CORE MOLDING TECHNOLOGIES INC
Form 10-Q
May 14, 2007

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

OR

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

for the transition period from __________ To __________

Commission File Number 001-12505

CORE MOLDING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	31-1481870
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
800 Manor Park Drive, P.O. Box 28183 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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

As of May 11, 2007, the latest practicable date, 10,326,182 shares of the registrant s common shares were issued and outstanding.

Table of Contents

Table of Contents

Part 1 Financial Information
Core Molding Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets:		
Cash	$ 20,325,989	$ 16,096,223
Accounts receivable (less allowance for doubtful accounts: March 31, 2007 - $251,000; December 31, 2006 - $262,000)	19,330,968	22,456,177
Inventories:		
Finished and work in process goods	2,600,628	2,793,993
Stores	5,021,718	4,598,983
Total inventories	7,622,346	7,392,976
Deferred tax asset	1,469,756	1,529,592
Foreign sales tax receivable	961,685	1,032,058
Income tax receivable	983,712	1,432,324
Prepaid expenses and other current assets	862,640	730,109
Total current assets	51,557,096	50,669,459
Property, plant and equipment	57,309,630	56,927,053
Accumulated depreciation	(27,230,763)	(26,389,062)
Property, plant and equipment net	30,078,867	30,537,991
Deferred tax asset	6,928,864	6,916,348
Goodwill	1,097,433	1,097,433
Customer List / Non-compete	126,017	138,814
Other assets	134,577	145,668
Total	$ 89,922,854	$ 89,505,713
Liabilities and Stockholders Equity Liabilities:		
Current liabilities		
Current portion of long-term debt	$ 1,825,716	$ 1,815,716
Current portion of postretirement benefits liability	247,000	247,000
Accounts payable	12,795,007	10,735,295
Tooling in progress	1,960,457	1,179,684
Accrued liabilities:		
Compensation and related benefits	3,857,191	7,111,475
Other	1,014,450	2,005,408
Total current liabilities	21,699,821	23,094,578

Long-term debt	7,317,850	7,779,279
Interest rate swap	63,123	35,848
Graduated lease payments and deferred gain	23,457	41,050
Postretirement benefits liability	16,381,809	15,860,558
Commitments and Contingencies Stockholders Equity:		
Preferred stock $0.01 par value, authorized shares 10,000,000; Outstanding shares: March 31, 2007 and December 31, 2006 - 0		
Common stock $0.01 par value, authorized shares 20,000,000; Outstanding shares: 10,305,863 at March 31, 2007 and 10,204,607 at December 31, 2006	103,059	102,046
Paid-in capital	22,350,976	21,872,723
Accumulated other comprehensive loss, net of income tax benefit	(3,037,410)	(3,019,315)
Retained earnings	25,020,169	23,738,946
Total stockholders equity	44,436,794	42,694,400
Total	$ 89,922,854	$ 89,505,713

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net Sales:		
Products	$ 30,650,936	$ 35,354,658
Tooling	578,155	1,147,656
Total Sales	31,229,091	36,502,314
Cost of sales	25,786,748	29,027,369
Postretirement benefits expense	616,657	646,374
Total cost of sales	26,403,405	29,673,743
Gross margin	4,825,686	6,828,571
Selling, general and administrative expense	2,956,219	3,034,590
Postretirement benefits expense	135,364	141,881
Total selling, general and administrative expense	3,091,583	3,176,471
Income before interest and income taxes	1,734,103	3,652,100
Interest income	244,773	123,323
Interest expense	(136,689)	(162,301)
Income before income taxes	1,842,187	3,613,122
Income tax expense	629,417	1,331,216
Net income	$ 1,212,770	$ 2,281,906
Net income per common share:		
Basic	$ 0.12	$ 0.23
Diluted	$ 0.11	$ 0.22
Weighted average common shares outstanding:		

Basic	10,264,431	10,046,845
Diluted	10,596,917	10,448,427

See notes to condensed consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders Equity
(Unaudited)

	Common Stock Outstanding		Paid-in	Accumulated Other Comprehensive Income	Retained	Total Stockholders
	Shares	Amount	Capital	(Loss)	Earnings	Equity
Balance at January 1, 2007	10,204,607	$ 102,046	$ 21,872,723	$ (3,019,315)	$ 23,738,946	$ 42,694,400
Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48 see Note 7)					68,453	68,453
Net income					1,212,770	1,212,770
Common shares issued from exercise of stock options	101,256	1,013	318,719			319,732
Tax benefit from exercise of stock options			112,217			112,217
Hedge accounting effect of interest rate swaps at March 31, 2007, net of tax effect of $9,181				(18,095)		(18,095)
Share based compensation expense			47,317			47,317
Balance at March 31, 2007	10,305,863	$ 103,059	$ 22,350,976	($3,037,410)	$ 25,020,169	$ 44,436,794

See notes to condensed consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 1,212,770	$ 2,281,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	865,591	659,732
Deferred income taxes	(3,242)	
Interest income related to ineffectiveness of swap	(94)	
Share based compensation	47,317	53,353
(Gain) loss on disposal of assets	(1,039)	6,159
Amortization of gain on sale/leaseback transaction		(84,528)
Loss on translation of foreign currency financial statements	30,933	34,489
Change in operating assets and liabilities:		
Accounts receivable	3,125,209	(1,719,867)
Inventories	(229,370)	13,963
Prepaid and other assets	(62,158)	(651,115)
Accounts payable	1,957,118	3,185,631
Accrued and other liabilities	(2,905,161)	3,062,205
Postretirement benefits liability	521,251	556,304
Net cash provided by operating activities	4,559,125	7,398,232
Cash flows from investing activities:		
Purchase of property, plant and equipment	(310,918)	(1,415,804)
Proceeds from sale of property and equipment	1,039	5,200
Net cash used in investing activities	(309,879)	(1,410,604)
Cash flows from financing activities:		
Proceeds from issuance of common stock	319,732	93,197
Tax effect from exercise of stock options	112,217	
Payments of principal on secured note payable	(321,429)	(321,428)
Payment of principal on industrial revenue bond	(130,000)	(120,000)

Net cash used in financing activities	(19,480)	(348,231)
Net increase in cash and cash equivalents	4,229,766	5,639,397
Cash and cash equivalents at beginning of period	16,096,223	9,413,994
Cash and cash equivalents at end of period	$ 20,325,989	$ 15,053,391
Cash paid for:		
Interest (net of capitalized interest)	$ 124,464	$ 39,569
Income taxes	$ 86,227	$ 168,133

See notes to condensed consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed 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 condensed 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 March 31, 2007, and the results of their operations and cash flows for the three months ended March 31, 2007. The Consolidated Notes to Financial Statements, which are contained in the 2006 Annual Report to Shareholders, should be read in conjunction with these condensed 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 operates four production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; and Matamoros, Mexico. The Columbus and Gaffney facilities produce reinforced plastics by compression molding sheet molding compound (SMC) in a closed mold process. The Batavia facility produces reinforced plastic products by a robotic spray-up open mold process and resin transfer molding (RTM) closed mold process utilizing multiple insert tooling (MIT). The Matamoros facility utilizes spray-up and hand lay-up open mold processes and RTM closed mold process to produce reinforced plastic products.

2. Earnings per Common Share

Basic earnings per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed similarly but include the effect of the assumed exercise of dilutive stock options and restricted stock under the treasury stock method.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net income	$ 1,212,770	$ 2,281,906
Weighted average common shares outstanding	10,264,431	10,046,845
Plus: dilutive options assumed exercised	617,200	928,450
Less: shares assumed repurchased with proceeds from exercise	(292,127)	(526,868)
Plus: dilutive effect of nonvested restricted stock grants	7,413	
Weighted average common and potentially issuable common shares outstanding	10,596,917	10,448,427
Basic earnings per common share	$ 0.12	$ 0.23
Diluted earnings per common share	$ 0.11	$ 0.22

For the three months ended March 31, 2007 and 2006 there were 33,000 and 55,500 antidilutive options, respectively.

Table of Contents

3. Sales Revenue

Core Molding Technologies currently has three major customers, International Truck & Engine Corporation (International), PACCAR, Inc. (PACCAR), and Freightliner, LLC (Freightliner). Major customers are defined as customers whose sales individually consist of more than ten percent of total sales. The following table presents sales revenue for the above-mentioned customers for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	**2006**
International	$ 12,704,165	$ 18,310,825
PACCAR	7,940,978	7,828,737
Freightliner	3,592,157	3,915,014
Subtotal	24,237,300	30,054,576
Other	6,991,791	6,447,738
Total	$ 31,229,091	$ 36,502,314

4. Comprehensive Income

Comprehensive income represents net income plus the results of certain equity changes not reflected in the Statements of Income. The components of comprehensive income, net of tax, are as follows:

	Three Months Ended March 31,	
	2007	**2006**
Net income	$ 1,212,770	$ 2,281,906
Hedge accounting effect of interest rate swaps, net of deferred income tax benefit of $9,181 and deferred tax expense of $37,709 for the three months ending March 31, 2007 and 2006 respectively	(18,095)	73,200
Comprehensive income	$ 1,194,675	$ 2,355,106

5. Postretirement Benefits

The components of expense for all of Core Molding Technologies postretirement benefits plans for the three months ended March 31, 2007 and 2006 are as follows:

	March 31, 2007	March 31, 2006
Pension Expense:		
Defined contribution plan contributions	$ 120,000	$ 105,000
Multi-employer plan contributions	110,000	127,000
Total pension expense	230,000	232,000
Health and Life Insurance:		
Service cost	212,000	267,000
Interest cost	229,000	218,000
Amortization of net loss	80,000	71,000
Net periodic benefit cost	521,000	556,000
Total postretirement benefits expense	$ 751,000	$ 788,000

Core Molding Technologies has made contributions of approximately $144,000 to pension plans through March 31, 2007 and expects to make approximately $836,000 of postretirement benefit payments through the remainder of 2007 of which $521,000 was accrued at December 31, 2006.

6. Interest Rate Swaps

In conjunction with its variable rate Industrial Revenue Bond (IRB) the Company entered into an interest rate swap agreement, which is designated as a cash flow hedging instrument. Under this agreement, the Company pays a fixed rate of 4.89% to the bank and receives 76% of the 30-day commercial paper rate. The swap term and notional amount matches the payment schedule on the IRB with final maturity in April 2013. The difference paid or received varies as short-term interest rates change and is accrued and recognized as an adjustment to interest expense. While the Company is exposed to credit loss on its interest rate swap in the event of non-performance by the counterparty to the swap, management believes such non-performance is unlikely to occur given the financial resources of the counterparty. The effectiveness of the swap is assessed at each financial reporting date by comparing the commercial paper rate of the swap to the benchmark rate underlying the variable rate of the IRB. In all periods presented this cash flow hedge was highly effective; any ineffectiveness was not material. None of the changes in fair value of the interest rate swap have been excluded from the assessment of hedge effectiveness.

Effective January 1, 2004, the Company entered into an interest rate swap agreement, which is designated as a cash flow hedge of the bank note payable. Under this agreement, the Company pays a fixed rate of 5.75% to the bank and receives LIBOR plus 200 basis points. The swap term and notional amount match the payment schedule on the secured note payable with final maturity in January 2011. The interest rate swap is a highly effective hedge because the amount, benchmark interest rate index, term, and repricing dates of both the interest rate swap and the hedged variable interest cash flows are exactly the same. While the Company is exposed to credit loss on its interest rate swap in the event of non-performance by the counterparty to the swap, management believes that such non-performance is unlikely to occur given the financial resources of the counterparty.

7. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority based solely on the technical merits of the position. An uncertain tax position will not be recognized if it has less than a fifty percent likelihood of being sustained. FIN 48 also provides guidance on derecognition of tax benefits, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

The Company recognized a $68,453 increase to retained earnings upon the adoption of FIN 48. This increase is represented by the recognition of state tax benefits of $212,054 and related accrued interest receivable of $15,706. These benefits generate a federal tax liability of $59,833. The Company also recorded a liability for unrecognized tax benefits of $51,775 and $47,699 related to uncertain state and foreign tax positions, respectively and the amounts are recorded in income tax receivable in the condensed consolidated balance sheet. The unrecognized tax liability at January 1, 2007 of $99,474 was unchanged during the quarter. There are no federal or state income tax audits in process. During the year ended December 31, 2006, the Company recorded no interest expense or penalties related to unrecognized tax benefits and no interest or penalties were accrued on the consolidated balance sheet at December 31, 2006.

The Company files income tax returns in the U.S. federal jurisdiction, Mexico and various state jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2003 and is subject to income tax examinations by Mexican authorities since the Company began business in Mexico in 2001. The Company does not anticipate that the unrecognized tax benefits will significantly change within the next twelve months.

8. Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes,* which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006, and was effective for the Company on January 1, 2007. The impact of adopting FIN 48 is discussed in Note 7.

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities*, to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements.* An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. Management is currently evaluating the impact of SFAS No. 159 on the consolidated financial statements.

Table of Contents

Part I Financial Information

Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements are those focused upon future plans, objectives or performance as opposed to historical items and include statements of anticipated events or trends and expectations and beliefs relating to matters not historical in nature. Such forward-looking statements involve known and unknown risks and are subject to uncertainties and factors relating to Core Molding Technologies operations and business environment, all of which are difficult to predict and many of which are beyond Core Molding Technologies control. These uncertainties and factors could cause Core Molding Technologies actual results to differ materially from those matters expressed in or implied by such forward-looking statements.

Core Molding Technologies believes that the following factors, among others, could affect its future performance and cause actual results to differ materially from those expressed or implied by forward-looking statements made in this quarterly report: business conditions in the plastics, transportation, watercraft and commercial product industries; general economic conditions in the markets in which Core Molding Technologies operates; dependence upon three major customers as the primary source of Core Molding Technologies sales revenues; efforts of Core Molding Technologies to expand its customer base; failure of Core Molding Technologies suppliers to perform their contractual obligations; the availability of raw materials; inflationary pressures; new technologies; competitive and regulatory matters; labor relations; the loss or inability of Core Molding Technologies to attract key personnel; the availability of capital; the ability of Core Molding Technologies to provide on-time delivery to customers, which may require additional shipping expenses to ensure on-time delivery or otherwise result in late fees; risk of cancellation or rescheduling of orders; management s decision to pursue new products or businesses which involve additional costs, risks or capital expenditures; and other risks identified from time-to-time in Core Molding Technologies other public documents on file with the Securities and Exchange Commission, including those described in Item 1A of the 2006 Annual Report to Shareholders on Form 10-K.

OVERVIEW

Core Molding Technologies is a compounder of sheet molding composite (SMC) and molder of fiberglass reinforced plastics. Core Molding Technologies produces high quality fiberglass reinforced molded products and SMC materials for varied markets, including light, medium, and heavy-duty trucks, automobiles and automotive aftermarkets, personal watercraft, and other commercial products. The demand for Core Molding Technologies products is affected by economic conditions in the United States, Canada and Mexico, the cyclicality of markets we serve, regulatory requirements, interest rates and other factors. Core Molding Technologies manufacturing operations have a significant fixed cost component. Accordingly, during periods of changing demands, the profitability of Core Molding Technologies operations may change proportionately more than revenues from operations.

On December 31, 1996, Core Molding Technologies acquired substantially all of the assets and assumed certain liabilities of Columbus Plastics, a wholly owned operating unit of International s truck manufacturing division since its formation in late 1980. Columbus Plastics, located in Columbus, Ohio, was a compounder and compression molder of SMC. In 1998 Core Molding Technologies began compression molding operations at its second facility in Gaffney, South Carolina, and in October 2001, Core Molding Technologies acquired certain assets of Airshield Corporation. As a result of this acquisition, Core Molding Technologies expanded its fiberglass molding capabilities to include the spray up, hand-lay-up open mold processes and resin transfer (RTM) closed mold process. In September 2004, Core Molding Technologies acquired substantially all the operating assets of Keystone Restyling Products, Inc., a privately held manufacturer and distributor of fiberglass reinforced products for the automotive-aftermarket industry. In August 2005, Core Molding Technologies acquired certain assets of the Cincinnati Fiberglass Division of Diversified Glass, Inc. a Batavia, Ohio-based, privately held manufacturer and distributor of fiberglass reinforced plastic components supplied primarily to the heavy-duty truck market. The Batavia, Ohio facility produces reinforced plastic products by a robotic spray-up open mold process and resin transfer molding (RTM) utilizing multiple insert tooling (MIT) closed mold process.

Table of Contents

Core Molding Technologies recorded net income for the three months ended March 31, 2007 of $1,213,000 or $.12 per basic and $.11 per diluted share, compared with $2,282,000, or $.23 per basic and $.22 per diluted share, for the three months ended March 31, 2006. Net income was negatively impacted by decreased sales volumes due to lower demand resulting from an industry wide decline in truck orders. Industry analysts have indicated that stricter federal emission standards for 2007 increased demand throughout 2006 for heavy and medium-duty trucks as customers purchased vehicles in advance of the new 2007 emission standards. Demand in 2007 is expected to decline, with industry analysts estimating a twenty to forty percent decrease in new orders for heavy and medium-duty trucks for some portion of 2007, as compared to 2006 demand. Also negatively impacting net income was lower fixed cost absorption. Our manufacturing operations have a significant fixed cost component and the profitability of Core Molding Technologies   operations will change proportionately more than revenues from operations during periods of changing demand. Finally, operating inefficiencies at the Company   s Batavia, Ohio facility also negatively impacted net income.

Results of Operations

Three Months Ended March 31, 2007, As Compared To Three Months Ended March 31, 2006

Net sales for the three months ended March 31, 2007, totaled $31,229,000, representing an approximate 14% decrease from the $36,502,000 reported for the three months ended March 31, 2006. Included in total sales are tooling project revenues of $578,000 and $1,148,000 for the three months ended March 31, 2007 and March 31, 2006, respectively. Tooling project revenues are sporadic in nature