018, respectively. While the Company is exposed to credit loss on its interest rate swaps in the event of non-performance by the counter party to the swap, management believes that such non-performance is unlikely to occur given the financial resources of the counter party.

Bank Covenants

The Company is required to meet certain financial covenants included in the A/R Credit Agreement with respect to leverage ratios, fixed charge ratios and capital expenditures. As of December 31, 2019, the Company was in default with its fixed charge coverage and leverage ratio covenants associated with the loans made under the A/R Credit Agreement as described above. As a result of this default the Company and the Administrative Agent on behalf of the Lenders entered into a Forbearance Agreement to address the non-compliance and establish milestones for the Company related to restructuring of its existing debt. Effective March 13, 2020, the Company entered into an Amended Forbearance Agreement to modify existing and establish new milestones.

Management is pursuing the restructuring or refinancing of its existing obligations under the A/R Credit Agreement. The Company has engaged Huron Transactional Advisor's to facilitate a full marketing processes for refinancing the A/R Credit Agreement. Management and Huron are evaluating term sheets submitted by potential lending sources. The Company is considering financing options including an asset backed lending facility using the Company's accounts receivable and inventories as security, term loans secured with the Company's real estate and machinery and equipment, sale and leaseback of Company owned real estate and potential equity financing. Any new financing remains subject to asset appraisals, field exams, financial projection due diligence, real estate environmental reviews, and other customary legal documentation.

11. Stock Based Compensation

The Company has a Long Term Equity Incentive Plan (the "2006 Plan"), as approved by the Company's stockholders in May 2006. The 2006 Plan allows for grants to directors and employees of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units and other incentive awards ("Stock Awards") up to an aggregate of 3,000,000 awards, each representing a right to buy a share of Core Molding Technologies common stock. Stock Awards can be granted under the 2006 Plan through the earlier of December 31, 2025, or the date the maximum number of available awards under the 2006 Plan have been granted. The number of shares remaining available for future issuance is 744,697.

Restricted stock granted under the 2006 Plan typically require the individuals receiving the grants to maintain certain common stock ownership thresholds and vest over three years or upon the date of the participants' sixty-fifth birthday, death, disability or change in control.

Core Molding Technologies follows the provisions of FASB ASC 718 requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

Restricted Stock

The Company grants shares of its common stock to certain directors, officers, and key employees in the form of unvested stock ("Restricted Stock"). These awards are recorded at the market value of Core Molding Technologies' common stock on the date of issuance and amortized ratably as compensation expense over the applicable vesting period.

The following summarizes the status of Restricted Stock and changes during the years ended December 31:

	2019		2018		2017	
	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Unvested - beginning of year	349,885	\$ 10.62	141,095	\$ 16.79	158,261	\$ 14.55
Granted	135,268	7.65	315,429	11.32	84,643	19.17
Vested	(117,828)	13.81	(82,067)	16.57	(95,717)	15.25
Forfeited	(23,406)	15.02	(24,572)	16.91	(6,092)	17.93
Unvested - end of year	<u>343,919</u>	<u>\$ 9.37</u>	<u>349,885</u>	<u>\$ 10.62</u>	<u>141,095</u>	<u>\$ 16.79</u>

At December 31, 2019 and 2018, there was \$1,923,000 and \$2,598,000, respectively, of total unrecognized compensation expense related to restricted stock granted under the 2006 Plan. That cost is expected to be recognized over the weighted-average period of 1.8 years. Total compensation expense related to restricted stock grants for the years ended December 31, 2019, 2018 and 2017 was \$1,379,000, \$1,774,000 and \$1,331,000, respectively, and is recorded as selling, general and administrative expense.

During 2017, the Company adopted Accounting Standards Update 2016-09, Compensation - Stock Compensation. The new standard provided for changes to accounting for stock compensation, including excess tax benefits and tax deficiencies related to share based payment awards to be recognized in income tax expense in the reporting period in which they occurred. Tax benefits and tax deficiencies before this update were recorded as an increase or decrease in additional paid in capital. Tax benefits and deficiencies for the years ended December 31, 2019, 2018 and 2017 were a deficiency of \$110,000, a deficiency of \$33,000 and a benefit of \$126,000, respectively.

During 2019, 2018 and 2017, employees surrendered 16,047, 17,180 and 19,533 shares, respectfully, of the Company's common stock to satisfy income tax withholding obligations in connection with the vesting of restricted stock.

Stock Appreciation Rights

As part of the Company's 2019 annual grant, Stock Appreciation Rights (SARs) were granted with a grant price of \$10. These awards have a contractual term of five years and vest ratably over a period of three years or immediately vest if the recipient is over 65 years of age. These awards are valued using the Black-Scholes option pricing model.

A summary of the Company's stock appreciation rights activity for the year ended December 31, 2019 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2018	—	\$ —
Granted	226,021	2.57
Exercised	—	—
Forfeited	(3,909)	2.57
Outstanding at the period ended December 31, 2019	<u>222,112</u>	<u>\$ 2.57</u>
Exercisable at the period ended December 31, 2019	<u>29,028</u>	<u>\$ 2.57</u>

The average remaining contractual term for those SARs outstanding at December 31, 2019 is 4.3 years, with no aggregate intrinsic value. At December 31, 2019 and 2018, there was \$386,000 and \$0, respectively, of total unrecognized compensation expense, net of estimated forfeitures, related to SARs. That cost is expected to be recognized over the weighted-average period of 2.3 years.

Total compensation cost related to SARs for the twelve months ended December 31, 2019 and 2018 was \$185,000 and \$0, respectively, all of which was recorded to selling, general and administrative expense.

12. Income Taxes

Components of the provision for income taxes are as follows:

	2019	2018	2017
Current:			
Federal - US	\$ —	\$ 11,000	\$ 1,993,000
Foreign	685,000	1,023,000	613,000
State and local	20,000	14,000	24,000
	<u>705,000</u>	<u>1,048,000</u>	<u>2,630,000</u>
Deferred:			
Federal	738,000	(1,355,000)	(407,000)
Foreign	(1,824,000)	(289,000)	52,000
State and local	26,000	(68,000)	11,000
	<u>(1,060,000)</u>	<u>(1,712,000)</u>	<u>(344,000)</u>
Provision (benefit) for income taxes	<u>\$ (355,000)</u>	<u>\$ (664,000)</u>	<u>\$ 2,286,000</u>

A reconciliation of the income tax provision based on the federal statutory income tax rate to the Company's income tax provision for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Provision at US federal statutory rate	\$ (3,274,000)	\$ (1,145,000)	\$ 2,634,000
Adjustments for US tax law changes	—	—	(185,000)
Valuation allowance	3,267,000	—	—
Effect of foreign taxes	(209,000)	213,000	(58,000)
Adoption of ASC 606	—	236,000	—
State and local tax expense	(102,000)	(54,000)	35,000
Other	(37,000)	86,000	(140,000)
Provision (benefit) for income taxes	<u>\$ (355,000)</u>	<u>\$ (664,000)</u>	<u>2,286,000</u>

The Tax Cuts and Jobs Act (“the “Act”) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate income tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, created new taxes on certain foreign sourced earnings, provided for acceleration of business asset expensing, and reduced the amount of executive pay that may qualify as a tax deduction, among other changes. FASB ASC 740 required the recognition of the effects of tax law changes in 2017.

During 2017, the Company recorded a net benefit charge related to the re-measurement of the deferred tax balance of \$484,000. Additionally, the Company recorded a provisional charge related to the transition tax, net of estimated foreign tax credits, of \$299,000.

The Company records excess tax benefits and tax deficiencies related to share based payment awards in income tax expense in the reporting period in which they occurred. Tax benefits and deficiencies for the years ended December 31, 2019, 2018 and 2017 were a deficiency of \$110,000 and \$33,000 and a benefit of \$126,000, respectively.

The Company evaluates the balance of deferred tax assets that will be realized based on the premise that the Company is more likely than not to realize deferred tax benefits through the generation of future taxable income. Management makes assumptions, judgments, and estimates to determine our current and deferred tax provision and also the deferred tax assets and liabilities. The Company evaluates provisions and deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available evidence.

As of December 31, 2019 the Company had a deferred tax asset of \$5,293,000 of which \$3,267,000 is related to tax positions in the United States, \$1,555,000 related to tax positions in Canada and \$471,000 related to tax positions in Mexico. During 2019, the Company recorded a valuation allowance against all deferred tax assets in the United States, due to cumulative losses over the last three years and uncertainty related to the Company’s ability to realize net loss carryforwards and other net deferred tax assets in the future. The Company believes that the deferred tax assets associated with the Canadian and Mexican tax jurisdictions are more-likely-than-not to be realizable based on estimates of future taxable income and the Company's ability to carryback losses.

Deferred tax assets consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Current asset (liability):		
Net operating loss carryforwards	\$ 4,928,000	\$ 456,000
Interest limitation carryforwards	686,000	394,000
Accrued liabilities	477,000	568,000
Accounts receivable	108,000	521,000
Inventory	587,000	525,000
Other, net	<u>(190,000)</u>	<u>(446,000)</u>
Total current asset	<u>6,596,000</u>	<u>2,018,000</u>
Non-current asset (liability):		
Property, plant, and equipment	(5,580,000)	(3,941,000)
Post retirement benefits	2,090,000	1,848,000
Goodwill and finite-lived assets, net	1,973,000	994,000
Other, net	<u>214,000</u>	<u>234,000</u>
Total non-current liability	<u>(1,303,000)</u>	<u>(865,000)</u>
Valuation allowance for deferred tax assets	<u>(3,267,000)</u>	<u>\$ —</u>
Total deferred tax asset (liability), net	<u>\$ 2,026,000</u>	<u>\$ 1,153,000</u>

At December 31, 2019, the Company had estimated net operating loss carryforwards and interest limitation carryforwards in the U.S. federal jurisdiction of \$17,994,000 and \$3,120,000, respectively. Both carryforwards do not expire. At December 31, 2019, the Company had estimated net operating loss carryforwards in Canada of \$5,772,000, of which \$2,116,000 can be carried back to prior years. The remaining \$3,656,000 expire in the year 2039.

At December 31, 2019 and 2018 the Company had no liability for unrecognized tax benefits under guidance relating to tax uncertainties. The Company does not anticipate that the unrecognized tax benefits will significantly change within the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction, Mexico, Canada and various state and local jurisdictions. The Company is not subject to U.S. federal and state income tax examinations by tax authorities for the years before 2016, not subject to Mexican income tax examinations by Mexican authorities for the years before 2014 and not subject to Canadian income tax examinations by Canadian authorities for the years before 2018.

13. Post Retirement Benefits

The Company provides post retirement benefits to certain of its United States and Canadian employees, including contributions to a multi-employer defined benefit pension plan, health care and life insurance benefits, and contributions to several defined retirement contribution plans.

The Company contributes to a multi-employer defined benefit pension plan for its employees represented by the International Association of Machinists and Aerospace Workers ("IAM") at the Company's Columbus, Ohio production facility. The Company does not administer this plan and contributions are determined in accordance with provisions of the collective bargaining agreement. The risks of participating in this multi-employer plan are different from a single-employer plan in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company chooses to stop participating in its multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in the multi-employer defined benefit pension plan for the years ended December 31, 2019 and 2018 is outlined in the table below. The most recent Pension Protection Act ("PPA") zone status available in 2019 and 2018 is for the plan's year-end at December 31, 2018, and December 31, 2017, respectively. The zone status is based on information the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of the Company		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2019	2018		2019	2018		
IAM National Pension Fund / National Pension Plan ^(A)	51-6031295 - 002	Red as of 12/31/18	Green as of 12/31/17	Implemented	\$971,000	\$760,000	Yes	8/7/2022
Total Contributions:					<u>\$971,000</u>	<u>\$760,000</u>		

^(A) The plan re-certified its zone status after using the amortization provisions of the Code. The Company's contributions to the plan did not represent more than 5% of total contributions to the plan as indicated in the plan's most recently available annual report for the plan year ended December 31, 2018. Under the terms of the collective-bargaining agreement, the Company is required to make contributions to the plan for each hour worked up to a maximum of 40 hours per person, per week at \$1.55 per hour from August 10, 2019 through August 6, 2022.

Prior to the acquisition of Columbus Plastics, certain of the Company's employees were participants, or were eligible to participate, in Navistar's post retirement health and life insurance benefit plan. This plan provides healthcare and life insurance benefits for certain employees upon their retirement, along with their spouses and certain dependents and requires cost sharing between the Company, Navistar and the participants, in the form of premiums, co-payments, and deductibles. The Company and Navistar share the cost of benefits for these employees, using a formula that allocates the cost based upon the respective portion of time that the employee was an active service participant after the acquisition of Columbus Plastics to the period of active service prior to the acquisition of Columbus Plastics.

The Company also sponsors a post retirement health and life insurance benefit plan for certain union retirees of its Columbus, Ohio production facility. In August 2010, as part of a new collective-bargaining agreement, the post retirement health and life insurance benefits for all current and future represented employees who were not retired were eliminated in exchange for a one-time cash payment. Individuals who retired prior to August 2010 remain eligible for post retirement health and life insurance benefits.

The elimination of post retirement health and life insurance benefits described above resulted in a reduction of the Company's post retirement benefits liability of approximately \$10,282,000 in 2010. This reduction in post retirement benefits liability was treated as a negative plan amendment and is being amortized as a reduction to net periodic benefit cost over approximately twenty years, the actuarial life expectancy of the remaining participants in the plan at the time of the amendment. This negative plan amendment resulted in net periodic benefit cost reductions of approximately \$496,000 in 2019, 2018 and 2017, and will result in net periodic benefit cost reductions of approximately \$496,000 in 2020 and each year thereafter during the amortization period.

The funded status of the Company's post retirement health and life insurance benefits plan as of December 31, 2019 and 2018 and reconciliation with the amounts recognized in the consolidated balance sheets are provided below:

	Post Retirement Benefits	
	2019	2018
Change in benefit obligation:		
Benefit obligation at January 1	\$ 8,076,000	\$ 9,050,000
Interest cost	285,000	277,000
Unrecognized loss (gain)	1,099,000	(910,000)
Benefits paid, net	(300,000)	(341,000)
Benefit obligation at December 31	\$ 9,160,000	\$ 8,076,000
Plan Assets	—	—
Amounts recorded in accumulated other comprehensive income:		
Prior service credit	\$ (5,610,000)	\$ (6,106,000)
Net loss	3,634,000	2,652,000
Total	\$ (1,976,000)	\$ (3,454,000)
Weighted-average assumptions as of December 31:		
Discount rate used to determine benefit obligation and net periodic benefit cost	2.9%	4.0%

The components of expense for all of the Company's post retirement benefit plans for the years ended December 31:

	2019	2018	2017
Pension expense:			
Multi-employer plan	\$ 971,000	\$ 760,000	\$ 647,000
Defined contribution plans	1,258,000	1,059,000	752,000
Total pension expense	2,229,000	1,819,000	1,399,000
Health and life insurance:			
Interest cost	285,000	277,000	298,000
Amortization of prior service costs	(496,000)	(496,000)	(496,000)
Amortization of net loss	117,000	171,000	149,000
Net periodic benefit cost	(94,000)	(48,000)	(49,000)
Total post retirement benefits expense	\$ 2,135,000	\$ 1,771,000	\$ 1,350,000

The Company accounts for post retirement benefits under FASB ASC 715, which requires the recognition of the funded status of a defined benefit pension or post retirement plan in the consolidated balance sheets. For the year ended December 31, 2019, the Company recognized a net actuarial loss of \$1,099,000 and for the year ended December 31, 2018 recognized a net actuarial gain of \$910,000, both of which were recorded in accumulated other comprehensive income.

Amounts not yet recognized as a component of net periodic benefit costs at December 31, 2019 and 2018 were a net credit of \$1,976,000 and \$3,454,000, respectively. The amount in accumulated other comprehensive income expected to be recognized as components of net periodic post retirement cost during 2020 consists of a prior service credit of \$496,000 and a net loss of \$181,000. In addition, 2020 interest expense related to post retirement healthcare is expected to be \$237,000, for a total post retirement healthcare net gain of approximately \$78,000 in 2020. The Company expects benefits paid in 2020 to be consistent with estimated future benefit payments as shown in the table below.

The weighted average rate of increase in the per capita cost of covered health care benefits is projected to be 6.0%. The rate is projected to decrease gradually to 5.0% by the year 2025 and remain at that level thereafter. The comparable assumptions for the prior year were 6.2% and 5.0%, respectively.

The effect of changing the health care cost trend rate by one-percentage point for each future year is as follows:

	<u>1- Percentage Point Increase</u>	<u>1-Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$ 39,000	\$ (33,000)
Effect on post retirement benefit obligation	\$ 1,169,000	\$ (997,000)

The estimated future benefit payments of the health care plan for the next ten years are as follows:

<u>Year</u>	<u>Postretirement Health Care Benefits Plan</u>
2020	\$ 1,233,000
2021	470,000
2022	497,000
2023	519,000
2024	496,000
2025 - 2029	2,438,000

14. Commitments and Contingencies

From time to time, the Company is involved in litigation incidental to the conduct of its business. However, the Company is presently not involved in any legal proceedings which in the opinion of management are likely to have a material adverse effect on the Company's consolidated financial position or results of operations.

15. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants as of the measurement date. Fair value is measured using the fair value hierarchy and related valuation methodologies as defined in the authoritative literature. This guidance provides a fair value framework that requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The three levels are defined as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
- Level 3 - Significant unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt, interest rate swaps and foreign currency derivatives. Cash and cash equivalents, accounts receivable and accounts payable carrying values as of December 31, 2019 and December 31, 2018 approximate fair value due to the short-term maturities of these financial instruments. The carrying amounts of long-term debt and the revolving line of credit approximate fair value as of December 31,

2019 and December 31, 2018 due to the short term nature of the underlying variable rate LIBOR agreements. The Company had Level 2 fair value measurements at December 31, 2019 and December 31, 2018 relating to the Company's interest rate swaps and foreign currency derivatives.

Derivative and hedging activities

Foreign currency derivatives

The Company conducted business in foreign countries and paid certain expenses in foreign currencies; therefore, the Company was exposed to foreign currency exchange risk between the U.S. Dollar and foreign currencies, which could impact the Company's operating income and cash flows. To mitigate risk associated with foreign currency exchange, the Company entered into forward contracts to exchange a fixed amount of U.S. Dollars for a fixed amount of foreign currency, which will be used to fund future foreign currency cash flows. At inception, all forward contracts are formally documented as cash flow hedges and are measured at fair value each reporting period.

Derivatives are formally assessed both at inception and at least quarterly thereafter, to ensure that derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer probable of occurring, hedge accounting is discontinued, and any future mark-to-market adjustments are recognized in earnings. The effective portion of gain or loss is reported in other comprehensive income and the ineffective portion is reported in earnings. The impacts of these contracts were largely offset by gains and losses resulting from the impact of changes in exchange rates on transactions denominated in the foreign currency. As of December 31, 2019, the Company had no ineffective portion related to the cash flow hedges.

Interest Rate Swaps

The Company entered into interest rate swap contracts to fix the interest rate on an initial aggregate amount of \$35,000,000 thereby reducing exposure to interest rate changes. The Company pays a fixed rate of 2.49% to the counterparty and receives 30 day LIBOR for both cash flow hedges. At inception, all interest rate swaps were formally documented as cash flow hedges and are measured at fair value each reporting period. See *Note 10 - Debt*, for additional information.

Financial statements impacts

The following tables detail amounts related to our derivatives designated as hedging instruments as of December 31, 2019:

Fair Values of Derivatives Instruments				
Asset Derivatives			Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Prepaid expense other current assets	\$ 452,000	Accrued liabilities other	\$ —
Notional contract values		15,358,000		—
Interest rate swaps	Other non-current assets	—	Other non-current liabilities	706,000
Notional swap values		\$ —		\$ 29,750,000

As of December 31, 2019, the Company had foreign exchange contracts related to the Mexican Peso and the Canadian Dollar with exchange rates ranging from 19.53 to 20.58 and 1.32, respectively

The following tables detail amounts related to our derivatives designated as hedging instruments as of December 31, 2018:

Fair Values of Derivatives Instruments				
Asset Derivatives			Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Prepaid expense other current assets	—	Accrued liabilities other	\$ 750,000
Notional contract values		—		\$ 27,588,000
Interest rate swaps	Other non-current assets	—	Other non-current liabilities	\$ 65,000
Notional swap values		—		\$ 32,375,000

As of December 31, 2018, the Company had foreign exchange contracts related to the Mexican Peso and the Canadian Dollar with exchange rates ranging from 19.52 to 20.47 and 1.28 to 1.33, respectively.

The following tables summarize the amount of unrealized / realized gain and loss recognized in Accumulated Comprehensive Income (AOCI) for the years ended December 31, 2019, 2018 and 2017:

Derivatives in subtopic 815-20 Cash Flow Hedging Relationship	Amount of Unrealized Gain or (Loss) Recognized in Accumulated other Comprehensive Income on Derivative			Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income ^(A)	Amount of Realized Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income		
	2019	2018	2017		2019	2018	2017
Foreign exchange contracts	\$1,499,000	\$(385,000)	\$517,000	Cost of goods sold	\$272,000	\$68,000	\$445,000
				Selling, general and administrative expense	\$25,000	\$—	\$67,000
Interest rate swaps	\$(708,000)	\$(223,000)	\$—	Interest Expense	\$(67,000)	\$(159,000)	\$—

^(A) The foreign currency derivative activity reclassified from Accumulated Other Comprehensive Income is allocated to cost of goods sold and selling, general and administrative expense based on the percentage of Mexican Peso spend.

Non-recurring fair value measurements

See Note 8- *Horizon Plastics Acquisition*, for non-recurring fair value measurements for the year ended December 31, 2018.

16. Accumulated Other Comprehensive Income

The following table presents changes in Accumulated Other Comprehensive Income by component, net of tax, for the years ended December 31, 2019 and 2018:

	Hedging Derivative Activities	Post Retirement Benefit Plan Items^(A)	Total
2018:			
Balance at January 1, 2018	\$ (197,000)	\$ 2,267,000	\$ 2,070,000
Other comprehensive income before reclassifications	(608,000)	910,000	302,000
Amounts reclassified from accumulated other comprehensive income	91,000	(325,000)	(234,000)
Income tax (expense) benefit	102,000	(123,000)	(21,000)
Balance at December 31, 2018	<u>\$ (612,000)</u>	<u>\$ 2,729,000</u>	<u>\$ 2,117,000</u>
2019:			
Balance at January 1, 2019	\$ (612,000)	\$ 2,729,000	\$ 2,117,000
Other comprehensive income before reclassifications	791,000	(1,102,000)	(311,000)
Amounts reclassified from accumulated other comprehensive income	(230,000)	(379,000)	(609,000)
Income tax (expense) benefit	(140,000)	313,000	173,000
Balance at December 31, 2019	<u>\$ (191,000)</u>	<u>\$ 1,561,000</u>	<u>\$ 1,370,000</u>

^(A) The effect of post-retirement benefit items reclassified from Accumulated Other Comprehensive Income is included in total cost of sales on the Consolidated Statements of Income. These Accumulated Other Comprehensive Income components are included in the computation of net periodic benefit cost (see *Note 13 - Post Retirement Benefits* for additional details). The tax effect of post-retirement benefit items reclassified from Accumulated Other Comprehensive Income is included in income tax expense on the Consolidated Statements of Income.

17. Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2019, 2018 and 2017.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2019:					
Product sales	\$ 71,451,000	\$ 75,440,000	\$ 67,511,000	\$ 54,585,000	\$ 268,987,000
Tooling sales	815,000	5,807,000	7,144,000	1,537,000	15,303,000
Net sales	72,266,000	81,247,000	74,655,000	56,122,000	284,290,000
Gross margin	3,149,000	8,491,000	6,484,000	3,382,000	21,506,000
Operating income (loss)	(4,017,000)	1,267,000	(4,657,000)	(4,121,000)	(11,528,000)
Net income (loss)	(3,845,000)	209,000	(6,125,000)	(5,462,000)	(15,223,000)
Net income (loss) per common share:					
Basic (1)	\$ (0.49)	\$ 0.03	\$ (0.78)	\$ (0.69)	\$ (1.94)
Diluted (1)	\$ (0.49)	\$ 0.03	\$ (0.78)	\$ (0.69)	\$ (1.94)
2018:					
Product sales	\$ 59,712,000	\$ 65,225,000	\$ 62,305,000	\$ 68,975,000	\$ 256,217,000
Tooling sales	3,334,000	3,376,000	2,371,000	4,187,000	13,268,000
Net sales	63,046,000	68,601,000	64,676,000	73,162,000	269,485,000
Gross margin	7,885,000	7,897,000	4,862,000	6,497,000	27,141,000
Operating income (loss)	1,125,000	1,418,000	(1,487,000)	(4,156,000)	(3,100,000)
Net income (loss)	518,000	445,000	(1,803,000)	(3,942,000)	(4,782,000)
Net income (loss) per common share:					
Basic (1)	\$ 0.07	\$ 0.06	\$ (0.23)	\$ (0.51)	\$ (0.62)
Diluted (1)	\$ 0.07	\$ 0.06	\$ (0.23)	\$ (0.51)	\$ (0.62)
2017:					
Product sales	\$ 36,336,000	\$ 36,794,000	\$ 37,593,000	\$ 37,900,000	\$ 148,623,000
Tooling sales	410,000	10,574,000	901,000	1,165,000	13,050,000
Net sales	36,746,000	47,368,000	38,494,000	39,065,000	161,673,000
Gross margin	6,479,000	7,341,000	5,752,000	5,059,000	24,631,000
Operating income	2,554,000	3,173,000	1,394,000	820,000	7,941,000
Net income	1,688,000	2,162,000	855,000	754,000	5,459,000
Net income per common share:					
Basic (1)	\$ 0.22	\$ 0.28	\$ 0.11	\$ 0.10	\$ 0.71
Diluted (1)	\$ 0.22	\$ 0.28	\$ 0.11	\$ 0.10	\$ 0.70

(1) Sum of the quarters may not sum to total year due to rounding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon this evaluation, the Company's management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company's disclosure controls and procedures were (i) effective to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act were accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and (ii) effective to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting based on the criteria established in the *2013 Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included a review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

The Company's independent registered public accounting firm, Crowe LLP, audited our internal control over financial reporting as of December 31, 2019, as stated in their report in the section entitled "Report of Independent Registered Public Accounting Firm" included elsewhere in this Form 10-K, which expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019.

Changes In Internal Controls

There were no changes in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f) and Rule 15d-15(f)) that occurred in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Part III, Item 10 is incorporated by reference from the Company's definitive proxy statement for its annual meeting of stockholders to be held on or about May 14, 2020, which is expected to be filed with the SEC pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Part III, Item 11 is incorporated by reference from the Company's definitive proxy statement for its annual meeting of stockholders to be held on or about May 14, 2020, which is expected to be filed with the SEC pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Part III, Item 12 is incorporated by reference from the Company's definitive proxy statement for its annual meeting of stockholders to be held on or about May 14, 2020, which is expected to be filed with the SEC pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this report.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Part III, Item 13 is incorporated by reference from the Company's definitive proxy statement for its annual meeting of stockholders to be held on or about May 14, 2020, which is expected to be filed with the SEC pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this report.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Part III, Item 14 is incorporated by reference from the Company's definitive proxy statement for its annual meeting of stockholders to be held on or about May 14, 2020, which is expected to be filed with the SEC pursuant to Regulation 14A of the Securities Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as Part of this Report:

(1) Financial Statements

See Part II, Item 8 hereof.

(2) Financial Statement Schedules and Independent Auditor's Report

The following consolidated financial statement schedules are filed with this Annual Report on Form 10-K:

Schedule II — Valuation and Qualifying Accounts and Reserves for the Years Ended December 31,
2019, 2018, and 2017

81

All other schedules are omitted because of the absence of the conditions under which they are required.

(3) Exhibits

See Index to Exhibits filed with this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CORE MOLDING TECHNOLOGIES, INC.

By /s/ David L. Duvall
David L. Duvall
President and Chief Executive Officer
March 13, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>/s/ David L. Duvall</u> David L. Duvall	President, Chief Executive Officer, and Director (Principal Executive Officer)	March 13, 2020
<u>/s/ John P. Zimmer</u> John P. Zimmer	Vice President, Secretary, Treasurer, and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2020
<u>*</u> James L. Simonton	Director	March 13, 2020
<u>*</u> Thomas R. Cellitti	Director	March 13, 2020
<u>*</u> James F. Crowley	Director	March 13, 2020
<u>*</u> Ralph O. Hellmold	Director	March 13, 2020
<u>*</u> Matthew Jauchius	Director	March 13, 2020
<u>*</u> Andrew O. Smith	Director	March 13, 2020
<u>*By /s/ John P. Zimmer</u> John P. Zimmer	Attorney-In-Fact	March 13, 2020

Core Molding Technologies, Inc. and Subsidiaries

Schedule II

Consolidated valuation and qualifying accounts and reserves for the years ended December 31, 2019, 2018 and 2017.

Reserves deducted from asset to which it applies:

Allowance for Doubtful Accounts

		Additions			
	Balance at Beginning of Year	(Recovered)/C harged to Costs & Expenses	Charged to Other Accounts	Deductions ^(A)	Balance at End of Year
Year Ended December 31, 2019	\$ 25,000	\$ 4,000	\$ 36,000	\$ 15,000	\$ 50,000
Year Ended December 31, 2018	\$ —	\$ 25,000	\$ —	\$ —	\$ 25,000
Year Ended December 31, 2017	\$ —	\$ —	\$ —	\$ —	\$ —

Customer Chargeback Allowance

		Additions			
	Balance at Beginning of Year	(Recovered)/C harged to Costs & Expenses	Charged to Other Accounts	Deductions ^(B)	Balance at End of Year
Year Ended December 31, 2019	\$ 2,344,000	\$ 1,316,000	\$ —	\$ 3,184,000	\$ 476,000
Year Ended December 31, 2018	\$ 857,000	\$ 2,639,000	\$ —	\$ 1,152,000	\$ 2,344,000
Year Ended December 31, 2017	\$ 309,000	\$ 981,000	\$ —	\$ 433,000	\$ 857,000

^(A) Amount represents uncollectible accounts written off.

^(B) Amount represents customer returns and deductions, discounts and price adjustments accepted.

INDEX TO EXHIBITS

Exhibit No.	Description	Location
2(a)(1)	Asset Purchase Agreement Dated as of September 12, 1996, As amended October 31, 1996, between Navistar and RYMAC Mortgage Investment Corporation ¹	Incorporated by reference to Exhibit 2-A to Registration Statement on Form S-4 (Registration No. 333-15809)
2(a)(2)	Second Amendment to Asset Purchase Agreement dated December 16, 1996 ¹	Incorporated by reference to Exhibit 2(a)(2) to Annual Report on Form 10-K for the year-ended December 31, 2001
2(b)(1)	Agreement and Plan of Merger dated as of November 1, 1996, between Core Molding Technologies, Inc. and RYMAC Mortgage Investment Corporation	Incorporated by reference to Exhibit 2-B to Registration Statement on Form S-4 (Registration No. 333-15809)
2(b)(2)	First Amendment to Agreement and Plan of Merger dated as of December 27, 1996 Between Core Molding Technologies, Inc. and RYMAC Mortgage Investment Corporation	Incorporated by reference to Exhibit 2(b)(2) to Annual Report on Form 10-K for the year ended December 31, 2002
2(c)	Asset Purchase Agreement dated as of October 10, 2001, between Core Molding Technologies, Inc. and Airshield Corporation	Incorporated by reference to Exhibit 1 to Form 8-K filed October 31, 2001
2(d)	Asset Purchase Agreement dated as of March 20, 2015, between Core Molding Technologies, Inc. and CPI Binani, Inc.	Incorporated by reference to Exhibit 2.1 to Form 8-K filed March 23, 2015
2(e)	Asset Purchase Agreement dated as of January 16, 2018 between 1137952 B.C. Ltd., Horizon Plastics International, Inc., 1541689 Ontario Inc., 2551024 Ontario Inc., Horizon Plastics de Mexico, S.A. de C.V., and Brian Read	Incorporate by reference to Exhibit 2.1 to Current Report on Form 8-K filed January 19, 2018
3(a)(1)	Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on October 8, 1996	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-8 (Registration No. 333-29203)
3(a)(2)	Certificate of Amendment of Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on November 6, 1996	Incorporated by reference to Exhibit 4(b) to Registration Statement on Form S-8 (Registration No. 333-29203)
3(a)(3)	Certificate of Amendment of Certificate of Incorporation as filed with the Secretary of State of Delaware on August 28, 2002	Incorporated by reference to Exhibit 3(a)(4) to Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
3(a)(4)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock as filed with the Secretary of State of Delaware on July 18, 2007	Incorporated by reference to Exhibit 3.1 to Form 8-K filed July 19, 2007
3(a)(5)	Certificate of Elimination of the Series A Junior Participant Preferred Stock as filed with the Delaware Sec. of State on April 2, 2015	Incorporated by reference to Exhibit 3(a)(5) to Form 8-K filed April 2, 2015
3(b)(1)	Amended and Restated By-Laws of Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed January 4, 2008
3(b)(2)	Amendment No. 1 to the Amended and Restated By-Laws of Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed December 17, 2013
4(a)(1)	Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on October 8, 1996	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-8 (Registration No. 333-29203)

Exhibit No.	Description	Location
4(a)(2)	Certificate of Amendment of Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on November 6, 1996	Incorporated by reference to Exhibit 4(b) to Registration Statement on Form S-8 (Registration No. 333-29203)
4(a)(3)	Certificate of Amendment of Certificate of Incorporation as filed with the Secretary of State of Delaware on August 28, 2002	Incorporated by reference to Exhibit 3(a)(4) to Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
4(a)(4)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock as filed with the Secretary of State of Delaware on July 18, 2007	Incorporated by reference to Exhibit 3.1 to Form 8-K filed July 19, 2007
4(a)(5)	Certificate of Elimination of the Series A Junior Participant Preferred Stock as filed with the Delaware Sec. of State on April 2, 2015	Incorporated by reference to Exhibit 3(a)(5) to Form 8-K filed April 2, 2015
10(a)	Supply Agreement, dated August 4, 2014 between Core Molding Technologies, Inc. and Core Composites Corporation and Navistar, Inc. ³	Incorporated by reference to Exhibit 10(a) to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014
10(b)	Amended and Restated Credit Agreement, dated as of January 16, 2018, among Core Molding Technologies, Inc., 1137925 B.C. Ltd., the lenders named therein, KeyBank National Association and KeyBanc Capital Markets Inc.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 19, 2018
10 (b)(1)	First Amendment to A/R Credit Agreement, dated as of March 14, 2019, among Core Molding Technologies, Inc., Horizon Plastics International Inc., KeyBank National Association and the lenders named therein.	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 18, 2019
10 (b)(2)	Forbearance Agreement, dated as of November 22, 2019, March 14, 2019, among Core Molding Technologies, Inc., Horizon Plastics International Inc., the lenders named therein, KeyBank National Association and Core Composites Corporation	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 27, 2019
10 (b)(3)	First Amendment to Forbearance Agreement, dated as of March 13, 2020, among Core Molding Technologies, Inc., Horizon Plastics International Inc., the lenders named therein, KeyBank National Association and Core Composites Corporation	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 13, 2020
10(c)	Reimbursement Agreement, dated April 1, 1998, by and between Core Molding Technologies, Inc. and KeyBank National Association	Incorporated by reference to Exhibit 10(h) to Annual Report on Form 10-K for the year ended December 31, 2003
10(d)	Core Molding Technologies, Inc. Employee Stock Purchase Plan ²	Incorporated by reference to Exhibit 4(c) to Registration Statement on Form S-8 (Registration No. 333-60909).
10(d)(1)	2002 Core Molding Technologies, Inc. Employee Stock Purchase Plan (as amended May 17, 2006) ²	Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K dated May 23, 2006
10(e)	Letter Agreement Regarding Terms and Conditions of Interest Rate Swap Agreement between KeyBank National Association and Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 10(j) to Annual Report on Form 10-K for the year ended December 31, 2003
10(e)(1)	Letter Agreement Regarding Terms and Conditions of Interest Rate Swap Agreement between KeyBank National Association and Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 10(i)(1) to Annual Report on Form 10-K for the year ended December 31, 2008
10(f)	2006 Core Molding Technologies, Inc. Long Term Equity Incentive Plan as amended and restated effective May 12, 2017 ²	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 15, 2017
10(g)	Core Molding Technologies, Inc. Executive Cash Incentive Plan ²	Incorporated by reference to Exhibit A to Definitive Proxy Statement on Schedule 14A, dated April 8, 2016

Exhibit No.	Description	Location
10(h)	Form of Amended and Restated Executive Severance Agreement between Core Molding Technologies, Inc. and certain executive officers ²	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated December 29, 2008
10(i)	Form of Amended and Restated Restricted Stock Agreement between Core Molding Technologies, Inc. and certain executive officers ²	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 4, 2008
10(j)	Form of Executive Severance Agreement between Core Molding Technologies, Inc. and certain executive officers ²	Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K dated May 23, 2006
10(k)	Form of Restricted Stock Agreement between Core Molding Technologies, Inc. and certain executive officers ²	Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K dated May 15, 2012
10(l)	Form of Award for Stock Appreciation Rights between Core Molding Technologies, Inc. and certain executive officers	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 20, 2019
10(o)	Form of Executive Employment Agreement, dated October 3, 2018, between David L. Duvall and Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed November 16, 2018.
11	Computation of Net Income per Share	Exhibit 11 omitted because the required information is Included in Notes to Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K
21	List of Subsidiaries	Filed Herein
23	Consent of Crowe LLP	Filed Herein
24	Powers of Attorney	Filed Herein
31(a)	Section 302 Certification by David L. Duvall, President, Chief Executive Officer, and Director	Filed Herein
31(b)	Section 302 Certification by John P. Zimmer, Vice President, Secretary, Treasurer, and Chief Financial Officer	Filed Herein
32(a)	Certification of David L. Duvall, Chief Executive Officer of Core Molding Technologies, Inc., dated March 13, 2020, pursuant to 18 U.S.C. Section 1350	Filed Herein
32(b)	Certification of John P. Zimmer, Chief Financial Officer of Core Molding Technologies, Inc., dated March 13, 2020, pursuant to 18 U.S.C. Section 1350	Filed Herein
101.INS	XBRL Instance Document	Filed Herein
101.SCH	XBRL Taxonomy Extension Schema Document	Filed Herein
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed Herein
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed Herein
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed Herein
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed Herein

1. The Asset Purchase Agreement, as filed with the Securities and Exchange Commission at Exhibit 2-A to Registration Statement on Form S-4 (Registration No. 333-15809), omits the exhibits (including, the Buyer Note, Special Warranty Deed, Supply Agreement, Registration Rights Agreement and Transition Services Agreement, identified in the Asset Purchase Agreement) and schedules (including, those identified in Sections 1, 3, 4, 5, 6, 8 and 30 of the Asset Purchase Agreement. Core Molding Technologies, Inc. will provide any omitted exhibit or schedule to the Securities and Exchange Commission upon request.

2. Indicates management contracts or compensatory plans that are required to be filed as an exhibit to this Annual Report on Form 10-K.
3. Certain portions of this Exhibit have been omitted intentionally subject to a confidentiality treatment request. A complete version of the Exhibit has been filed separately with the Securities and Exchange Commission.