AMPCO PITTSBURGH CORP
Form 10-Q
August 09, 2018

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 June 30, 2018

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 1-898

AMPCO-PITTSBURGH CORPORATION

Pennsylvania	25-1117717
(State of Incorporation)	(I.R.S. Employer Identification No.)

726 Bell Avenue, Suite 301

Carnegie, Pennsylvania 15106

(Address of principal executive offices)

(412) 456-4400

(Registrant’s telephone number)

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 periods 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Emerging growth company
Non-accelerated filer	Smaller reporting company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

On August 2, 2018, 12,491,487 common shares were outstanding.

AMPCO-PITTSBURGH CORPORATION

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PART I – FINANCIAL INFORMATION

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except par value)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$22,148	$20,700
Receivables, less allowance for doubtful accounts of $979 in 2018 and $962 in 2017	97,178	86,623
Inventories	111,956	107,561
Insurance receivable – asbestos	15,000	13,000
Other current assets	11,844	12,363
Total current assets	258,126	240,247
Property, plant and equipment, net	206,990	214,980
Insurance receivable – asbestos	76,292	87,342
Deferred income tax assets	2,993	1,590
Investments in joint ventures	2,175	2,175
Intangible assets, net	10,075	11,021
Other noncurrent assets	6,225	8,244
Total assets	$562,876	$565,599
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$50,404	$47,479
Accrued payrolls and employee benefits	21,046	22,768
Debt – current portion	45,080	19,335
Asbestos liability – current portion	21,000	18,000
Other current liabilities	32,207	37,089
Total current liabilities	169,737	144,671
Employee benefit obligations	75,123	79,750
Asbestos liability	116,304	131,750
Long-term debt	41,245	46,818
Deferred income tax liabilities	353	433
Other noncurrent liabilities	2,187	416
Total liabilities	404,949	403,838
Commitments and contingent liabilities (Note 8)		
Shareholders’ equity:		
Common stock – par value $1; authorized 20,000 shares; issued and outstanding	12,491	12,361

12,491 shares in 2018 and 12,361 shares in 2017		
Additional paid-in capital	154,185	152,992
Retained earnings	36,926	38,348
Accumulated other comprehensive loss	(49,203)	(44,760)
Total Ampco-Pittsburgh shareholders’ equity	154,399	158,941
Noncontrolling interest	3,528	2,820
Total shareholders’ equity	157,927	161,761
Total liabilities and shareholders’ equity	$562,876	$565,599

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$127,427	$110,550	$242,504	$214,066
Operating costs and expenses:				
Costs of products sold (excluding depreciation and amortization)	108,576	92,052	203,333	176,833
Selling and administrative	14,814	15,053	30,287	30,430
Depreciation and amortization	5,769	5,646	11,674	11,568
Gain on disposal of assets	(106)	(1)	(61)	(1)
Total operating expenses	129,053	112,750	245,233	218,830
Loss from operations	(1,626)	(2,200)	(2,729)	(4,764)
Other income (expense):				
Investment-related income	43	22	67	71
Interest expense	(1,020)	(728)	(1,893)	(1,905)
Other – net	451	570	3,351	(315)
	(526)	(136)	1,525	(2,149)
Loss before income taxes and equity income in joint venture	(2,152)	(2,336)	(1,204)	(6,913)
Income tax (provision) benefit	(548)	102	(107)	(33)
Equity income in joint venture	0	485	0	535
Net loss	(2,700)	(1,749)	(1,311)	(6,411)
Less: Net income attributable to noncontrolling interest	294	164	742	285
Net loss attributable to Ampco-Pittsburgh shareholders	$(2,994)	$(1,913)	$(2,053)	$(6,696)
Net loss per common share attributable to Ampco-Pittsburgh:				
Basic	$(0.24)	$(0.16)	$(0.17)	$(0.54)
Diluted	$(0.24)	$(0.16)	$(0.17)	$(0.54)
Cash dividends declared per share	$0.00	$0.00	$0.00	$0.09
Weighted average number of common shares outstanding:				
Basic	12,439	12,327	12,401	12,299
Diluted	12,439	12,327	12,401	12,299

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(2,700)	$(1,749)	$(1,311)	$(6,411)
Other comprehensive (loss) income, net of income tax where applicable:				
Adjustments for changes in:				
Foreign currency translation	(6,197)	4,926	(3,699)	7,178
Unrecognized employee benefit costs (including effects of foreign currency translation)	692	(866)	279	(1,121)
Unrealized holding gains on marketable securities	0	102	0	287
Fair value of cash flow hedges	(6)	15	(321)	239
Reclassification adjustments for items included in net loss:				
Amortization of unrecognized employee benefit costs	64	783	194	1,516
Realized gains from sale of marketable securities	0	0	0	(6)
Realized gains from settlement of cash flow hedges	(92)	(167)	(301)	(322)
Other comprehensive (loss) income	(5,539)	4,793	(3,848)	7,771
Comprehensive (loss) income	(8,239)	3,044	(5,159)	1,360
Less: Comprehensive income attributable to noncontrolling interest	109	92	708	216
Comprehensive (loss) income attributable to Ampco-Pittsburgh	$(8,348)	$2,952	$(5,867)	$1,144

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2018	2017
Net cash flows used in operating activities	$(11,350)	$(10,562)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,934)	(6,229)
Proceeds from sale of investment in joint venture	0	1,000
Purchases of long-term marketable securities	(91)	(56)
Proceeds from sale of long-term marketable securities	186	87
Net cash flows used in investing activities	(5,839)	(5,198)
Cash flows from financing activities:		
Dividends paid	(35)	(2,235)
Repayment of debt	(496)	(997)
Proceeds from Revolving Credit and Security Agreement	19,971	8,300
Proceeds from credit facility	0	8,795
Payments on credit facility	0	(15,941)
Net cash flows provided by (used in) financing activities	19,440	(2,078)
Effect of exchange rate changes on cash and cash equivalents	(803)	784
Net increase (decrease) in cash and cash equivalents	1,448	(17,054)
Cash and cash equivalents at beginning of period	20,700	38,579
Cash and cash equivalents at end of period	$22,148	$21,525
Supplemental information:		
Income tax payments	$918	$769
Interest payments	$830	$796
Non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	$1,200	$1,223

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share amounts)

1. Unaudited Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of June 30, 2018, and the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2018, and 2017, and condensed consolidated statements of cash flows for the six months ended June 30, 2018, and 2017, have been prepared by Ampco-Pittsburgh Corporation (the "Corporation") without audit. In the opinion of management, all adjustments, consisting of only normal and recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented, have been made. The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of the operating results expected for the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") have been condensed or omitted.

Recently Implemented Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (the "FASB") issued ASU 2017-09, Scope of Modification Accounting, which provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. The amendment will be applied prospectively to an award modified on or after January 1, 2018. The amended guidance became effective for the Corporation on January 1, 2018, and did not affect its financial position, operating results or liquidity.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer who offers defined benefit and postretirement benefit plans to report the service cost component of net periodic benefit cost in the same line item or items as other compensation costs arising from services rendered by employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations. The amendment also allows only the service cost component of net periodic benefit cost to be eligible for capitalization, when applicable. The amended guidance does not change the amount of net periodic benefit cost to be recognized, only where it is to be recognized in the income statement. The amended guidance became effective for the Corporation on January 1, 2018, and was applied retrospectively for the presentation of the service cost component and the other components of net periodic pension and other postretirement costs in the income statement. As permitted by the guidance, the Corporation used the amounts disclosed in its pension and other postretirement benefits footnote (Note 6) as the estimate to apply retrospectively. The guidance did not affect the Corporation's financial position or liquidity. The effect of the retrospective guidance on the condensed consolidated statements of operations was as follows:

	Three Months Ended June 30, 2017		
	Originally Presented	Reclassification for ASU 2017-07	As Adjusted
Costs of products sold (excluding	$92,017	$ 35	$ 92,052

depreciation and amortization)			
Selling and administrative	14,903	150	15,053
Loss from operations	(2,015)	(185)	(2,200)
Other – net	385	185	570
Other income (expense)	(321)	185	(136)
Loss before income taxes and equity income in joint venture	(2,336)	0	(2,336)

	Six Months Ended June 30, 2017		
	Originally Presented	Reclassification for ASU 2017-07	As Adjusted
Costs of products sold (excluding depreciation and amortization)	$176,680	$ 153	$ 176,833
Selling and administrative	30,201	229	30,430
Loss from operations	(4,382)	(382)	(4,764)
Other – net	(697)	382	(315)
Other income (expense)	(2,531)	382	(2,149)
Loss before income taxes and equity income in joint venture	(6,913)	0	(6,913)

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amended guidance became effective for the Corporation on January 1, 2018, and did not have a significant impact on the presentation of its cash flow statement, and it did not affect the Corporation's financial position, operating results or liquidity.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 and its related amendments outline a single comprehensive model to account for revenue from customer contracts and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. In accordance with Topic 606, a company recognizes revenue when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration a company expects to be entitled to receive in exchange for those goods or services. It also requires comprehensive disclosures regarding revenue recognition. The guidance became effective January 1, 2018, and could have been implemented on either a full or modified retrospective basis (cumulative-effect adjustment to January 1, 2018 retained earnings). The Corporation adopted the guidance using the modified retrospective approach and by applying it to those contracts that were not completed as of January 1, 2018. There was, however, no cumulative-effect adjustment to the Corporation's retained earnings as of January 1, 2018, since the new guidance did not change the Corporation's timing of revenue recognition, which continues to be at a point in time. See Note 15 for the additional disclosures.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities, which simplifies the accounting and disclosures related to equity investments. ASU 2016-01 requires entities to carry certain investments in equity securities at fair value with changes in fair value recorded through net income (loss) versus other comprehensive income (loss). ASU 2016-01 does not apply to investments that qualify for the equity method of accounting or result in consolidation of the investee. The guidance became effective for the Corporation on January 1, 2018, and as required, was adopted by means of a cumulative-effect adjustment to retained earnings as of the beginning of 2018, as follows:

	Retained Earnings	Accumulated Other Comprehensive Loss
As of January 1, 2018, as originally presented	$ 38,348	$ (44,760)
Cumulative effect of ASU 2016-01	632	(632)
As of January 1, 2018, as adjusted	$ 38,980	$ (45,392)

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging, which amends and simplifies existing guidance to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The amended guidance will be effective for interim and annual periods beginning after December 15, 2018; however, early adoption is permitted. The Corporation is currently evaluating the impact the guidance will have on its financial position and operating results. It will not, however, affect the Corporation's liquidity.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with a term of more than one year. Accounting by lessors will remain similar to existing generally accepted accounting principles. The guidance becomes effective for the Corporation on January 1, 2019. The Corporation is currently evaluating the impact the guidance will have on its financial position, operating results and liquidity.

2. Inventories

At June 30, 2018, and December 31, 2017, approximately 39% and 42% of the inventories were valued on the LIFO method with the remaining inventories valued on the FIFO method. Inventories were comprised of the following:

	June 30, 2018	December 31, 2017
Raw materials	$22,717	$ 24,249
Work-in-process	46,692	42,840
Finished goods	24,516	24,083
Supplies	18,031	16,389
Inventories	$111,956	$ 107,561

3. Property, Plant and Equipment

Property, plant and equipment were comprised of the following: