HOMASOTE®

2020 Annual Report
Our 111th Year

About Us

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

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

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

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

To Shareholders and Employees

To say that 2020 was an extraordinary year would be treating the happenings mildly. A year of global pandemic, of global recession, unprecedented government actions, turbulent elections and deeply felt social and racial injustice which all carried over to joblessness and poverty. It was a year when we found out what we were as a company, a family of employees bound tightly together, a unified company despite all the hurdles. The dedication of our employees deserves to be mentioned since only through their dedication were we able to meet the demands of our customers.

The various phases of the pandemic and multitude of restrictions introduced had required flexibility, patience and perseverance. When the pandemic broke out at the beginning of the year, we adapted quickly in order to protect the health and wellbeing of our employees, customers and suppliers. We immediately provided our employees with underlying medical problems the option of working from home where possible and implemented protective measures for those whose work prevented them from doing so. We did our utmost to support our customers in dealing with an uncertain situation. We applied for funds under the federal PPP program and received funding which helped keep all our employees working whether at home or at the plant in Ewing, New Jersey. All this is reflected in the results of the year.

Sales for 2020

Going into 2020 management was encouraged by a large project file in sales for building projects ready to start in the 2nd and 3rd quarters. Due to the pandemic, most of those projects did not get started but were pushed off until the pandemic either slowed down or ceased. As of this writing, the majority of those projects have either started or are scheduled to start shortly. Throughout 2020, sales to the majority of our industrial manufacturing customers kept pace with prior years. The strength of those sales kept us busy once the initial shock of the pandemic in April and May subsided.

Accomplishments & Projects Completed through 2020 were:

- Replacement and upgrade of Cogen controls – tested & started.
- New paper chute for backup pulper
- New Homex cutting line banders installed and operating
- Repair of main pulper tub

Major Projects started in 2021:

- Resurface of blacktop – ongoing
- Coating & repair of roofs – ongoing
- Replacement of pulping unloading area roof
- Repair of pulper conveyor exit end
- Continue investigation into separate dust collection system to produce a bricket
- New maintenance software for monitoring preventive maintenance
- Cogen – emissions testing in 3rd quarter then startup

Year In Review

Millboard sales results were as follows: our flagship 440 SoundBarrier decreased by 7%, Homex expansion joint and forming boards increased 11%, and Nova prefinished interior panels decreased by 16%. Industrial (Pak-Line Division) sales decreased by 11%.

Net sales for 2020 were $18,390,327 versus 2019 sales of $19,784,896, a decrease of $1,394,569. Net income for the year was $1,196,464, resulting in diluted earnings per common share of $3.31. The 2019 net income was $401,433. Working capital was $(0.4) million, an increase of $0.8 million from the previous year.

We wish to acknowledge and express our appreciation for the many years of loyal effort and cooperation given to Homasote Company by our 2020 retirees, Mr. David Kemble and Mr. Paul Waxmonsky.

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

Homasote Management Team

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

Ronald D. Fasano
Chief Financial Officer
& Treasurer

Peter Tindall
Vice President,
Operations

Homasote Company

Five Year Highlights

	2020	2019	2018	2017	2016
Net sales	$ 18,390,327	$ 19,784,896	$ 20,620,354	$ 20,643,785	$ 20,867,302
Depreciation	$ 918,982	$ 940,679	$ 938,656	$ 896,902	$ 836,108
Net income	$ 1,196,464	$ 401,433	$ 997,849	$ 1,396,773	$ 524,527
Common shares outstanding (weighted average):					
Basic	361,119	360,477	359,744	359,411	358,656
Diluted	361,119	360,752	360,319	359,976	359,666
Net earnings per common share:					
Basic	$ 3.31	$ 1.11	$ 2.77	$ 3.89	$ 1.46
Diluted	$ 3.31	$ 1.11	$ 2.77	$ 3.88	$ 1.46
Dividends – declared and paid	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Dividends per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Working capital	$ (421,889)	$ (1,178,266)	$ (4,426,344)	$ (3,422,907)	$ (4,139,607)
Working capital ratio	.9:1	.8:1	.4:1	.5:1	.4:1
Capital expenditures	$ 720,850	$ 557,191	$ 647,258	$ 536,389	$ 714,836
Total assets	$ 11,297,189	$ 11,315,063	$ 10,990,886	$ 11,438,525	$ 11,588,444
Long-term debt, excluding current portion	$ 2,424,861	$ 2,668,590	$ 181,088	$ 2,384,483	$ 3,514,355
Stockholders' equity	$ 454,118	$ (683,834)	$ (1,458,356)	$ (2,280,302)	$ (3,906,188)
Common shares outstanding	361,419	361,019	360,619	360,219	359,999
Per share book value of common stock	$ 1.26	$ (1.89)	$ (4.04)	$ (6.33)	$ (10.85)

Two Year Dividend and Stock Price Comparison

CASH DIVIDENDS

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

Quarter	2020	2019
First	$ 0.00	$ 0.00
Second	0.00	0.00
Third	0.00	0.00
Fourth	0.00	0.00
	$ 0.00	$ 0.00

STOCK PRICES

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

	2020		2019	
Quarter	High	Low	High	Low
First	$ 9.82	$ 4.00	$10.93	$ 8.30
Second	$ 8.00	$ 4.52	$ 9.69	$ 8.06
Third	$ 7.95	$ 4.25	$10.25	$ 9.23
Fourth	$ 8.99	$ 4.50	$ 9.75	$ 9.00

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

The number of Shareholders of record of the Company at December 31, 2020 is 141 and 2019 is 150.

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

Statements of Income

Years Ended December 31

	2020	2019	2018
Net sales	$ 18,390,327	$ 19,784,896	$ 20,620,354
Cost of sales	14,010,230	14,288,529	13,893,238
Gross profit	4,380,097	5,496,367	6,727,116
Selling, general and administrative expenses	4,479,560	4,733,714	4,823,626
Operating income	(99,463)	762,653	1,903,490
Other income (expense):			
Interest expense	(244,088)	(396,841)	(492,169)
Other income (expense)	1,546,517	263,357	(328,906)
NPBC – other components	(6,502)	(227,736)	(84,566)
Income before income tax expense	1,196,464	401,433	997,849
Income tax expense	—	—	—
Net income	$ 1,196,464	$ 401,433	$ 997,849
Net earnings per common share:			
Basic	$ 3.31	$ 1.11	$ 2.77
Diluted	$ 3.31	$ 1.11	$ 2.77
Weighted average common shares outstanding:			
Basic	361,119	360,477	359,744
Diluted.	361,119	360,752	360,319

See accompanying notes to financial statements.

Statements of Comprehensive (Loss) Income

Years Ended December 31

	2020	2019	2018
Net income	$ 1,196,464	$ 401,433	$ 997,849
Other comprehensive income (loss):			
Net actuarial gain (loss) of retirement benefit plans:			
Unrealized gain (loss) arising during the period	(301,925)	60,619	(439,447)
Amortization of actuarial gain	241,393	307,495	258,037
Total other comprehensive income (loss)	(60,532)	368,114	(181,410
Comprehensive income	$ 1,135,932	$ 769,547	$ 816,439

See accompanying notes to financial statements.

Homasote Company

Balance Sheets

December 31

ASSETS	**2020**		**2019**	
Current Assets:				
Cash and cash equivalents	$ 1,013,317		$ 911,714	
Accounts receivable (net of allowance for doubtful accounts of $46,000 in 2019 and 2018)	1,637,346		1,280,692	
Inventories	1,020,655		1,357,297	
Prepaid expenses and other current assets	290,029		223,374	
Total Current Assets		$ 3,961,347		$ 3,773,077
Property, plant and equipment, net		7,313,117		7,511,248
Deferred income taxes		22,725		26,891
Total Assets		$ 11,297,189		$ 11,311,216
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term debt, net of unamortized issuance cost of $18,617 in 2020 and 2019	$ 1,646,611		$ 1,701,533	
Current portion of long-term debt	337,099		273,912	
Accounts payable.	1,985,941		2,471,429	
Accrued expenses	345,585		418,469	
Current portion of obligations under benefit plans	68,000		86,000	
Total Current Liabilities		$ 4,383,236		$ 4,951,343
Long-term debt, net of unamortized issuance cost of $138,257 in 2020 and $159,816 in 2019		2,424,861		2,668,590
Deferred income taxes		22,725		26,891
Obligations under benefit plans		3,192,409		3,503,690
Other liabilities		819,840		844,536
Total Liabilities		10,843,071		11,995,050
Commitments and Contingencies				
Stockholders' Equity:				
Common stock, par value $0.20 per share; Authorized 1,500,000 shares; Issued 876,615 shares in 2020 and 876,215 shares in 2019	175,323		175,243	
Additional paid-in capital	969,822		967,882	
Retained earnings	10,171,913		8,975,449	
Accumulated other comprehensive loss	(3,352,111)		(3,291,579)	
	7,964,947		6,826,995	
Less cost of common shares in treasury, 515,196 shares in 2020 and 2019	7,510,829		7,510,829	
Total Stockholders' Equity.		454,118		(683,834)
Total Liabilities and Stockholders' Equity		$ 11,297,189		$ 11,311,216

See accompanying notes to financial statements.

Homasote Company

Statements of Changes in Stockholders' Equity

Years Ended December 31

	COMMON STOCK SHARES	PAR VALUE	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Balances at January 1, 2018	360,219	$175,119	$957,524	$7,576,167	$(3,478,283)	$(7,510,829)	($2,280,302)
Net income				997,849			997,849
Net change in unrecognized retirement benefit plans					(181,410)		(181,410)
Other comprehensive income							816,439
Issuance of restricted stock, vested and non-vested	400	44	(44)				
Share based compensation			5,507				5,507
Balances at December 31, 2018	360,619	175,163	962,987	8,574,016	(3,659,693)	(7,510,829)	(1,458,356)
Net income				401,433			401,433
Net change in unrecognized retirement benefit plans					368,114		368,114
Other comprehensive income							769,547
*Issuance of restricted stock, vested and non-vested	400	80	(80)				
Share based compensation			4,975				4,975
Balances at December 31, 2019	361,019	175,243	967,882	8,975,449	(3,291,579)	(7,510,829)	(683,834)
Net income				1,196,464			1,196,464
Net change in unrecognized retirement benefit plans					(60,532)		(60,532)
Other comprehensive income							1,135,932
Issuance of restricted stock, vested and non-vested	400	80	(80)				
Share based compensation			2,020				2,020
Balances at December 31, 2020	361,419	$175,323	$969,822	$10,171,913	$(3,352,111)	$(7,510,829)	$ 454,118

*Par Value balance reflects corrected entry.

See accompanying notes to financial statements.

Statements of Cash Flows

Years Ended December 31

	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 1,196,464	$ 401,433	$ 997,849
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	918,982	940,679	938,656
Bad debt expense	—	—	—
Share based compensation expense	2,020	4,975	5,507
Amortization of retirement plans actuarial gain	241,393	307,495	258,037
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable, net	(356,654)	141,471	177,105
Decrease (increase) in inventories	336,642	(189,091)	171,208
(Increase) decrease in prepaid expenses and other current assets	(66,655)	95,610	(75,604)
(Decrease) increase in accounts payable	(485,488)	41,737	(594,267)
(Decrease) increase in accrued expenses	(72,884)	(340,568)	305,513
Decrease in obligations under benefit plans	(631,207)	(349,815)	(352,832)
Decrease in other liabilities	(24,696)	—	—
Net cash provided by operating activities	1,057,917	1,053,926	1,831,172
Cash flows from investing activities:			
Capital expenditures	(720,850)	(557,191)	(647,258)
Net cash used in investing activities	(720,850)	(557,191)	(647,258)
Cash flows from financing activities:			
Net repayment of short-term debt	(54,922)	(178,767)	(45,900)
Net (repayment of) proceeds from long-term debt	(202,100)	616,120	(1,058,463)
Debt issuance costs, net.	21,558	(178,433)	25,866
Net cash provided by (used in) financing Activities	(235,464)	258,920	(1,078,497)
Net increase in cash and cash equivalents	101,603	755,655	105,417
Cash and cash equivalents at beginning of year	911,714	156,059	50,642
Cash and cash equivalents at end of year	$ 1,013,317	$ 911,714	$ 156,059
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 226,928	$ 375,054	$ 466,303

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2020, 2019 and 2018

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS: Homasote Company is in the business of manufacturing wood fiberboard products used in a variety of building material applications including sound insulation, thermal insulation, floor and roof decking and interior tack panels. The Company also manufactures an industrial packaging product line consisting primarily of glass, paper and metal separators. Sales in 2020 were distributed as follows: Building material wholesalers and contractors, approximately 60%; industrial manufacturers, approximately 40% and in 2019, building material wholesalers and contractors, approximately 58%; industrial manufacturers, approximately 42% and in 2018, building material wholesalers and contractors, approximately 57%; industrial manufacturers, approximately 43%. The Company's primary basic raw material, post-consumer wastepaper, is generally readily available from various regional suppliers.

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

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

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

PRODUCT WARRANTIES: Product warranty costs are accrued when the covered products are delivered to the customer. Product warranty expense is recognized based on the terms of the product warranty and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires. The table presents the changes in the Company's accrual for product warranties, which is included in accrued expenses, for the years ended December 31, 2020 and 2019.

	2020	2019
Balance at January 1	$ 5,000	$ 25,000
Accruals and adjustments for product warranties issued during the period	2,500	(20,000)
Settlements made during the period	0	0
Balance at December 31	$ 7,500	$ 5,000

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

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

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

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

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's customers are located throughout the United States of America. Additionally, export sales, 83% to Canada and the balance to other countries, accounted for approximately 2%, 3% and 4% of the Company's sales in the years ended December 31, 2020, 2019 and 2018, respectively. One customer accounted for 15%, 12% and 11% of the Company's sales in 2020, 2019 and 2018, respectively. Additionally, one customer accounted for 12% of accounts receivable at December 31, 2020 and 15% at December 31, 2019.

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

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

PENSIONS AND OTHER POSTRETIREMENT PLANS: The Company has a non-contributory pension plan covering substantially all of its employees who meet age and service requirements. Employees hired subsequent to April 1, 2010 are not eligible to enter the pension plan. Effective March 1, 2012 the pension plan was amended to discontinue benefit accruals. Additionally, a supplemental non-contributory plan, curtailed for active employees in 2005, covers certain retired key employees of the Company. The Company also provides certain health care benefits, discontinued for new employees hired on or after January 1, 2005, to retired employees. The Company records annual expenses relating to its pension benefit and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return and turnover rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The effects of the gains, losses, and prior service costs and credits are amortized over future service periods. In accordance with FASB ASC 715, the funding status, or projected benefit obligation less plan assets, if any, for each plan, is reflected on the Company's balance sheet.

Refer to Note 7 (Post Employment Benefit Plans).

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

Refer to Note 8 (Share-based Compensation).

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

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

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

existing tax benefit. As of December 31, 2020, 2019 and 2018, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of Selling, general and administrative expense.

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

USE OF ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas in which the Company makes such estimates include inventory valuation, the valuation of long-lived assets, accounts receivable, deferred tax assets and pension and postretirement benefits, among others. Actual results could differ from those estimates.

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

RECENT ACCOUNTING PRONOUNCEMENTS: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14*, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year. The updated standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The updated standard was effective for the Company for the year ended December 31, 2018. The adoption of this standard did not have a material effect on the Company's financial statements and related disclosures.

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

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), revising accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires the recognition of a right of use asset and lease liability for those leases currently classified as operating leases while also refining the definition of a lease. In addition, lessees will be required to disclose key information about the amount, timing and uncertainty of cash

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

flows arising from leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, and was effective for the Company for the year ending December 31, 2019. As originally released, ASU 2016-02 required application at the beginning of the earliest comparative period presented at the time of adoption. In July 2018, the FASB issued further guidance providing the option to instead apply the provisions of ASU 2016-02 at the effective date, without adjusting the comparative periods presented. The adoption of this standard did not have a material effect on the Company's financial statements and related disclosures. ASU 2016-02 was adopted on January 1, 2019 and we assessed that the Company's operating leases consist of four equipment leases, which are immaterial both individually and in the aggregate. As such, the Company did not record additional lease assets and lease liabilities on the balance sheet. Additionally, the Company did not record a cumulative effect adjustment to opening retained earnings.

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

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost* ("ASU 2017-07"). ASU 2017-07 requires that the service cost component of net periodic pension and postretirement benefit cost be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period, and the other components of net benefit cost be reported separately from the service cost component and below operating income. The standard also allows only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 is effective for public entities for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The standard is to be applied retrospectively for the presentation of net benefit cost in the income statement and prospectively for the capitalization of the service cost component of net benefit cost, as applicable. The Company adopted ASU 2017-07 on January 1, 2018 on a retrospective basis. As permitted by the new guidance, the Company used the amounts disclosed in Note 7, Post Employment Benefit Plans, for the prior comparative periods as the basis for applying the retrospective reclassifications. Only the service cost component of pension and postretirement benefit costs is included in Operating Income. For the year ending December 31, 2017, the Company reclassified $187,379 of non-service related Net Periodic Benefit Cost from Selling, general and administrative expense to a new line item, NPBC-other components, in Other income (expense). Adoption of this guidance had no effect on the Net income, Net earnings per common share or Statement of cash flows of the Company.

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

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). This guidance removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and requires certain additional disclosures. ASU 2018-14 is effective for public entities on a retrospective basis for the year ending December 31, 2020, with early adoption permitted. The ASU was adopted by the Company on January 1, 2019 with no material effect on its financial statements and related disclosures.

Notes to Financial Statements (continued)

December 31, 2020, 2019 and 2018

Note 2 – INVENTORIES

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

	2020	2019
Finished goods	$ 575,516	$ 869,958
Work in process	23,920	7,469
Raw materials	421,219	479,870
	$ 1,020,655	$ 1,357,297

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

Note 3 – PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019	Estimated Useful Lives
Land	$ 591,491	$ 591,491	
Buildings and additions	12,300,746	12,125,952	10-50 years
Machinery and equipment	35,743,362	35,210,530	3-20 years
Office equipment	1,514,057	1,500,832	3-10 years
Automotive equipment	601,868	601,868	3-5 years
Cogeneration system	3,614,059	3,614,059	20 years
	54,365,583	53,644,732	
Less accumulated depreciation	47,052,466	46,133,484	
	$ 7,313,117	$ 7,511,248	

Depreciation expense was $918,982, $940,679 and $938,656 for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 4 – DEBT

On May 21, 2015, the Company amended and extended its Credit Facilities Agreement (the “Agreement”) with ACF Finco I LP, successor-in-interest to Keltic Financial Partners II, LP (the “Lender”). During the year ended December 31, 2019, all debt related to the Agreement was refinanced with a new lender. The Agreement was comprised of a term loan (the “Term Loan”) and a revolving credit facility (the “Revolving Credit Facility”). The Term Loan, in the amount of $3,166,667 was payable in 42 equal installments of $45,833.33 commencing on June 1, 2015 and in one installment on December 14, 2018 equal to the then outstanding and unpaid principal and interest amount.Under the Revolving Credit Facility, the Company could borrow up to specified percentages of eligible receivables and inventory, as defined, in an aggregate amount not to exceed $2,500,000. Interest on each loan was payable monthly at the greatest of (a) the Lender’s prime rate, as defined (5.50% at December 31, 2018) plus 2.75%, (b) the LIBOR Rate, as defined, plus 5.25%, or (c) 6.00%. The Agreement further provided for an annual facility fee in the amount of $56,667 payable in equal monthly installments, a monthly collateral management fee of $1,500 and a closing fee of $62,370 paid at the loan settlement and certain other expenses of the Lender. The Agreement contained financial and other covenants including minimum EBITDA and limitations on other indebtedness, capital expenditures and dividends. For the measurement periods in 2018 all covenants were satisfied by the Company.

Loans and advances under the Agreement were collateralized by substantially all of the Company's assets, including real property.

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

On August 8, 2019 the Company entered into a secured financing agreement with PNC Bank, National Association and PNC Equipment Finance LLC ("PNC"). The new debt agreements provide for a revolving line of credit, commercial mortgage and equipment financing. The one year $3,000,000 revolving line of credit bears interest at LIBOR plus two hundred seventy-five (275) basis points. The Company may borrow on the line at a percentage of its inventory and outstanding account receivable, which also collateralize the line of credit. The $2,180,000 commercial mortgage has a fifteen (15) year repayment term and bears interest at LIBOR plus two hundred seventy-five (275) basis points. The Company also entered into a swap agreement related to the commercial mortgage. The mortgage is collateralized by the building and other assets of the Company. The equipment financing allows the Company to borrow up to $1,200,000 over a twelve (12) month period, which at the end of the twelve-month period will convert to a seven year term loan bearing interest at LIBOR plus two hundred seventy-five (275) basis points. The equipment financing is collateralized by the equipment it relates to.The unused credit was $0, based on eligible receivables and inventory as of December 31, 2020 and 2019. The outstanding amount on the revolving line of credit was $1,665,228 and $1,720,150, for the years ended December 31, 2020 and 2019, respectively.The outstanding amount in the commercial mortgage was $2,041,768 and $2,146,241, for the years ended December 31, 2020 and 2019, respectively. The outstanding amount on the equipment financing loan was $744,888 and $775,030 for the years ended December 31, 2020 and 2019, respectively. The Agreement contains financial and other covenants including minimum EBITDA and minimum fixed charge coverage ratio. All covenants were satisfied by the Company for the measurement periods in 2020 and 2019.

From June 2015 through December 2018 the Company executed purchase agreements with two lenders covering ten vehicles with original costs ranging between $33,269 to $46,838. Principal and interest are payable in monthly installments ranging between $491 and $807 over periods of sixty to seventy-two months with interest rates ranging between 1.9% to 6.5%. Final payments are due between August 2021 and January 2025. Vehicle loans are collateralized by related vehicles.As of December 31, 2020, outstanding amounts due under the loans, including current portion, were $113,562.

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

The balance of long-term debt, including current portion, outstanding at December 31, 2020 and 2019 was $2,900,217 and $3,102,318, respectively. Aggregate maturities of long-term debt as of December 31, 2020 are as follows: $337,099 in 2021, $258,183 in 2022, $252,567 in 2023, $264,672 in 2024, $259,464 in 2025 and $1,528,232 thereafter.

Total interest costs incurred during 2020, 2019 and 2018 were $245,486, $400,301, and $466,303, respectively.

Notes to Financial Statements (continued)

December 31, 2020, 2019 and 2018

Note 5 – ACCRUED EXPENSES

Accrued expenses as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Commissions	$ 61,662	$ 46,280
Payroll	77,307	96,271
Warranty claims	7,500	5,000
Maintenance CoGen	43,685	43,685
Professional Fees	105,250	107,000
Environmental	—	58,009
Other	50,181	62,224
	$ 345,585	$ 418,469

Note 6 – INCOME TAXES

During 2020, 2019 and 2018, the Company had no current tax expense as a result of current losses incurred or utilization of net operating loss carryforwards coupled with a change in the deferred tax valuation allowance which was equal to the change in deferred tax assets and liabilities.

The actual income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 21% for the years ended December 31, 2020, 2019 and 2018 to income before income tax expense as a result of the following:

	2020	2019	2018
Computed "expected" tax expense	$ 250,314	$ 84,301	$ 206,650
Change in valuation allowance	122,699	22,448	(1,594,943)
Other	(373,013)	(106,749)	1,388,293
	$ —	$ —	$ —

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

	2020	2019
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	$ 10,120	$ 10,120
Inventories, due primarily to cost capitalization	49,628	56,724
Other liabilities, principally due to supplemental pension and postretirement costs	213,114	239,082
Nondeductible accrued expenses	20,276	35,880
Net operating loss carryforwards – federal and state	2,208,479	2,071,383
Alternative minimum tax credit	7,360	7,360
Total deferred tax assets	2,508,977	2,420,549
Less valuation allowance	1,627,262	1,504,564
Net deferred tax assets	881,714	915,985
Deferred tax liabilities:		
Fixed assets, due to accelerated depreciation	238,891	155,283
Other assets, due to pension costs	642,823	760,702
Total deferred tax liabilities	881,714	915,985
Net deferred tax assets	$ —	$ —

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Note 6 – INCOME TAXES (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2020. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The net change in the total valuation allowance for the year ended December 31, 2020 was an increase of $122,698. The net change in the total valuation allowance for the year ended December 31, 2019 was an increase of $22,448. In addition, at December 31, 2020, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $9,581,715 and $832,949, respectively, which are available to reduce future income taxes, if any. The net operating loss carryforwards will begin to expire in year 2020 for federal and 2029 for state tax purposes.

Note 7 – POST EMPLOYMENT BENEFIT PLANS

The Company has a noncontributory defined benefit retirement plan (the "Pension Plan") covering all eligible employees. Benefits under the Pension Plan are calculated at a rate of $23.00 per month per year of service, as defined. The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to contribute approximately $431,000 to the Pension Plan in 2021. It is probable that such amount will be lower due to implementation of amortization and interest rate relief under the American Rescue Plan Act of 2021. On December 17, 2009 the Board of Directors of the Company resolved that employees hired on or subsequent to April 1, 2010 are not eligible to enter the Pension Plan. On December 2, 2011 the Board of Directors of the Company resolved that the Pension Plan be amended to discontinue benefit accruals effective March 1, 2012.

A supplemental non-contributory plan (the "Supplemental Plan") covering certain key employees of the Company provides retirement benefits based upon the employee's compensation, as defined, during the highest five of the last ten consecutive years preceding retirement. The Company's policy for funding the Supplemental Plan is to contribute amounts determined at the discretion of management. As of December 31, 2020 and 2019, the plan was unfunded. On May 11, 2005 the Board of Directors of the Company resolved to terminate the Supplemental Plan for all current employees not already receiving benefits. The termination was recognized as a curtailment gain in 2005. Additionally, as of June 1, 2005, the benefit payments of retired participants were reduced to 50% of their actuarially determined benefit. The payment of the balance of such benefits was deferred and included as an other liability ($512,578 at December 31, 2020 and 2019) until such time as the Board of Directors determined that it was prudent to either reinstate the full monthly payment as it accrues and/or to begin paying the deferred portion. On September 16, 2013 the Board of Directors of the Company resolved to reinstate, as of October 1, 2013, the full monthly payment of such benefits as earned. The estimated amount of such benefits payable during the year ended December 31, 2021, $55,000, is included in current liabilities on the balance sheet of the Company.

The Company also provides a portion of certain health care benefits for eligible retired employees and their spouses who have reached the age of 65. Partial benefits are provided to eligible early retirees who have reached the age of 62. Employees hired on or subsequent to January 1, 2005 are not eligible for retiree health benefits. The Company's policy is to fund the cost of health care benefits for retirees in amounts determined at the discretion of management. As of December 31, 2020 and 2019, the plan was unfunded. Effective July 1, 2005 the Company reduced its contribution to the postretirement benefit plan for all current and future retirees by 50% of the portion paid by the Company prior to such date. On November 10, 2017 the Board of Directors of the Company resolved to allow eligible retirees and their spouses hired after January 1, 2005 to elect participation in the plan, but be required to contribute 100% of the cost. The estimated amount of benefits payable during the year ended December 31, 2021, $13,000, is included in current liabilities on the balance sheet of the Company.

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

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

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan		Supplemental Plan		Postretirement Benefits	
	2020	2019	2020	2019	2020	2019
Change in benefit obligation						
Benefit obligation at beginning of year	$10,859,963	$10,169,995	$ 386,833	$ 463,337	$ 163,814	$ 170,190
Service cost	—	—	—	—	1,435	1,201
Interest cost	377,136	455,516	11,863	19,119	5,649	7,398
Actuarial loss (gain)	752,624	788,099	(23,059)	(28,643)	(13,630)	3,407
Benefits paid	(542,842)	(553,647)	(57,732)	(66,980)	(13,603)	(18,382)
Benefit obligation at end of year	11,446,881	10,859,963	317,905	386,833	143,665	163,814
Accumulated benefit obligation at end of year	11,446,881	10,859,963	317,905	386,833	—	—
Change in plan assets						
Fair value of plan assets at beginning of year	7,820,919	6,803,397	—	—	—	—
Actual return on plan assets	1,050,381	1,437,991	—	—	—	—
Employer contributions	517,152	369,314	57,732	66,980	13,603	18,382
Administrative expenses	(197,568)	(236,136)	—	—	—	—
Benefits paid	(542,842)	(553,647)	(57,732)	(66,980)	(13,603)	(18,382)
Fair value of plan assets at end of year	8,648,042	7,820,919	—	—	—	—
Funded status						
Benefit obligation in excess of plan assets	$ (2,798,839)	$ (3,039,044)	$ (317,905)	$ (386,833)	$ (143,665)	$ (163,814)
Amounts recognized in balance sheets						
Current benefit liability	$ —	$ —	$ (55,000)	$ (70,000)	$ (13,000)	$ (16,000)
Non-current benefit liability	(2,798,839)	(3,039,044)	(262,905)	(316,833)	(130,665)	(147,814)
Net liability recognized	$ (2,798,839)	$ (3,039,044)	$ (317,905)	$ (386,833)	$ (143,665)	$ (163,814)
Unrecognized actuarial loss (gain)	3,648,684	3,591,455	(66,565)	(55,713)	(230,008)	(244,163)
Accumulated other comprehensive loss (income)	$ 3,648,684	$ 3,591,455	$ (66,565)	$ (55,713)	$ (230,008)	$ (244,163)

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan 2020	Pension Plan 2019	Pension Plan 2018	Supplemental Plan 2020	Supplemental Plan 2019	Supplemental Plan 2018
Components of net periodic benefit cost:						
Service cost	$ 211,984	$ 183,419	$ 172,640	$ —	$ —	$ —
Interest cost	377,136	455,516	435,849	11,863	19,119	19,638
Expected return on plan assets	(650,787)	(561,792)	(636,225)	—	—	—
Recognized actuarial loss (gain)	281,385	343,887	294,135	(12,207)	(5,924)	(3,831)
Net periodic benefit cost	$ 219,718	$ 421,030	$ 266,399	$ (344)	$ 13,195	$ 15,807

	Postretirement Benefits 2020	Postretirement Benefits 2019	Postretirement Benefits 2018
Components of net periodic benefit cost:			
Service cost.	$ 1,435	$ 1,201	$ 1,834
Interest cost	5,649	7,398	7,267
Expected return on plan assets	—	—	—
Recognized actuarial gain	(27,785)	(30,468)	(32,267)
Net periodic benefit cost	$ (20,701)	$ (21,869)	$ (23,166)

Service cost is recorded in Selling, general and administrative expense. All other components of Net periodic benefit costs are recorded in Other income (expense). See Note 1 for information on the adoption of ASU 2017-07.

	Pension Benefits 2020	Pension Benefits 2019	Pension Benefits 2018	Postretirement Benefits 2020	Postretirement Benefits 2019	Postretirement Benefits 2018
Assumptions:						
Weighted-Average Assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	3.63%	4.60%	4.10%	3.63%	4.60%	4.10%
Expected long-term return on plan assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

	Pension Benefits 2020	Pension Benefits 2019	Postretirement Benefits 2020	Postretirement Benefits 2019
Weighted-Average Assumptions used to determine benefit obligations at December 31:				
Discount rate	2.82%	3.63%	2.82%	3.63%

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

Assumed Health Care Cost Trend

For measurement purposes, no health care cost trend rate of increase was assumed for 2020. The Company's monthly-paid benefit for each participant is fixed at the amount as of January 1, 2003 and further adjusted as of July 1, 2005 as discussed above.

Plan Assets

The asset allocation for the Pension Plan at the end of 2020 and 2019, and the target allocation for 2021, by asset category, are as follows:

	Target Allocation	Percentage of the Plan Assets at end of year	
	2021	2020	2019
Equity Mutual Funds	60%	39%	71%
Debt Mutual Funds	40%	61%	28%
Cash and Cash Equivalents	0%	0%	1%
	100%	100%	100%

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

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

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

	December 31, 2019			
Plan Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 94,385	—	—	$ 94,385
Equity mutual funds	5,485,762	—	—	5,485,762
Debt mutual funds	2,240,772	—	—	2,240,772
Fair value of plan assets	$ 7,820,919	—	—	$ 7,820,919

Benefit Payments

The following table summarizes expected benefit payments from pension and postretirement plans through 2030. Actual benefit payments may differ from expected benefit payments.

	Pension Benefit	Supplemental Plan	Postretirement Benefits
2021	$ 629,000	$ 55,000	$ 13,000
2022	665,000	50,000	12,000
2023	668,000	45,000	11,000
2024	684,000	40,000	10,000
2025	679,000	36,000	9,000
2025-29	3,357,000	117,000	39,000

Savings Plan

The Company has a voluntary savings plan (the “Savings Plan”) for which all employees are eligible. The Savings Plan had provided for the Company to contribute a minimum of $0.25 for every dollar contributed by employees, up to 4% of their compensation, as defined. Effective October 1, 2018, the Board of Directors resolved to increase the Company contribution to a minimum of $.50 for every dollar contributed by employees, up to 4% of their compensation, as defined. The Savings Plan qualifies and meets the requirements under Section 401(k) of the Internal Revenue Code. Company contributions charged to operations under this Plan amounted to $72,481 in 2020, $59,940 in 2019 and $43,285 in 2018.

Note 8 – SHARE-BASED COMPENSATION

On October 24, 2008, the Board adopted the 2008 Stock Incentive Plan (the "2008 Stock Plan"). No stock was awarded in 2010 or 2009 under the 2008 Stock Plan. On December 13, 2010, the 2008 Stock Plan was amended and restated (the "Amended 2008 Plan"). The Amended 2008 Plan authorizes the issuance of restricted stock to "key persons" including officers, employees, directors and consultants to provide an incentive to enter and remain in the service of the Company, enhance the long-term performance of the Company and acquire a proprietary interest in the success of the Company. An aggregate of 35,000 shares of the Company's stock is available for issuance under the Amended 2008 Plan and a total of 22,380 shares, net of cancellations, remain available as of December 31, 2020 for future grants of stock.

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

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

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

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

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

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

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

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

The total fair value of shares vested and compensation incurred pursuant to the Amended 2008 Plan in 2020, 2019 and 2018 was $2,020, $4,975 and $5,507, respectively. As of December 31, 2020 there was $0 of unrecognized compensation cost related to non-vested share-based compensation under the Amended 2008 Plan.

Note 9 – TREASURY STOCK

The Company has a policy offering directors, officers and employees the option to purchase reacquired shares of Homasote Company common stock on the date acquired and at the purchase price paid by the Company. No shares were acquired or sold in 2020, 2019 or 2018.

Note 10 – COMMITMENTS AND CONTINGENCIES

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

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were $32,814 in 2020. Lease payments subsequent to December 31, 2020 are as follows: 2021, $36,036, 2022, $23,011, 2023, $13,708, 2024, $13,708 and 2025, $1,142.

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

On June 17, 2008, the insurance carrier and the Company signed an Interim Asbestos Claims Administration Agreement (the "Agreement") that defines how the parties will share past and future defense and indemnity costs from asbestos claims. The Agreement provided for a settlement of $172,638 covering all prior costs. The Company further agreed to pay 6% of ongoing defense costs. The Company's agreed upon share of future indemnity costs varies from 0% to 10.49%, based on the claimant's date of first exposure. The Company incurred $22,020 of such costs for the year ended December 31, 2020. The amount of such costs payable in the future is not determinable as of December 31, 2020. As of December 31, 2020 the Company recognized a provision of $10,000 in its financial statements.

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

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

Note 11 – SUBSEQUENT EVENTS

On April 21, 2020, the Company entered into a term note agreement as part of the United States Small Business Administration's (the "SBA") Paycheck Protection Program. The funds are to be used to retain employees, as well as for rent and utilities. The loan is for a principal sum of approximately $1.6 million, and bears interest at a rate of 1% per annum payable over a five-year period after a six-month interest and principal deferral period. The SBA loan may be forgiven if certain criteria are met. Beginning on the date of the loan through the six-month anniversary of the loan, interest on the principal balance will accrue, but no payments of interest will be due. On the sixth month anniversary of the loan, all principal that is not otherwise forgiven will convert to an amortizing term loan.

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

Pursuant to TQA 3200.18, the Company has elected to treat the SBA Paycheck Protection Program funds as a government grant since the Company 1) expects to meet the PPP's eligibility criteria, and 2) considers the substance of the transaction a grant expected to be forgiven. The government assistance is recognized as income when there is reasonable assurance that a) any conditions tied to the assistance are satisfied, and b) the Company will receive the assistance. The Company currently is in the process of submitting for forgiveness, however, based upon the Company achieving the requisite expenditure and other requirements, management believes the PPP funds of approximately $1.6 million will be forgiven. As a result, the Company recorded $1.6 million of forgiveness income as a component of other income for the year ended December 31, 2020.

Note 12 – SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2020 through August 18, 2021 for potential recognition and disclosure in the financial statements. There were four events that require such disclosure. Other than the events described below, there were no events that have occurred that would require adjustment to or disclosure in the financial statements, which were issued on August 18, 2021.

On April 30, 2014 the Company experienced a high voltage breakdown in its 4160V switchgear. This equipment was supplying electric power to the facility and the Cogen System. A temporary bypass was put in place to supply power to the plant. On August 2, 2014 the Company experienced another breakdown of the switchgear equipment. Cogeneration is not possible until permanent repairs and/or replacement is completed. Due to extended negotiations with the insurance carrier, the Company was not able to finalize plans to replace the substation/transformer. There are still significant matters to be resolved. The approximate cost of the project is $1,200,000, to be financed in part by additional debt. The amount of $332,000 of such cost, resulting from insurance proceeds received by the Company to date, is reflected in Other liabilities in the December 31, 2019 and 2020 Balance Sheets included in the Company’s financial statements. The Company anticipates that final replacement of the equipment will be completed by late 2021.

The Company plans to install a heat exchanger to pre-heat the Coe dryer’s combustion air stream, utilizing excess thermal energy generated by the Cogen System in the board drying process. Projected completion date of this System component was August 2013. However, due to engineering design changes, the planned completion date is in late 2021. The cost of such design changes has not been determined.

The Company continues needed roof repairs in the facility. The ongoing project began in late 2017. The Company anticipates approximately $300,000 of additional roof repairs through 2021.

On January 30, 2020, the World Health Organization declared the coronavirus ("coronavirus" or "COVID-19") outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travels and quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates.

The Company is dependent on its workforce, suppliers and customers to sustain operations. Developments such as social distancing and shelter-in-place directives may impact the Company's ability to deploy its workforce effectively. These same developments may affect the operations of the Company's suppliers, as their own workforces and operations are disrupted by efforts to curtail the spread of the virus. While expected to be temporary, these disruptions may negatively impact the Company's sales, its results of operations, financial condition and liquidity in 2021.

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Homasote Company (the "Company") which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years ended December 31, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homasote Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Mercadien, P.C.
Certified Public Accountants

August 18, 2021

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

General

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

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

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

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

Results of Operations 2020-2019

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

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

Gross profit as a percentage of sales was 23.8% in 2020 and 27.8% in 2019. There was a 12% decrease in board production from 2020 as compared to 2019. There was a 5% increase in the cost of natural gas, from an average cost of $5.08 per dekatherm in 2019 to $5.34 per dekatherm in 2020. The variance in the cost of natural gas between 2020 and 2019 based on 167,685 dekatherms purchased was $43,598. There was a 15% increase in the cost of paper from an average of $95 per ton in 2019 to $110 per ton in 2020, based on 15,987 tons purchased. The effect on cost of sales was a decrease of $39,455 in overall paper costs because less paper was purchased in 2020 as compared to 2019.

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

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

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

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

Results of Operations 2018-2017

Net sales were relatively constant with a slight decrease in 2019 by $835,458 to $19,784,896 from $20,620,354 in 2018. The Company operates two sales divisions, Millboard and Industrial. The Company's millboard division serves several markets including the construction and renovation of multi-family dwellings, commercial office buildings, educational facilities, single-family dwellings and retail establishments. The primary channel of distribution is through a "two-step" model wherein wholesale distributors sell the Company's products to dealers that typically specialize in lumber and other forestry products. The millboard product line is led by 440 SoundBarrier, followed by Homex expansion joint and NovaCork cork board. Net sales for the millboard division in 2019 decreased by $230,851 or 2% to $11,729,389 from $11,960,240 in 2018. The decrease in sales is reflective of the results across the division as follows: the largest product line, millboard products increased 1%; the Homex product line sales volume decreased 5%; the Nova prefinished panels product line saw a sales volume decrease of 29%; while decking product sales increased by 45%.

The Company's industrial (Pak-Line) division provides sustainable packaging solutions for users in three main manufacturing and finishing sectors: glass, paper and steel. Additionally, the division provides a variety of products to end-users as varied as appliance manufacturers and office furniture makers. Net sales for the industrial division in 2019 decreased by $604,607 or 7% to $8,055,507 from $8,660,114 in 2018.

Gross profit as a percentage of sales was 27.8% in 2019 and 32.6% in 2018. There was a slight increase of .4% in board production from 2019 as compared to 2018. There was a 4% increase in the cost of natural gas, from an average cost of $4.89 per dekatherm in 2018 to $5.08 per dekatherm in 2019. The increase in the cost of natural gas between 2019 and 2018 based on 179,970 dekatherms purchased was $34,194. Partially offsetting the energy costs was a decrease in the cost of paper of 10% from an average of $105 per ton in 2018 to $95 per ton in 2019, based on 18,866 tons purchased. The effect on cost of sales was a decrease of $217,923 in overall paper costs.

Selling, general and administrative expenses decreased $89,912 from $4,823,626 in 2018 to $4,733,714 in 2019. The decrease in selling, general and administrative expenses is due primarily to an overall decrease in advertising expense, asbestos claims expense and agent commissions.

Interest expense on debt decreased to $396,841 in 2019 from $492,169 in 2018. The decrease is due primarily to the lower interest rate secured by refinancing with PNC.

In 2019, other income consists primarily of an extraordinary expense item based on a professional environmental study conducted in 2018 during the Company's debt refinancing efforts resulted in the Company having to adjust the previous year's accrual to reflect a current liability for environmental remediation amounting to $58,009.

As a result of the foregoing, net income in 2019 was $401,433 as compared to net income of $997,849 in 2018.

Liquidity and Capital Resources

Cash flows from operating activities and bank borrowings are the primary sources of liquidity. Net cash provided by operating activities amounted to $1.1 million in 2020 and 2019.

Working capital was $(0.4) million at December 31, 2020, as compared to $(1.2) million at December 31, 2019, an increase of $0.8 million. Increased working capital is the result of increased cash, increased accounts receivable and decreased accounts payable.

Capital expenditures for new and improved facilities and equipment, which are financed primarily through internally generated funds and debt, were $0.7 million in 2020 and $0.6 million in 2019. The Company estimated capital expenditures for 2021 in the amount of $1.5 million for continued projects.

Cash flows used in financing activities were $(0.2) million in 2020 and cash flows provided by financing activities were $0.3 million in 2019. Refer to Note 4 (Debt) for explanation.

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

Disclosures About Contractual Obligations and Commercial Commitments:

	Cash Payments Due by Period				
	Total	Within Year 1	2-3 Years	4-5 Years	After 5 Years
Short-term debt	$ 1,646,611	$ 1,646,611	$ —	$ —	$ —
Long-term debt (includes current portion)	2,900,217	337,099	510,750	524,136	1,528,232
Operating leases	87,60	36,036	36,719	14,850	—
	$ 4,634,433	$ 2,019,746	$ 547,469	$ 538,986	$ 1,528,232

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

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were $32,814 in 2020. Lease payments subsequent to December 31, 2020 are as follows: 2021, $36,036; 2022, $23,011; 2023, $13,708; 2024, $13,708; 2025, $1,142.

Critical Accounting Policies

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

The significant accounting policies are described in Note 1 of the Notes to Financial Statements included in the Company's 2020 Annual Report. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management considers the following policies to have the potential for the most significant impact on the financial statements.

Pension and Other Postretirement Benefits

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

Annual pension and retiree expense is principally the sum of five components: 1) value of benefits earned by employees for working during the year; 2) increase in liability from interest; 3) administrative expenses (Pension Plan only); less 4) expected return on plan assets (Pension Plan only); and 5) other gains and losses as described below. The expected return on plan assets is calculated by applying an assumed long-term rate of return to the fair value of plan assets. In any given year, actual returns can differ significantly from the expected return. Differences between the actual and expected return on plan assets are combined with gains or losses resulting from the revaluation of plan liabilities. Plan liabilities are revalued annually, based on updated assumptions and information about the individuals covered by the plan. The combined gain or loss, together with prior service costs or credits, are recognized in AOCI in accordance with ASC 715 (see Note 7 of the Notes to Financial Statements) and generally expensed evenly over the remaining years that employees are expected to work.

The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to make cash contributions to the Pension Plan as required in 2021. The Company's policy for funding the Supplemental Plan and Postretirement Benefit Plan is to contribute benefits in amounts as determined at the discretion of management. As of December 31, 2020 and 2019, these Plans were unfunded.

Inventories

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

Long-Lived Assets

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

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

Deferred Income Tax

A majority of the deferred tax assets, which have been recorded by the Company, represent net operating loss carry-forwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2020. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Accounts Receivable

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

Inflation and Economy

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

Summarized (unaudited) quarterly financial data of the Company for years 2020 and 2019 are as follows:

(in thousands of dollars except per share data)

	2020				2019			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	$ 5,008	$ 3,799	$ 4,655	$ 4,928	$ 4,889	$ 5,570	$ 4,900	$ 4,426
Gross profit	$ 1,474	$ 395	$ 1,327	$ 1,184	$ 1,541	$ 1,839	$ 1,085	$ 1,040
Net earnings (loss)	$ 147	$ 776	$ 46	$ 227	$ 106	$ 376	$ (270)	$ 189
Net earnings (loss) per common share:								
Basic	$ 0.41	$ 2.15	$ 0.13	$ 0.63	$ 0.29	$ 1.05	$ (0.75)	$ 0.52
Diluted	$ 0.41	$ 2.15	$ 0.13	$ 0.63	$ 0.29	$ 1.04	$ (0.75)	$ 0.52

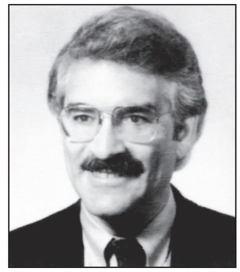
Valuation and Qualifying Accounts for years 2020, 2019 and 2018:

	Balance at Beginning of Year	Additions Charged to Profit and Loss	Accounts Written Off	Balance at End of Year
Year Ended December 31, 2020				
Allowance for doubtful accounts	$ 46,000	$ —	$ —	$ 46,000
Year Ended December 31, 2019				
Allowance for doubtful accounts	$ 46,000	$ —	$ —	$ 46,000
Year Ended December 31, 2018				
Allowance for doubtful accounts	$ 46,000	$ —	$ —	$ 46,000

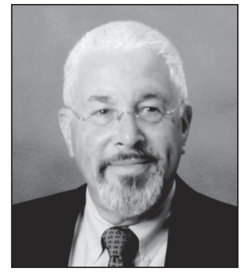
Board of Directors

Jennifer D. Bartkovich
Corporate Secretary
& Assistant Treasurer

Ronald D. Fasano
Chief Financial Officer
& Treasurer

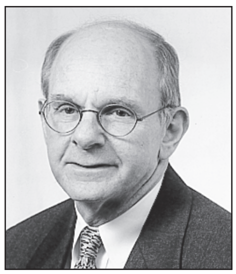


Michael R. Flicker
Attorney at Law

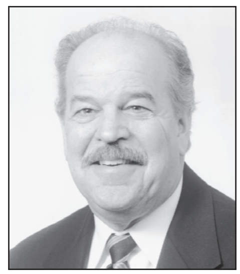


Warren L. Flicker
Chairman of the Board,
Chief Executive Officer

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



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



Norman Sharlin
Retired, Former President,
& Chief Operating Officer,
Sharlin Lite Corp.

Other Officer

Peter Tindall
Vice President,
Operations

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