CORE MOLDING TECHNOLOGIES INC
Form 10-Q
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ 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
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, 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 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 þ No o
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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	Emerging growth company o

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. o
Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes o No þ
As of August 8, 2018, the latest practicable date, 7,990,443 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 Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales:				
Products	$65,225,000	$36,794,000	$124,937,000	$73,130,000
Tooling	3,376,000	10,574,000	6,710,000	10,984,000
Total net sales	68,601,000	47,368,000	131,647,000	84,114,000
Total cost of sales	60,704,000	40,027,000	115,864,000	70,296,000
Gross margin	7,897,000	7,341,000	15,783,000	13,818,000
Total selling, general and administrative expense	6,479,000	4,168,000	13,239,000	8,093,000
Operating Income	1,418,000	3,173,000	2,544,000	5,725,000
Other income and expense				
Interest expense	624,000	65,000	1,073,000	129,000
Net periodic post-retirement benefit cost	(12,000)	(12,000)	(24,000)	(24,000)
Total other income and expense	612,000	53,000	1,049,000	105,000
Income before taxes	806,000	3,120,000	1,495,000	5,620,000
Income tax expense	361,000	958,000	532,000	1,772,000
Net income	$445,000	$2,162,000	$963,000	$3,848,000
Net income per common share:				
Basic	$0.06	$0.28	$0.12	$0.50
Diluted	$0.06	$0.28	$0.12	$0.50
Weighted average shares outstanding:				
Basic	7,743,000	7,687,000	7,727,000	7,669,000
Diluted	7,800,000	7,752,000	7,800,000	7,730,000

See notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$445,000	$2,162,000	$963,000	$3,848,000
Other comprehensive income (loss):				
Foreign currency hedging derivatives:				
Unrealized hedge (loss) gain	(1,092,000)	134,000	(348,000)	796,000
Income tax benefit (expense)	200,000	(46,000)	47,000	(271,000)
Interest rate swaps:				
Adjustment for amortization of losses included in net income	224,000	—	248,000	—
Income tax expense	(50,000)	—	(57,000)	—
Post retirement benefit plan adjustments:				
Net actuarial loss	43,000	38,000	86,000	75,000
Prior service costs	(124,000)	(124,000)	(248,000)	(248,000)
Income tax benefit	17,000	25,000	34,000	52,000
Comprehensive income (loss)	$(337,000)	$2,189,000	$725,000	$4,252,000

See notes to unaudited consolidated financial statements.

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Core Molding Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 2018 (Unaudited)	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	$—	$26,780,000
Accounts receivable, net	38,601,000	19,846,000
Inventory, net	19,683,000	13,459,000
Prepaid expenses and other current assets	8,382,000	4,870,000
Total current assets	66,666,000	64,955,000
Property, plant and equipment, net	81,609,000	68,631,000
Goodwill	22,957,000	2,403,000
Intangibles, net	17,148,000	513,000
Other non-current assets	2,125,000	2,076,000
Total Assets	$190,505,000	$138,578,000
Liabilities and Stockholders' Equity:		
Current liabilities:		
Revolving line of credit	$784,000	$—
Current portion of long-term debt	3,230,000	3,000,000
Accounts payable	24,883,000	13,850,000
Compensation and related benefits	5,075,000	3,524,000
Accrued other liabilities	5,210,000	4,212,000
Total current liabilities	39,182,000	24,586,000
Long-term debt	39,401,000	3,750,000
Deferred tax liability	395,000	395,000
Post retirement benefits liability	7,912,000	7,954,000
Total Liabilities	$86,890,000	$36,685,000
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock — $0.01 par value, authorized shares — 10,000,000; no shares outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock — $0.01 par value, authorized shares – 20,000,000; outstanding shares: 7,771,415 at June 30, 2018 and 7,711,277 December 31, 2017	78,000	77,000
Paid-in capital	32,434,000	31,465,000
Accumulated other comprehensive income, net of income taxes	1,832,000	2,070,000
Treasury stock - at cost, 3,790,308 at June 30, 2018 and 3,773,128 at December 31, 2017	(28,403,000)	(28,153,000)
Retained earnings	97,674,000	96,434,000
Total Stockholders' Equity	103,615,000	101,893,000
Total Liabilities and Stockholders' Equity	$190,505,000	$138,578,000

See notes to unaudited consolidated financial statements.

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

	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Paid-In Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2017, as previously reported	7,711,277	$77,000	$31,465,000	$2,070,000	$(28,153,000)	$96,434,000	$101,893,000
Impact of change in accounting policy (See Note 2)						1,069,000	1,069,000
Balance at January 1, 2018	7,711,277	$77,000	$31,465,000	$2,070,000	$(28,153,000)	$97,503,000	$102,962,000
Net income						963,000	963,000
Cash dividends paid						(792,000)	(792,000)
Change in post retirement benefits, net of tax benefit of $34,000				(128,000)			(128,000)
Unrealized foreign currency hedge loss, net of tax of $47,000				(301,000)			(301,000)
Change in interest rate swaps, net of tax of $57,000				191,000			191,000
Purchase of treasury stock	(17,180)				(250,000)		(250,000)
Restricted stock vested	77,318	1,000					1,000
Share-based compensation			969,000				969,000
Balance at June 30, 2018	7,771,415	$78,000	$32,434,000	$1,832,000	$(28,403,000)	$97,674,000	$103,615,000

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$963,000	$3,848,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,701,000	3,209,000
Share-based compensation	969,000	790,000
Loss on foreign currency translation	(5,000)	(1,000)
Change in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(12,463,000)	(3,163,000)
Inventories	700,000	(1,163,000)
Prepaid and other assets	(1,644,000)	(304,000)
Accounts payable	8,878,000	2,756,000
Accrued and other liabilities	1,664,000	290,000
Post retirement benefits liability	(205,000)	(232,000)
Net cash provided by operating activities	3,558,000	6,030,000
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,428,000)	(1,381,000)
Purchase of assets of Horizon Plastics	(62,457,000)	—
Net cash used in investing activities	(65,885,000)	(1,381,000)
Cash flows from financing activities:		
Gross repayments on revolving line of credit	(46,514,000)	—
Gross borrowings on revolving line of credit	47,298,000	—
Proceeds from term loan	45,000,000	
Payment of principal on term loans	(8,438,000)	(1,500,000)
Payment of deferred loan costs	(757,000)	—
Cash dividends paid	(792,000)	—
Payments related to the purchase of treasury stock	(250,000)	(372,000)
Net cash provided by (used in) financing activities	35,547,000	(1,872,000)
Net change in cash and cash equivalents	(26,780,000)	2,777,000
Cash and cash equivalents at beginning of period	26,780,000	28,285,000
Cash and cash equivalents at end of period	$—	$31,062,000
Cash paid for:		
Interest (net of amounts capitalized)	$1,022,000	$129,000
Income taxes	$520,000	$2,212,000
Non Cash:		
Fixed asset purchases in accounts payable	$574,000	$158,000

See notes to unaudited consolidated financial statements.

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Core Molding Technologies, Inc. and Subsidiaries
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 June 30, 2018, and the results of operations and cash flows for the six months ended June 30, 2018. The Company has reclassified certain prior-year amounts to confirm to the current-year's presentation. The "Notes to Consolidated Financial Statements" contained in the Company's 2017 Annual Report to Shareholders, should be read in conjunction with these consolidated financial statements.

Core Molding Technologies is a manufacturer of sheet molding compound ("SMC") and molder of thermoset and thermoplastic products. The Company produces high quality molded products, assemblies and SMC materials for varied markets, including medium and heavy-duty trucks, automotive, marine, home improvement, water management, agriculture, construction and other commercial markets. The Company offers customers a wide range of manufacturing processes to fit various program volume and investment requirements. These processes include compression molding of SMC, bulk molding compounds (BMC), resin transfer molding (RTM), liquid molding of dicyclopentadiene (DCPD), spray-up and hand-lay-up, glass mat thermoplastics (GMT), direct long-fiber thermoplastics (D-LFT) and structural foam and web injection molding. Core Molding Technologies has its headquarters in Columbus, Ohio, and operates production facilities in Columbus and Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota; Matamoros and Escobedo, Mexico; and Cobourg, Ontario, Canada.

2. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition: The Company historically has recognized revenue from two streams, product revenue and tooling revenue. Product revenue is earned from the manufacture and sale of sheet molding compound and thermoset and thermoplastic products. Revenue from product sales is generally recognized as products are shipped, as the Company transfers title and risk of ownership to the customer and is entitled to payment upon shipment. In limited circumstances, the Company recognizes revenue from product sales when products are produced and the customer takes title and risk of ownership at our production facility.

Tooling revenue is earned from manufacturing multiple tools, molds and assembly equipment as part of a tooling program for a customer. Given that the Company is providing a significant service of producing highly interdependent component parts of the tooling program, each tooling program consists of a single performance obligation to provide the customer the capability to produce a single product. Based on the arrangement with the customer, the Company recognizes revenue either at a point in time or over time. When the Company does not have an enforceable right to payment, the Company recognizes tooling revenue at a point in time. In such cases, the Company recognizes revenue upon customer acceptance, which is when the customer has legal title to the tools. The Company historically recognized all tooling revenue at a point in time, upon customer acceptance, before the adoption of ASU 2014-09. Certain tooling programs include an enforceable right to payment. In those cases, the Company recognizes revenue over time based on the extent of progress towards completion of its performance obligation. The Company uses a cost-to-cost measure of progress for such contracts because it best depicts the transfer of value to the customer and also correlates with the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Under the cost-to-cost measure of progress, progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Income taxes: The Company’s consolidated balance sheets include a net non-current deferred tax liability of $395,000 at June 30, 2018 and December 31, 2017. The Company evaluates the balance of deferred tax assets that will be realized based on the premise that the Company is more likely than not to realize deferred tax benefits through the generation of future taxable income. For more information, refer to Note 11 of the Notes to Consolidated Financial Statements contained in the Company's 2017 Annual Report to Shareholders on Form 10-K.

Accounts receivable allowances: Management maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company recorded an allowance for doubtful accounts of $10,000 and zero at June 30, 2018 and December 31, 2017, respectively. Management also records estimates for chargebacks for customer returns and deductions, discounts offered to customers, and price adjustments. Should customer chargebacks fluctuate from the estimated amounts, additional allowances may be required. The Company reduced accounts receivable for chargebacks by $1,860,000 at June 30, 2018 and $857,000 at December 31, 2017.

Inventories: Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or net realizable value. The inventories are accounted for using the first-in, first-out (FIFO) method of determining inventory costs. Inventory quantities on-hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based on historical and anticipated usage. The Company has recorded an allowance for slow moving and obsolete inventory of $988,000 at June 30, 2018 and $624,000 at December 31, 2017.

Contract Assets/Liabilities: Contract assets and liabilities represent the net cumulative customer billings, vendor payments and revenue recognized for tooling programs. For tooling programs where net revenue recognized and vendor payments exceed customer billings, the Company recognizes a contract asset. For tooling programs where net customer billings exceed revenue recognized and vendor payments, the Company recognizes a contract liability. Customer payment terms vary by contract and can range from progress payments based on work performed or one single payment once the contract is completed. Contract assets are generally classified as current. The Company has recorded contract assets in prepaid expenses and other current assets on the Consolidated Balance Sheet. During the six months ended June 30, 2018, the Company recognized no impairments on contract assets. Contract liabilities are also generally classified as current. The Company has recorded contract liabilities in other current liabilities on the Consolidated Balance Sheet. For the six months ended June 30, 2018, the Company recognized revenue of $561,000 related to contract liabilities.

Derivative instruments: Derivative instruments are utilized to manage exposure to fluctuations in foreign currency exchange rates and interest rates. All derivative instruments are formally documented as cash flow hedges and are recorded at fair value at each reporting period. Gains and losses related to currency forward contracts and interest rate swaps are deferred and recorded as a component of Accumulated Other Comprehensive Income in the Consolidated Statement of Stockholders' Equity and then subsequently recognized in the Consolidated Statement of Income when the hedged item affects net income. The ineffective portion of the change in fair value of a hedge, if any, is recognized in income immediately. For additional information on derivative instruments, see Note 14.

Long-Lived Assets: Long-lived assets consist primarily of property, plant and equipment and definite-lived intangibles. The recoverability of long-lived assets is evaluated by an analysis of operating results and consideration of other significant events or changes in the business environment. The Company evaluates whether impairment exists for property, plant and equipment on the basis of undiscounted expected future cash flows from operations before interest. There was no impairment of the Company's long-lived assets for the six months ended June 30, 2018 or June 30, 2017.

Goodwill and Other Intangibles: The Company evaluates goodwill annually on December 31st to determine whether impairment exists, or at interim periods if an indicator of possible impairment exists. The Company evaluates goodwill for impairment utilizing the one-step qualitative assessment. The Company considers relevant events and circumstances that affect the fair value or carrying amount of the Company. Such events and circumstances could include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, entity specific events and capital markets pricing. The Company places more weight on the events and circumstances that most affect the Company's fair value or carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform the first step of the impairment test.

If the Company's fair value is determined to be more likely than not impaired based on the one-step qualitative approach, a quantitative valuation to estimate the fair value of the Company is performed. Fair value measurements are based on a projected discounted cash flow valuation model, in accordance with ASC 350, “Intangibles-Goodwill and Other.”

There was no impairment of the Company's goodwill for the year ended December 31, 2017, and no indicators of impairment for the six months ended June 30, 2018.

Self-Insurance: The Company is self-insured with respect to its Columbus and Batavia, Ohio, Gaffney, South Carolina, Winona, Minnesota and Brownsville, Texas medical, dental and vision claims and Columbus and Batavia, Ohio workers' compensation claims, all of which are subject to stop-loss insurance thresholds. The Company is also self-insured for dental and vision with respect to its Cobourg, Canada location. The Company has recorded an estimated liability for self-insured medical, dental, vision and worker's compensation claims incurred but not reported at June 30, 2018 and December 31, 2017 of $998,000 and $862,000, respectively.

Post-retirement benefits: Management records an accrual for post-retirement costs associated with the health care plan sponsored by Core Molding Technologies. Should actual results differ from the assumptions used to determine the reserves, additional provisions may be required. In particular, increases in future healthcare costs above the assumptions could have an adverse effect on Core Molding Technologies' operations. The effect of a change in healthcare costs is described in Note 12 of the Notes to Consolidated Financial Statements contained in the Company's 2017 Annual Report to Shareholders on Form 10-K. Core Molding Technologies had a liability for post retirement healthcare benefits based on actuarially computed estimates of $9,008,000 at June 30, 2018 and $9,050,000 at December 31, 2017.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASC Topic 606 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date for ASC Topic 606, as updated by ASU No. 2015-14, is the first quarter of fiscal year 2018. ASU 2014-09 affects the timing of certain revenue-related transactions primarily resulting from the earlier recognition of the Company's tooling sales and costs. The Company adopted this update as required through a cumulative adjustment to equity and contract assets of $1,069,000 on January 1, 2018. The transitional practical expedient related to contract modifications has been applied and the Company has not retrospectively restated contracts that were modified prior to January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. See Note 2, Critical Accounting Policies and Estimates, for the Company's policy on Revenue Recognition and Note 16, Changes in Accounting Policies, for further discussion on the effect of the adoption of ASC Topic 606 on the Company's Consolidated Financial Statements.

In March 2017, FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). The amendments in this update require that an employer disaggregate the service cost component from the other components of net periodic cost (benefit) and report that component in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic cost (benefit) are required to be presented in the statement of operations separately from the service cost component and outside of operating earnings. The amendment also allows for the service cost component of net periodic cost (benefit) to be eligible for capitalization when applicable. The guidance was effective for the Company on January 1, 2018 and interim periods within that reporting period. The income statement presentation of the components of net periodic cost (benefit) was applied retrospectively, while limiting the capitalization of net periodic cost (benefit) in assets to the service cost component was applied prospectively. The Company adopted this standard update as required on January 1, 2018 and the impact of adoption resulted in a reclassification of all components of net periodic benefit from operating earnings to other income in the amount of $12,000 for the three months ended June 30, 2018 and 2017, respectively, and $24,000 for the six months ended June 30, 2018 and 2017, respectively.

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4. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$445,000	$2,162,000	$963,000	$3,848,000
Weighted average common shares outstanding — basic	7,743,000	7,687,000	7,727,000	7,669,000
Effect of dilutive securities	57,000	65,000	73,000	61,000
Weighted average common and potentially issuable common shares outstanding — diluted	7,800,000	7,752,000	7,800,000	7,730,000
Basic net income per common share	$0.06	$0.28	$0.12	$0.50
Diluted net income per common share	$0.06	$0.28	$0.12	$0.50

5. MAJOR CUSTOMERS

Core Molding Technologies has four major customers, Navistar, Inc. (“Navistar”), Volvo Group North America, LLC (“Volvo”), PACCAR, Inc. (“PACCAR”) and Universal Forest Products, Inc. (“UFP”). 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 six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Navistar product sales	$12,866,000	$9,919,000	$23,817,000	$19,175,000
Navistar tooling sales	12,000	60,000	12,000	78,000
Total Navistar sales	12,878,000	9,979,000	23,829,000	19,253,000
Volvo product sales	11,988,000	7,548,000	22,185,000	12,783,000
Volvo tooling sales	43,000	7,548,000	43,000	7,579,000
Total Volvo sales	12,031,000	15,096,000	22,228,000	20,362,000
PACCAR product sales	8,537,000	6,391,000	15,300,000	11,852,000
PACCAR tooling sales	2,860,000	2,692,000	6,063,000	2,882,000
Total PACCAR sales	11,397,000	9,083,000	21,363,000	14,734,000
UFP product sales	8,450,000	—	14,049,000	—
UFP tooling sales	—	—	—	—
Total UFP sales	8,450,000	—	14,049,000	—
Other product sales	23,384,000	12,936,000	49,586,000	29,320,000
Other tooling sales	461,000	274,000	592,000	445,000
Total other sales	23,845,000	13,210,000	50,178,000	29,765,000
Total product sales	65,225,000	36,794,000	124,937,000	73,130,000

Total tooling sales	3,376,000	10,574,000	6,710,000	10,984,000
Total sales	$68,601,000	$47,368,000	$131,647,000	$84,114,000

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6. INVENTORY

Inventories, which include material, labor and manufacturing overhead, are valued at the lower of cost or market. The inventories are accounted for using the first-in, first-out (FIFO) method of determining inventory costs. Inventories consisted of the following:

	June 30, 2018	December 31, 2017
Raw materials	$13,984,000	$8,450,000
Work in process	1,235,000	2,061,000
Finished goods	4,464,000	2,948,000
	$19,683,000	$13,459,000

Inventory quantities on-hand are regularly reviewed, and where necessary, provisions for excess and obsolete inventory are recorded based on historical and anticipated usage.

7. PROPERTY, PLANT & EQUIPMENT

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

	June 30, 2018	December 31, 2017
Property, plant and equipment	$161,476,000	$144,849,000
Accumulated depreciation	(79,867,000)	(76,218,000)
Property, plant and equipment — net	$81,609,000	$68,631,000

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. Preliminary estimated fair value amount of $12,994,000 is included in the above table associated with the January 16, 2018 acquisition of Horizon Plastics. These amounts are preliminary, pending finalization of the fair value valuation reports. 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 $4,454,000 and $3,045,000 at June 30, 2018 and December 31, 2017, respectively. At June 30, 2018 and December 31, 2017, purchase commitments for capital expenditures in progress were $1,916,000 and $1,071,000, respectively.

8. HORIZON PLASTICS ACQUISITION

On January 16, 2018, the Company entered into an Asset Purchase Agreement (the "Agreement") with Horizon Plastics International Inc., 1541689 Ontario Inc., 2551024 Ontario Inc. and Horizon Plastics de Mexico, S.A. de C.V. (collectively "Horizon Plastics"). Pursuant to the terms of the Agreement the Company acquired substantially all of the assets and assumed certain specified liabilities of Horizon Plastics for a cash purchase of $62,457,000, subject to a working capital closing adjustment and other customary holdbacks, which are still pending.

The acquisition was funded through a combination of cash on hand and borrowings under the Amended and Restated Credit Agreement ("A/R Credit Agreement"), further described in Note 11, entered into with KeyBank National Association as administrative agent and various other financial institutions on January 16, 2018.

The purpose of the acquisition was to increase the Company's process capabilities to include structural foam and structural web molding, expand its geographical footprint, and diversify the Company's customer base.

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

Accounts Receivable	$7,655,000
Inventory	6,567,000
Other Current Assets	642,000
Property and Equipment	12,994,000
Intangibles	17,520,000
Goodwill	20,554,000
Accounts Payable	(3,181,000)
Other Current Liabilities	(294,000)
	$62,457,000

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 Company incurred $1,289,000 of expense for the six months ended June 30, 2018 associated with the acquisition, which is recorded in selling, general and administrative expense.

The amount preliminarily allocated to intangible assets has been attributed to the following categories and will be amortized over the useful lives of each individual asset identified on a straight-line basis as follows:

Acquired Intangible Assets	Estimated Fair Value	Estimated Useful Life (Years)
Non-competition Agreement	$1,910,000	5
Trademarks	1,610,000	25
Developed Technology	4,420,000	7
Customer Relationships	9,580,000	12
Total	$17,520,000	

The allocation of purchase price is preliminary and subject to completion upon obtaining the necessary remaining information, including (1) the identification and valuation of assets acquired and liabilities assumed, including intangible assets and related goodwill, and (2) the finalization of the opening balance sheet, including working capital settlements which are still pending. We have preliminarily valued the acquired assets and liabilities based on their estimated fair value. These estimates are subject to change as additional information becomes available. Any adjustments to the preliminary fair values will be made as such information becomes available and made within the customary measurement period.

Pro Forma Information

The unaudited pro forma information for the combined results of the Company has been prepared as if the 2018 acquisitions had taken place on January 1, 2017. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2017 and the unaudited pro forma information does not purport to be indicative of future financial operating results.

	Pro forma for the three months ended June 30,		Pro forma for the six months ended June 30,	
	2018	2017	2018	2017
Net revenue	$68,601,000	$62,971,000	$134,316,000	$116,318,000
Net income	543,000	3,270,000	1,773,000	6,181,000
Net income per common share:				
Basic	$0.07	$0.43	$0.23	$0.81

Diluted	$0.07	$0.42	$0.23	$0.80

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The unaudited pro forma net income includes the following adjustments that would have been recorded had the 2018 acquisition taken place on January 1, 2017.

	Pro forma for the three months ended June 30,		Pro forma for the six months ended June 30,	
	2018	2017	2018	2017
Depreciation expense	$—	$16,000	$55,000	$38,000
Amortization expense	—	469,000	78,000	938,000
Interest expense	(124,000)	468,000	(107,000)	937,000
Income tax expense (benefit)	$26,000	$(283,000)	$(14,000)	$(470,000)

The unaudited pro forma net income excludes non-recurring incremental transaction costs of $6,000 and $1,289,000 directly attributable to the transaction for the three and six months ended June 30, 2018.

9. GOODWILL AND INTANGIBLES

Goodwill activity for the six months ended June 30, 2018 consisted of the following:

Balance at December 31, 2017	$2,403,000
Additions	20,554,000
Impairment	—
Balance at June 30, 2018	$22,957,000

Intangible assets at June 30, 2018 were comprised of the following:

Definite-lived Intangible Assets	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	25	$250,000	$(33,000)	$217,000
Trademarks	25	1,610,000	(29,000)	1,581,000
Non-competition Agreement	5	1,910,000	(175,000)	1,735,000
Developed Technology	7	4,420,000	(289,000)	4,131,000
Customer Relationships	10-12	9,980,000	(496,000)	9,484,000
		$18,170,000	$(1,022,000)	$17,148,000

The aggregate intangible asset amortization expense was $481,000 and $12,000 for the three months ended June 30, 2018 and 2017, respectively. The aggregate intangible asset amortization expense was $885,000 and $25,000 for the six months ended June 30, 2018 and 2017, respectively. Amounts included above related to the January 16, 2018 acquisition of Horizon Plastics are preliminary and subject to change as the Company finalizes valuation studies.

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10. POST RETIREMENT BENEFITS

The components of expense for Core Molding Technologies' post-retirement benefit plans for the three and six months ended June 30, 2018 and 2017 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Pension expense:				
Multi-employer plan	$185,000	$169,000	$363,000	$326,000
Defined contribution plan	286,000	188,000	545,000	395,000
Total pension expense	471,000	357,000	908,000	721,000
Health and life insurance:				
Interest cost	69,000	74,000	138,000	149,000
Amortization of prior service costs	(124,000)	(124,000)	(248,000)	(248,000)
Amortization of net loss	43,000	38,000	86,000	75,000
Net periodic benefit cost	(12,000)	(12,000)	(24,000)	(24,000)
Total post retirement benefits expense	$459,000	$345,000	$884,000	$697,000

The Company made payments of $618,000 to pension plans and $181,000 for post-retirement healthcare and life insurance during the six months ended June 30, 2018. For the remainder of 2018, the Company expects to make approximately $1,193,000 of pension plan payments, of which $601,000 was accrued at June 30, 2018. The Company also expects to make approximately $915,000 of post-retirement healthcare and life insurance payments for the remainder of 2018, all of which were accrued at June 30, 2018.

11. DEBT

Debt consists of the following:

	June 30, 2018	December 31, 2017
Term loan payable to Key Bank, interest at a variable rate (3.36% at December 31, 2017)	$—	$6,750,000
Term loans, interest at a variable rate (4.34% at June 30, 2018) with quarterly payments of interest and principal through January 2023	43,313,000	—
Revolving loans, interest at a variable rate (4.18% at June 30, 2018)	784,000	—
Total	44,097,000	6,750,000
Less deferred loan costs	(682,000)	—
Less current portion	(4,014,000)	(3,000,000)
Long-term debt	$39,401,000	$3,750,000

Credit Agreement

On January 16, 2018, the Company entered into an A/R Credit Agreement with KeyBank National Association as administrative agent and various financial institutions party thereto as lenders (the "Lenders"). Pursuant to the terms of the A/R Credit Agreement (i) the Company may borrow revolving loans in the aggregate principal amount of up to $40,000,000 (the "US Revolving Loans") from the Lenders and term loans in the aggregate principal amount of up to $32,000,000 from the Lenders, (ii) the Company's wholly-owned subsidiary, Horizon Plastics International, Inc., (the "Subsidiary") may borrow revolving loans in an aggregate principal amount of up to $10,000,000 from the Lenders (which revolving loans shall reduce the availability of the US Revolving Loans to the Company on a dollar-for-dollar basis) and term loans in an aggregate principal amount of up to $13,000,000 from the Lenders, (iii) the Company obtained a Letter of Credit Commitment of $250,000, of which $175,000 has been issued and (iv) the Company repaid the outstanding term loan balance of $6,750,000. The Credit Agreement is secured by a guarantee of each U.S. and Canadian subsidiary of the Company, and by a lien on substantially all of the present and future assets of the Company

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and its U.S. and Canadian subsidiaries, except that only 65% of the stock issued by Corecomposites de Mexico, S. de R.L. de C.V. has been pledged.

Concurrent with the closing of the A/R Credit Agreement the Company borrowed the $32,000,000 term loan and $2,000,000 from the US Revolving loan and the Subsidiary borrowed the $13,000,000 term loan and $2,500,000 from revolving loans to provide $49,500,000 of funding for the acquisition of Horizon Plastics. The basis point margin can range from 175 to 225 basis points based on the Company's leverage ratio and was set at 225 basis points as of June 30, 2018.

The Company has available $40,000,000 of variable rate revolving loans of which $784,000 is outstanding as of June 30, 2018. These revolving loans are scheduled to mature on January 1, 2022, but are classified as current on the balance sheet as the Company expects to pay the outstanding balance off within the next twelve months.

Bank Covenants

The Company is required to meet certain financial covenants included in the Credit Agreement with respect to leverage ratios and fixed charge ratios, as well as other customary affirmative and negative covenants. As of June 30, 2018, the Company was in compliance with its financial covenants associated with the loans made under the Credit Agreement as described above.

Interest Rate Swaps

The Company entered into two interest rate swap agreements that became effective January 18, 2018 and continue through January 2023, one of which was designated as a cash flow hedge for $25,000,000 of the $32,000,000 term loan to the Company mentioned above and the other designated as a cash flow hedge for $10,000,000 of the $13,000,000 term loan to the Subsidiary mentioned above. Under these agreements, the Company will pay a fixed rate of approximately 2.49% to the counterparty and receives one month LIBOR resulting in a total initial fixed rate of approximately 4.49% for both cash flow hedges. The fair value of the interest rate swap was an asset of $248,000 at June 30, 2018. While the Company is exposed to credit loss on its interest rate swaps in the event of non-performance by the counter party to the swap, management believes that such non-performance is unlikely to occur given the financial resources of the counter party.

12. INCOME TAXES

The Tax Cuts and Jobs Act (“the “Act”) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creates new taxes on certain foreign sourced earnings, provides for acceleration of business asset expensing, and reduces the amount of executive pay that may qualify as a tax deduction, among other changes. FASB ASC 740 requires the recognition of the effects of tax law changes in the period of enactment. However, due to the complexities of the new tax legislation, the SEC has issued SAB 118 which allows for the recognition of provisional amounts during a measurement period.

The Act's one-time transition tax calculation is complex, and as such our accounting for this item is provisional at this time. We have made a reasonable estimate of the effects of the one-time transition tax, and recognized this provisional amount in the fourth quarter of 2017. We have not made any measurement period adjustments related to our provisional estimates during the second quarter of 2018. We are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

The Company’s consolidated balance sheets include a net non-current deferred tax liability of $395,000 at June 30, 2018 and December 31, 2017. The Company evaluates the balance of deferred tax assets that will be realized based on the premise that the Company is more likely than not to realize deferred tax benefits through the generation of future taxable income. As of June 30, 2018 and December 31, 2017, the Company had no liability for unrecognized tax benefits. The Company does not anticipate that unrecognized tax benefits will significantly change within the next twelve months.
Income tax expense for the six months ended June 30, 2018 is estimated to be $532,000, or approximately 36% of income before income taxes. Income tax expense for the six months ended June 30, 2017 was estimated to be $1,772,000, or approximately 32% of income before income taxes.
The Compan