

CORE MOLDING TECHNOLOGIES INC
Form 10-Q
November 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 of 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

N/A

Former name, former address and former fiscal year, if changed since last report.

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large 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)

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

As of November 3, 2016, the latest practicable date, 7,791,483 shares of the registrant's common stock were issued and outstanding.

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Item 1. Financial Statements

Part I — Financial Information

Core Molding Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Current assets:		
Cash and cash equivalents	\$24,311,000	\$8,943,000
Accounts receivable (less allowance for doubtful accounts: September 30, 2016 - \$1,000; December 31, 2015 - \$40,000)	21,190,000	36,886,000
Inventories:		
Finished goods	1,560,000	1,646,000
Work in process	1,163,000	1,516,000
Raw materials and components	8,602,000	10,535,000
Total inventories, net	11,325,000	13,697,000
Deferred tax asset-current portion	1,575,000	1,598,000
Foreign sales tax receivable	226,000	280,000
Income taxes receivable	—	670,000
Prepaid expenses and other current assets	985,000	610,000
Total current assets	59,612,000	62,684,000
Property, plant and equipment — net	71,212,000	74,103,000
Goodwill	2,403,000	2,403,000
Intangibles, net	575,000	613,000
Total Assets	\$133,802,000	\$139,803,000
Liabilities and Stockholders' Equity:		
Current liabilities:		
Current portion of long-term debt	3,000,000	3,714,000
Accounts payable	9,704,000	13,481,000
Tooling in progress	1,072,000	2,271,000
Current portion of post retirement benefits liability	1,088,000	1,088,000
Accrued liabilities:		
Compensation and related benefits	5,187,000	8,474,000
Taxes	168,000	203,000
Other	1,333,000	1,919,000
Total current liabilities	21,552,000	31,150,000
Long-term debt	7,500,000	9,750,000
Deferred tax liability	2,252,000	2,252,000
Post retirement benefits liability	7,890,000	7,918,000
Total Liabilities	39,194,000	51,070,000
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock — \$0.01 par value, authorized shares — 10,000,000; outstanding shares: 0 at September 30, 2016 and December 31, 2015	—	—

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Common stock — \$0.01 par value, authorized shares – 20,000,000; outstanding shares: 7,635,093 at September 30, 2016 and 7,596,500 at December 31, 2015	76,000	76,000
Paid-in capital	29,909,000	29,147,000
Accumulated other comprehensive income, net of income taxes	2,513,000	2,645,000
Treasury stock	(27,781,000)	(27,647,000)
Retained earnings	89,891,000	84,512,000
Total Stockholders' Equity	94,608,000	88,733,000
Total Liabilities and Stockholders' Equity	\$ 133,802,000	\$ 139,803,000

See notes to unaudited consolidated financial statements.

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Table of ContentsCore Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales:				
Products	\$ 33,816,000	\$ 44,243,000	\$ 113,159,000	\$ 145,612,000
Tooling	7,520,000	3,806,000	12,651,000	6,893,000
Total net sales	41,336,000	48,049,000	125,810,000	152,505,000
Total cost of sales	35,755,000	39,738,000	105,043,000	124,186,000
Gross margin	5,581,000	8,311,000	20,767,000	28,319,000
Total selling, general and administrative expense	3,924,000	4,409,000	12,361,000	13,294,000
Operating Income	1,657,000	3,902,000	8,406,000	15,025,000
Interest expense	67,000	95,000	233,000	237,000
Income before taxes	1,590,000	3,807,000	8,173,000	14,788,000
Income tax expense	561,000	1,323,000	2,794,000	5,069,000
Net income	\$ 1,029,000	\$ 2,484,000	\$ 5,379,000	\$ 9,719,000
Net income per common share:				
Basic	\$0.13	\$0.33	\$0.71	\$1.28
Diluted	\$0.13	\$0.33	\$0.70	\$1.27
Weighted average shares outstanding:				
Basic	7,635,000	7,597,000	7,616,000	7,578,000
Diluted	7,667,000	7,625,000	7,649,000	7,623,000
See notes to unaudited consolidated financial statements.				

Table of ContentsCore Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$1,029,000	\$2,484,000	\$5,379,000	\$9,719,000
Other comprehensive income:				
Foreign currency hedge:				
Unrealized foreign currency hedge gain	67,000	—	67,000	—
Income tax expense	(23,000)) —	(23,000)) —
Interest rate swaps:				
Adjustment for amortization of losses included in net income	—	6,000	5,000	16,000
Income tax expense	—	(2,000)) (2,000)) (5,000)
Post retirement benefit plan adjustments:				
Net actuarial loss	38,000	42,000	116,000	126,000
Prior service costs	(124,000)) (124,000)) (372,000)) (372,000)
Income tax benefit	26,000	24,000	77,000	73,000
Comprehensive income	\$1,013,000	\$2,430,000	\$5,247,000	\$9,557,000
See notes to unaudited consolidated financial statements.				

Table of ContentsCore Molding Technologies, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)

	Common Stock Outstanding		Paid-In Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2015	7,596,500	\$76,000	\$29,147,000	\$2,645,000	\$(27,647,000)	\$84,512,000	\$88,733,000
Net income						5,379,000	5,379,000
Change in post retirement benefits, net of tax of \$77,000				(179,000)			(179,000)
Unrealized foreign currency hedge gain, net of tax of \$23,000				44,000			44,000
Change in interest rate swaps, net of tax of \$2,000				3,000			3,000
Purchase of treasury stock	(10,590)				(134,000)		(134,000)
Excess tax expense - equity transaction			(16,000)				(16,000)
Restricted stock vested	49,183						—
Share-based compensation			778,000				778,000
Balance at September 30, 2016	7,635,093	\$76,000	\$29,909,000	\$2,513,000	\$(27,781,000)	\$89,891,000	\$94,608,000

See notes to unaudited consolidated financial statements.

Table of ContentsCore Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$5,379,000	\$9,719,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,658,000	4,506,000
Interest rate swaps — mark-to-market and amortization of losses	3,000	(14,000)
Share-based compensation	778,000	605,000
(Gain) Loss on foreign currency translation and transactions	(51,000)	56,000
Change in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	15,696,000	(3,088,000)
Inventories	2,372,000	(323,000)
Prepaid and other assets	(270,000)	1,023,000
Accounts payable	(3,538,000)	2,144,000
Taxes receivable	670,000	2,286,000
Accrued and other liabilities	(5,030,000)	(6,941,000)
Post retirement benefits liability	(284,000)	(359,000)
Net cash provided by operating activities	20,383,000	9,614,000
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,901,000)	(4,041,000)
Purchase of assets of CPI Binani Inc.	—	(14,512,000)
Net cash used in investing activities	(1,901,000)	(18,553,000)
Cash flows from financing activities:		
Gross repayments on revolving line of credit	—	(10,102,000)
Gross borrowings on revolving line of credit	—	7,334,000
Proceeds from term loan	—	15,500,000
Payment of principal on term loan	(2,250,000)	(2,000,000)
Payment of principal on capex loan	(714,000)	(1,285,000)
Excess tax (payable) benefit from equity plans	(16,000)	148,000
Payments related to the purchase of treasury stock	(134,000)	(287,000)
Proceeds from issuance of common stock	—	19,000
Net cash (used in) provided by financing activities	(3,114,000)	9,327,000
Net change in cash and cash equivalents	15,368,000	388,000
Cash and cash equivalents at beginning of period	8,943,000	2,312,000
Cash and cash equivalents at end of period	\$24,311,000	\$2,700,000
Cash paid for:		
Interest (net of amounts capitalized)	\$225,000	\$198,000
Income taxes	\$1,882,000	\$3,590,000

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Non Cash:

Fixed asset purchases in accounts payable	\$452,000	\$270,000
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See notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim reporting, which are less than those required for annual reporting. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Core Molding Technologies, Inc. and its subsidiaries ("Core Molding Technologies" or the "Company") at September 30, 2016, and the results of operations and cash flows for the nine months ended September 30, 2016. The "Notes to Consolidated Financial Statements" contained in the Company's 2015 Annual Report to Shareholders, should be read in conjunction with these consolidated financial statements.

Core Molding Technologies and its subsidiaries operate in the plastics market in a family of products known as "reinforced plastics." Reinforced plastics are combinations of resins and 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 fiberglass reinforced plastics. The Company specializes in large-format moldings and offers a wide range of fiberglass processes, including compression molding of SMC, glass mat thermoplastics, bulk molding compounds and direct long-fiber thermoplastics, spray-up, hand-lay-up, and resin transfer molding. Additionally, the Company offers reaction injection molding, utilizing dicyclopentadiene technology. Core Molding Technologies maintains five production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota and Matamoros, Mexico.

The Company operates in one business segment as a manufacturer of SMC and molder of fiberglass reinforced plastics. The Company produces and sells SMC and molded products for varied markets, including light, medium and heavy-duty trucks, automobiles and automotive aftermarket, marine, construction and other commercial products.

2. Net Income per Common Share

Basic net income per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed similarly but includes the effect of the assumed exercise of restricted stock under the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$1,029,000	\$2,484,000	\$5,379,000	\$9,719,000
Weighted average common shares outstanding — basic	7,635,000	7,597,000	7,616,000	7,578,000
Effect of dilutive securities	32,000	28,000	33,000	45,000
Weighted average common and potentially issuable common shares outstanding — diluted	7,667,000	7,625,000	7,649,000	7,623,000
Basic net income per common share	\$0.13	\$0.33	\$0.71	\$1.28
Diluted net income per common share	\$0.13	\$0.33	\$0.70	\$1.27

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3. Major Customers

Core Molding Technologies has four major customers, Navistar, Inc. (“Navistar”), Volvo Group North America, LLC (“Volvo”), PACCAR, Inc. (“PACCAR”) and Yamaha Motor Manufacturing Corporation (“Yamaha”). Major customers are defined as customers whose sales individually consist of more than ten percent of total sales during any reporting period in the current year. The following table presents sales revenue for the above-mentioned customers for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Navistar product sales	\$9,575,000	\$12,219,000	\$31,304,000	\$38,520,000
Navistar tooling sales	470,000	2,325,000	1,166,000	3,373,000
Total Navistar sales	10,045,000	14,544,000	32,470,000	41,893,000
Volvo product sales	6,337,000	13,080,000	23,465,000	41,720,000
Volvo tooling sales	5,353,000	387,000	5,801,000	1,585,000
Total Volvo sales	11,690,000	13,467,000	29,266,000	43,305,000
PACCAR product sales	6,887,000	8,409,000	18,434,000	27,567,000
PACCAR tooling sales	18,000	63,000	3,454,000	819,000
Total PACCAR sales	6,905,000	8,472,000	21,888,000	28,386,000
Yamaha product sales	3,602,000	2,067,000	11,658,000	11,551,000
Yamaha tooling sales	—	—	—	—
Total Yamaha sales	3,602,000	2,067,000	11,658,000	11,551,000
Other product sales	7,415,000	8,468,000	28,298,000	26,254,000
Other tooling sales	1,679,000	1,031,000	2,230,000	1,116,000
Total other sales	9,094,000	9,499,000	30,528,000	27,370,000
Total product sales	33,816,000	44,243,000	113,159,000	145,612,000
Total tooling sales	7,520,000	3,806,000	12,651,000	6,893,000
Total sales	\$41,336,000	\$48,049,000	\$125,810,000	\$152,505,000

4. Property, Plant & Equipment

Property, plant and equipment consisted of the following for the periods specified:

	September 30,	December 31,
	2016	2015
Property, plant and equipment	\$139,885,000	\$137,996,000
Accumulated depreciation	(68,673,000)	(63,893,000)
Property, plant and equipment — net	\$71,212,000	\$74,103,000

Property, plant, and equipment are recorded at cost, unless obtained through acquisition, then assets are recorded at estimated fair value at the date of acquisition. 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 an adjustment to the depreciation period or to the unamortized balance is warranted. Amounts invested in capital additions in progress were \$1,516,000 and \$2,331,000 at September 30, 2016 and December 31, 2015, respectively. The Company capitalized \$0 and \$2,000 of interest expense for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016 and December 31, 2015, purchase commitments for capital expenditures in progress were \$1,013,000 and \$1,102,000, respectively.

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5. Acquisition of CPI

On March 20, 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 for a cash purchase price of \$15,000,000, which expanded the Company's capabilities to include D-LFT and diversified the customer base. The purchase price was subject to working capital adjustments resulting in a reduction in the purchase price of \$488,000.

Cash paid at closing was financed through borrowings under the Company's existing credit facility, as amended and further described in Note 8 below.

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

Accounts Receivable	\$ 1,615,000
Inventory	675,000
Other Current Assets	171,000
Property and Equipment	12,474,000
Intangibles	650,000
Goodwill	1,306,000
Accounts Payable	(2,277,000)
Other Current Liabilities	(102,000)
	\$ 14,512,000

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 acquisition was not considered significant to the Company's consolidated balance sheet and results of operations. Accordingly, no pro-forma results are provided prior to the effective date of the acquisition. The Company incurred \$303,000 of expense for the nine months ended September 30, 2015 associated with the acquisition, which was recorded in selling, general and administrative expense.

6. Goodwill and Intangibles

Goodwill activity for the nine months ended September 30, 2016 consisted of the following:

Balance at December 31, 2015	\$ 2,403,000
Additions	—
Impairment	—
Balance at September 30, 2016	\$ 2,403,000

Intangible assets at September 30, 2016 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	\$ (15,000)	\$ 235,000
Customer Relationships	10 years	400,000	(60,000)	340,000
		\$ 650,000	\$ (75,000)	\$ 575,000

The aggregate intangible asset amortization expense was \$13,000 for each of the three months ended September 30, 2016 and 2015. For the nine months ended September 30, 2016 and 2015, the aggregate intangible asset amortization expense was \$38,000 and \$25,000, respectively.

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7. Post Retirement Benefits

The components of expense for Core Molding Technologies' post-retirement benefit plans for the three and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Pension expense:				
Multi-employer plan	\$ 168,000	\$ 218,000	\$ 538,000	\$ 646,000
Defined contribution plan	165,000	222,000	578,000	629,000
Total pension expense	333,000	440,000	1,116,000	1,275,000
Health and life insurance:				
Interest cost	81,000	79,000	243,000	237,000
Amortization of prior service costs	(124,000)	(124,000)	(372,000)	(372,000)
Amortization of net loss	38,000	42,000	116,000	126,000