AMPCO PITTSBURGH CORP
Form 10-Q
May 10, 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 March 31, 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 May 3, 2018, 12,362,198 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)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$22,954	$20,700
Receivables, less allowance for doubtful accounts of $979 in 2018 and $962 in 2017	90,949	86,623
Inventories	118,180	107,561
Insurance receivable – asbestos	13,000	13,000
Other current assets	13,154	12,363
Total current assets	258,237	240,247
Property, plant and equipment, net	212,959	214,980
Insurance receivable – asbestos	82,388	87,342
Deferred income tax assets	3,186	1,590
Investments in joint ventures	2,175	2,175
Intangible assets, net	10,742	11,021
Other noncurrent assets	8,041	8,244
Total assets	$577,728	$565,599
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$52,642	$47,479
Accrued payrolls and employee benefits	19,810	22,768
Debt – current portion	45,225	19,335
Asbestos liability – current portion	18,000	18,000
Other current liabilities	34,576	37,089
Total current liabilities	170,253	144,671
Employee benefit obligations	77,430	79,750
Asbestos liability	124,869	131,750
Long-term debt	37,447	46,818
Deferred income tax liabilities	228	433
Other noncurrent liabilities	2,215	416
Total liabilities	412,442	403,838
Commitments and contingent liabilities (Note 8)		
Shareholders' equity:		
Common stock – par value $1; authorized 20,000 shares; issued and outstanding	12,362	12,361

12,362 shares in 2018 and 12,361 shares in 2017		
Additional paid-in capital	153,435	152,992
Retained earnings	39,921	38,348
Accumulated other comprehensive loss	(43,851)	(44,760)
Total Ampco-Pittsburgh shareholders’ equity	161,867	158,941
Noncontrolling interest	3,419	2,820
Total shareholders’ equity	165,286	161,761
Total liabilities and shareholders’ equity	$577,728	$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 March 31,	
	2018	2017
Net sales	$115,077	$103,516
Operating costs and expenses:		
Costs of products sold (excluding depreciation and amortization)	94,757	84,781
Selling and administrative	15,473	15,377
Depreciation and amortization	5,905	5,922
Loss on disposition of assets	45	0
Total operating expenses	116,180	106,080
Loss from operations	(1,103)	(2,564)
Other income (expense):		
Investment-related income	24	49
Interest expense	(873)	(1,177)
Other – net	2,900	(885)
	2,051	(2,013)
Income (loss) before income taxes and equity income in joint venture	948	(4,577)
Income tax benefit (provision)	441	(135)
Equity income in joint venture	0	50
Net income (loss)	1,389	(4,662)
Less: Net income attributable to noncontrolling interest	448	121
Net income (loss) attributable to Ampco-Pittsburgh shareholders	$941	$(4,783)
Net income (loss) per common share attributable to Ampco-Pittsburgh:		
Basic	$0.08	$(0.39)
Diluted	$0.08	$(0.39)
Cash dividends declared per share	$0.00	$0.09
Weighted average number of common shares outstanding:		
Basic	12,362	12,271
Diluted	12,379	12,271

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income (loss)	$1,389	$(4,662)
Other comprehensive income, net of income tax where applicable:		
Adjustments for changes in:		
Foreign currency translation	2,498	2,252
Unrecognized employee benefit costs (including effects of foreign currency translation)	(413)	(255)
Unrealized holding gains on marketable securities	0	185
Fair value of cash flow hedges	(315)	224
Reclassification adjustments for items included in net income (loss):		
Amortization of unrecognized employee benefit costs	130	733
Realized gains from sale of marketable securities	0	(6)
Realized gains from settlement of cash flow hedges	(209)	(155)
Other comprehensive income	1,691	2,978
Comprehensive income (loss)	3,080	(1,684)
Less: Comprehensive income attributable to noncontrolling interest	599	124
Comprehensive income (loss) attributable to Ampco-Pittsburgh	$2,481	$(1,808)

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three Months Ended March 31, 2018	2017
Net cash flows used in operating activities	$(10,852)	$(5,489)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,949)	(3,126)
Purchases of long-term marketable securities	(89)	(20)
Proceeds from sale of long-term marketable securities	128	85
Net cash flows used in investing activities	(2,910)	(3,061)
Cash flows from financing activities:		
Dividends paid	0	(1,104)
Repayment of debt	(178)	(932)
Proceeds from Revolving Credit and Security Agreement (Note 7)	16,052	0
Proceeds from credit facility	0	8,795
Payments on credit facility	0	(15,941)
Net cash flows provided by (used in) financing activities	15,874	(9,182)
Effect of exchange rate changes on cash and cash equivalents	142	174
Net increase (decrease) in cash and cash equivalents	2,254	(17,558)
Cash and cash equivalents at beginning of period	20,700	38,579
Cash and cash equivalents at end of period	$22,954	$21,021
Supplemental information:		
Income tax payments	$82	$202
Interest payments	$240	$721
Non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	$737	$344

See Notes to Condensed Consolidated Financial Statements.

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 March 31, 2018, and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the three months ended March 31, 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 months ended March 31, 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 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, of which there have been none. 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 for 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 impact of the retrospective guidance was an increase to loss from operations and a decrease to other – net within other income (expense) of $197 for the three months ended March 31, 2017. The guidance did not affect the Corporation's financial position or liquidity.

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 2016, April 2016, March 2016 and May 2014, the FASB issued ASUs 2016-12, 2016-10, 2016-08 and 2014-09, respectively, Revenue from Contracts with Customers (Topic 606), which outline a single comprehensive model for companies to use in accounting for revenue from contracts with customers and supersede most previous revenue recognition guidance. 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. The core principle of Topic 606 is for a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This core principle is supported by a five-step model. 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 January 1, 2018 retained earnings 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 14 for the additional disclosures. In connection with the adoption of ASC 606, the Corporation elected to use the following practical expedients:

- to not adjust the promised amount of consideration for the effects of a significant financing component when the Corporation expects, at contract inception, that the period between the Corporation's transfer of a promised product to a customer and the customer's payment for that good will be one year or less;
- to exclude from the transaction price any amounts collected from customers for sales and similar taxes;

- to treat incremental costs of obtaining a contract as expense, when incurred, if the amortization period would have been one year or less;
- to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations;
- to apply the new revenue standard to a portfolio of contracts (or performance obligations) with similar characteristics if the Corporation reasonably expects that the effects on the financial statements of applying the guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within that portfolio; and
- to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

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 March 31, 2018, and December 31, 2017, approximately 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:

	March 31, 2018	December 31, 2017
Raw materials	$ 24,106	$ 24,249
Work-in-process	46,987	42,840
Finished goods	28,542	24,083
Supplies	18,545	16,389
Inventories	$ 118,180	$ 107,561

3. Property, Plant and Equipment

Property, plant and equipment were comprised of the following:

	March 31, 2018	December 31, 2017
Land and land improvements	$12,140	$12,172
Buildings	68,845	68,572
Machinery and equipment	343,236	340,396
Construction-in-process	5,908	5,019
Other	7,204	7,193
	437,333	433,352
Accumulated depreciation and amortization	(224,374)	(218,372)
Property, plant and equipment, net	$212,959	$214,980

The majority of the assets of the Corporation, except real property including the land and building of Union Electric Steel UK Limited (“UES-UK”), is pledged as collateral for the Corporation’s Revolving Credit and Security Agreement (Note 7). Land and buildings of UES-UK, equal to approximately $2,939 (£2,098) at March 31, 2018, are held as collateral by the trustees of the UES-UK defined benefit pension plan (see Note 6). The gross value of assets under capital lease and the related accumulated amortization as of March 31, 2018, approximated $3,907 and $956, respectively, and at December 31, 2017, approximated $4,082 and $1,101, respectively.

4. Intangible Assets

Intangible assets were comprised of the following:

	March 31, 2018	December 31, 2017
Customer relationships	$6,560	$ 6,543
Developed technology	4,438	4,429
Trade name	2,705	2,696
	13,703	13,668
Accumulated amortization	(2,961)	(2,647)
Intangible assets, net	$10,742	$ 11,021

Movement in foreign currency exchange rates used to translate intangible assets from local currency to the U.S. dollar changed the gross value of intangible assets between the periods. Amortization expense for the three months ended March 31, 2018, and 2017, was $314 and $298, respectively.

5. Other Current Liabilities

Other current liabilities were comprised of the following:

	March 31, 2018	December 31, 2017
Customer-related liabilities	$17,830	$ 18,512
Accrued interest payable	2,863	2,697
Accrued sales commissions	2,348	2,301
Other	11,535	13,579
Other current liabilities	$34,576	$ 37,089

Included in customer-related liabilities are costs expected to be incurred with respect to product warranties and customer deposits. Changes in the liability for product warranty claims consisted of the following:

	Three Months Ended March 31, 2018	2017
Balance at beginning of the period	$ 11,702	$ 11,521
Satisfaction of warranty claims	(597)	(870)
Provision for warranty claims	1,013	1,019
Reversal of unneeded provision for warranty claims	(1,240)	0
Other, primarily impact from changes in foreign currency exchange rates	27	78
Balance at end of the period	$ 10,905	$ 11,748

The liability for customer deposits is reversed when the Corporation satisfies its performance o