

AMPCO PITTSBURGH CORP
Form 10-Q
November 06, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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
(State of Incorporation)

25-1117717
(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)

600 Grant Street, Suite 4600, Pittsburgh PA 15219

(Former name or former address, 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 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, or a smaller reporting company. See the definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer 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

On November 2, 2015, 10,439,974 common shares were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)***(in thousands, except par value)*

| | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 87,427 | \$ 97,098 |
| Receivables, less allowance for doubtful accounts of \$683 in 2015 and \$1,374 in 2014 | 46,662 | 54,863 |
| Inventories | 62,267 | 54,713 |
| Insurance receivables asbestos | 17,000 | 17,000 |
| Other current assets | 9,871 | 8,582 |
| Total current assets | 223,227 | 232,256 |
| Property, plant and equipment, net | 148,084 | 149,839 |
| Insurance receivables asbestos | 113,034 | 123,651 |
| Deferred income tax assets | 17,891 | 20,055 |
| Investments in joint ventures | 3,582 | 3,914 |
| Other noncurrent assets | 7,257 | 6,694 |
| | \$ 513,075 | \$ 536,409 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,605 | \$ 16,721 |
| Accrued payrolls and employee benefits | 9,471 | 8,250 |
| Industrial Revenue Bond debt | 13,311 | 13,311 |
| Asbestos liability current portion | 21,000 | 21,000 |
| Other current liabilities | 21,322 | 22,208 |
| Total current liabilities | 80,709 | 81,490 |
| Employee benefit obligations | 73,172 | 81,216 |
| Asbestos liability | 154,037 | 168,048 |
| Other noncurrent liabilities | 453 | 507 |
| Total liabilities | 308,371 | 331,261 |
| Commitments and contingent liabilities (Note 6) | | |

Shareholders' equity:

| | | |
|---|----------------|----------------|
| Common stock - par value \$1; authorized 20,000 shares; issued and outstanding 10,440 shares in 2015 and 10,426 shares in 2014 | 10,440 | 10,426 |
| Additional paid-in capital | 128,521 | 127,526 |
| Retained earnings | 128,306 | 135,949 |
| Accumulated other comprehensive loss | (62,563) | (68,753) |
| Total shareholders' equity | 204,704 | 205,148 |
| | \$ 513,075 | \$ 536,409 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)***(in thousands, except per share amounts)*

| | Three Months Ended September 30, | | One Months Ended September 30, | |
|---|----------------------------------|-----------|--------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$ 58,094 | \$ 65,409 | \$ 183,154 | \$ 198,270 |
| Operating costs and expenses: | | | | |
| Costs of products sold (excluding depreciation) | 48,655 | 53,244 | 148,896 | 158,715 |
| Selling and administrative | 8,743 | 8,950 | 27,314 | 27,424 |
| Depreciation and amortization | 3,044 | 2,941 | 9,275 | 9,007 |
| Loss on disposal of assets | 9 | 232 | 330 | 287 |
| Total operating expenses | 60,451 | 65,367 | 185,815 | 195,433 |
| (Loss) income from operations | (2,357) | 42 | (2,661) | 2,837 |
| Other income (expense): | | | | |
| Investment-related income | 45 | 38 | 132 | 125 |
| Interest expense | (51) | (61) | (162) | (169) |
| Other net | 4 | (395) | (181) | (344) |
| | (2) | (418) | (211) | (388) |
| (Loss) income before income taxes and equity losses | | | | |
| in Chinese joint venture | (2,359) | (376) | (2,872) | 2,449 |
| Income tax benefit (expense) | 959 | 178 | 1,152 | (773) |
| Equity losses in Chinese joint venture | (111) | (145) | (239) | (820) |
| Net (loss) income | \$ (1,511) | \$ (343) | \$ (1,959) | \$ 856 |
| Net (loss) income per common share: | | | | |
| Basic | \$ (0.14) | \$ (0.03) | \$ (0.19) | \$ 0.08 |
| Diluted | \$ (0.14) | \$ (0.03) | \$ (0.19) | \$ 0.08 |
| Cash dividends declared per share | \$ 0.18 | \$ 0.18 | \$ 0.54 | \$ 0.54 |
| Weighted average number of common shares | | | | |
| outstanding: | | | | |
| Basic | 10,440 | 10,424 | 10,433 | 10,398 |

| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 10,440 | 10,424 | 10,433 | 10,448 |
|---------|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(UNAUDITED)***(in thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------|---------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net (loss) income | \$ (1,511) | \$ (343) | \$ (1,959) | \$ 856 |
| Other comprehensive (loss) income, net of tax where applicable: | | | | |
| Adjustments for changes in: | | | | |
| Foreign currency translation | (2,217) | (4,066) | (2,065) | (1,945) |
| Unrecognized employee benefit costs (including effects of foreign currency translation) | 925 | 1,056 | 4,868 | 5,137 |
| Unrealized holding (losses) gains on marketable securities | (229) | (66) | (293) | 113 |
| Fair value of cash flow hedges | (173) | (72) | (325) | (180) |
| Reclassification adjustments for items included in net (loss) income: | | | | |
| Amortization of unrecognized employee benefit costs | 933 | 827 | 3,769 | 2,612 |
| Realized (gains) from sale of marketable securities | (63) | (24) | (64) | (59) |
| Realized losses (gains) from settlement of cash flow hedges | 85 | (13) | 300 | 55 |
| Other comprehensive (loss) income | (739) | (2,358) | 6,190 | 5,733 |
| Comprehensive (loss) income | \$ (2,250) | \$ (2,701) | \$ 4,231 | \$ 6,589 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)***(in thousands)*

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------|
| | 2015 | 2014 |
| Net cash flows provided by operating activities | \$ 8,494 | \$ 9,694 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (7,170) | (10,217) |
| Purchase of Alloys Unlimited and Processing (Note 14) | (5,000) | 0 |
| Purchases of long-term marketable securities | (557) | (667) |
| Proceeds from sale of long-term marketable securities | 607 | 603 |
| Other | 18 | 185 |
| Net cash flows used in investing activities | (12,102) | (10,096) |
| Cash flows from financing activities: | | |
| Dividends paid | (5,632) | (5,613) |
| Proceeds from the issuance of common stock | 0 | 581 |
| Excess tax benefits from the exercise of stock options | 0 | 60 |
| Net cash flows used in financing activities | (5,632) | (4,972) |
| Effect of exchange rate changes on cash and cash equivalents | (431) | (563) |
| Net decrease in cash and cash equivalents | (9,671) | (5,937) |
| Cash and cash equivalents at beginning of period | 97,098 | 97,910 |
| Cash and cash equivalents at end of period | \$ 87,427 | \$ 91,973 |
| Supplemental information: | | |
| Income tax payments | \$ 3,199 | \$ 3,406 |
| Interest payments | \$ 161 | \$ 169 |
| Non-cash investing activities: | | |
| Purchases of property, plant and equipment included in accounts payable | \$ 562 | \$ 694 |

See Notes to Condensed Consolidated Financial Statements.

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AMPCO-PITTSBURGH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except claim amounts)

1. Unaudited Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of September 30, 2015 and the condensed consolidated statements of operations and comprehensive (loss) income for the three and nine months ended September 30, 2015 and 2014 and condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 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 nine months ended September 30, 2015 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 have been condensed or omitted.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a common revenue standard for U.S. GAAP and IFRS. The guidance 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. It requires companies to apply a five-step model when recognizing revenue relating to the transfer of goods or services to customers in an amount that reflects the consideration that the company expects to be entitled to receive for those goods and services. It also requires comprehensive disclosures regarding revenue recognition. The guidance becomes effective January 1, 2018. The Corporation is currently evaluating the impact that the guidance will have on its financial position, operating results and liquidity.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which revises the measurement of inventory at the lower of cost or market. Currently, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. In accordance with ASU 2015-11, an entity will measure inventory at the lower of cost and net realizable value which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The amendment does not apply to inventory that is measured using last-in, first out (LIFO) or the retail inventory method. The guidance becomes effective January 1, 2017 with earlier application permitted. The Corporation does not expect that the guidance will have a significant impact on its financial position, operating results and liquidity.

2. Inventories

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At September 30, 2015 and December 31, 2014, approximately 60% and 52%, respectively, of the inventories were valued on the LIFO method with the remaining inventories valued on the FIFO method. Inventories were comprised of the following:

| | September 30, 2015 | December 31, 2014 |
|-----------------|-----------------------|----------------------|
| Raw materials | \$ 17,629 | \$ 15,076 |
| Work-in-process | 24,553 | 20,544 |
| Finished goods | 9,919 | 8,201 |
| Supplies | 10,166 | 10,892 |
| | \$ 62,267 | \$ 54,713 |

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3. Property, Plant and Equipment

Property, pl