CORE MOLDING TECHNOLOGIES INC
Form 10-Q
November 10, 2014

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 September 30, 2014

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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 November 7, 2014, the latest practicable date, 7,670,449 shares of the registrant's common stock were issued and outstanding.

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Part I — Financial Information
Core Molding Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$1,360,000	$2,266,000
Accounts receivable (less allowance for doubtful accounts: September 30, 2014 - $229,000; December 31, 2013 - $141,000)	31,011,000	22,069,000
Inventories:		
Finished goods, net	1,500,000	1,739,000
Work in process, net	1,649,000	1,515,000
Stores, net	7,788,000	7,573,000
Total inventories, net	10,937,000	10,827,000
Deferred tax asset-current portion	1,615,000	1,615,000
Foreign sales tax receivable	1,472,000	1,324,000
Income taxes receivable	—	327,000
Prepaid expenses and other current assets	1,005,000	822,000
Total current assets	47,400,000	39,250,000
Property, plant and equipment — net	61,378,000	56,478,000
Deferred tax asset	296,000	296,000
Goodwill	1,097,000	1,097,000
Total Assets	$110,171,000	$97,121,000
Liabilities and Stockholders’ Equity:		
Current liabilities:		
Revolving line of credit	$6,365,000	$—
Current portion of long-term debt	1,714,000	3,314,000
Current portion of interest rate swaps	43,000	71,000
Accounts payable	9,309,000	9,625,000
Tooling in progress	2,042,000	334,000
Current portion of post retirement benefits liability	943,000	943,000
Accrued liabilities:		
Compensation and related benefits	6,513,000	5,952,000
Taxes	146,000	199,000
Other	1,212,000	943,000
Total current liabilities	28,287,000	21,381,000
Long-term debt	1,143,000	2,429,000
Interest rate swaps	7,000	32,000
Post retirement benefits liability	5,564,000	5,831,000
Total Liabilities	35,001,000	29,673,000
Commitments and Contingencies	—	—
Stockholders’ Equity:		

Preferred stock — $0.01 par value, authorized shares — 10,000,000; outstanding shares: 0 at September 30, 2014 and December 31, 2013	—	—
Common stock — $0.01 par value, authorized shares – 20,000,000; outstanding shares: 7,543,588 at September 30, 2014 and 7,318,773 at December 31, 2013	75,000	73,000
Paid-in capital	27,806,000	26,757,000
Accumulated other comprehensive income, net of income taxes	4,651,000	4,872,000
Treasury stock	(27,258,000)	(27,082,000)
Retained earnings	69,896,000	62,828,000
Total Stockholders' Equity	75,170,000	67,448,000
Total Liabilities and Stockholders' Equity	$110,171,000	$97,121,000

See notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales:				
Products	$43,171,000	$32,342,000	$127,152,000	$97,346,000
Tooling	420,000	5,092,000	3,638,000	9,131,000
Total net sales	43,591,000	37,434,000	130,790,000	106,477,000
Total cost of sales	35,444,000	31,064,000	108,399,000	88,228,000
Gross margin	8,147,000	6,370,000	22,391,000	18,249,000
Total selling, general and administrative expense	4,443,000	3,422,000	11,698,000	10,184,000
Income before interest and taxes	3,704,000	2,948,000	10,693,000	8,065,000
Interest expense	27,000	45,000	99,000	183,000
Income before income taxes	3,677,000	2,903,000	10,594,000	7,882,000
Income tax expense	1,249,000	943,000	3,526,000	2,652,000
Net income	$2,428,000	$1,960,000	$7,068,000	$5,230,000
Net income per common share:				
Basic	$0.32	$0.27	$0.94	$0.73
Diluted	$0.32	$0.26	$0.94	$0.71
Weighted average shares outstanding:				
Basic	7,540,000	7,257,000	7,492,000	7,186,000
Diluted	7,576,000	7,418,000	7,542,000	7,411,000

See notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$2,428,000	$1,960,000	$7,068,000	$5,230,000
Other comprehensive income:				
Interest rate swaps:				
Adjustment for amortization of losses included in net income	6,000	5,000	16,000	31,000
Income tax expense	(2,000)	(2,000)	(6,000)	(11,000)
Post retirement benefit plan adjustments:				
Net actuarial loss	12,000	51,000	36,000	151,000
Prior service costs	(124,000)	(124,000)	(372,000)	(372,000)
Income tax benefit	35,000	22,000	105,000	65,000
Comprehensive income	$2,355,000	$1,912,000	$6,847,000	$5,094,000

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		Paid-In Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2013	7,318,773	$73,000	$26,757,000	$4,872,000	$(27,082,000)	$62,828,000	$67,448,000
Net income						7,068,000	7,068,000
Change in post retirement benefits, net of tax of $105,000				(231,000)			(231,000)
Change in interest rate swaps, net of tax of $6,000				10,000			10,000
Common stock issued- net	185,360	1,000	325,000				326,000
Excess tax benefit - equity transactions			285,000				285,000
Purchase of treasury stock	(14,429)				(176,000)		(176,000)
Restricted stock vested	53,884	1,000					1,000
Share-based compensation			439,000				439,000
Balance at September 30, 2014	7,543,588	$75,000	$27,806,000	$4,651,000	$(27,258,000)	$69,896,000	$75,170,000

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$7,068,000	$5,230,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,888,000	3,665,000
Deferred income taxes	—	(54,000)
Interest rate swaps — mark-to-market and amortization of losses	(37,000)	(69,000)
Share-based compensation	439,000	329,000
Loss on disposal of assets	—	6,000
Loss on foreign currency translation and transaction	47,000	8,000
Change in operating assets and liabilities:		
Accounts receivable	(8,942,000)	(4,816,000)
Inventories	(110,000)	100,000
Prepaid and other assets	(380,000)	(114,000)
Accounts payable	295,000	1,091,000
Taxes receivable	327,000	—
Accrued and other liabilities	2,587,000	772,000
Post retirement benefits liability	(603,000)	(344,000)
Net cash provided by operating activities	4,579,000	5,804,000
Cash flows from investing activities:		
Purchase of property, plant and equipment	(9,399,000)	(7,127,000)
Proceeds from sale of property, plant and equipment	—	92,000
Net cash used in investing activities	(9,399,000)	(7,035,000)
Cash flows from financing activities:		
Gross repayments on revolving line of credit	(48,675,000)	—
Gross borrowings on revolving line of credit	55,040,000	—
Payment of principal on Mexican loan	(1,600,000)	(1,600,000)
Payment of principal on capex loan	(1,286,000)	(1,286,000)
Payment of principal on industrial development revenue bond	—	(420,000)
Excess tax benefit from equity plans	285,000	—
Payments related to the purchase of treasury stock	(176,000)	(334,000)
Proceeds from issuance of common stock	326,000	409,000
Net cash provided by (used in) financing activities	3,914,000	(3,231,000)
Net change in cash and cash equivalents	(906,000)	(4,462,000)
Cash and cash equivalents at beginning of period	2,266,000	7,838,000
Cash and cash equivalents at end of period	$1,360,000	$3,376,000
Cash paid for:		

Interest (net of amounts capitalized)	$88,000	$176,000
Income taxes	$2,609,000	$1,056,000
Non Cash:		
Fixed asset purchases in accounts payable	$49,000	$82,000

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 September 30, 2014, and the results of operations and cash flows for the nine months ended September 30, 2014. The "Notes to Consolidated Financial Statements," which are contained in the Company's 2013 Annual Report to Shareholders, should be read in conjunction with these consolidated financial statements.

Core Molding Technologies and its subsidiaries operate in the plastics market in a family of products known as "reinforced plastics". Reinforced plastics are combinations of resins and reinforcing fibers (typically glass or carbon) that are molded to shape. Core Molding Technologies is a manufacturer of sheet molding compound ("SMC") and molder of fiberglass reinforced plastics. The Company specializes in large-format moldings and offers a wide range of fiberglass processes, including compression molding of SMC, glass mat thermoplastics ("GMT") and bulk molding compounds ("BMC"), spray-up, hand-lay-up, and resin transfer molding ("RTM"). Additionally, the Company offers reaction injection molding ("RIM"), utilizing dicyclopentadiene technology. Core Molding Technologies maintains four production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; and Matamoros, Mexico.

The Company operates in one business segment as a manufacturer of SMC and molder of fiberglass reinforced plastics. The Company produces and sells SMC and molded products for varied markets, including light, medium and heavy-duty trucks, automobiles and automotive aftermarket, marine, construction and other commercial products.

2. Net Income per Common Share

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 dilutive stock options and restricted stock under the treasury stock method.
The computation of basic and diluted net income per common share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$2,428,000	$1,960,000	$7,068,000	$5,230,000
Weighted average common shares outstanding — basic	7,540,000	7,257,000	7,492,000	7,186,000
Effect of dilutive securities	36,000	161,000	50,000	225,000
Weighted average common and potentially issuable common shares outstanding — diluted	7,576,000	7,418,000	7,542,000	7,411,000
Basic net income per common share	$0.32	$0.27	$0.94	$0.73
Diluted net income per common share	$0.32	$0.26	$0.94	$0.71

All unexercised stock options were included in diluted earnings per share for the three and nine months ended September 30, 2014 and 2013, respectively.

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3. Major Customers

Core Molding Technologies has four major customers, Navistar, Inc. (“Navistar”), Volvo Group North America, LLC ("Volvo"), PACCAR, Inc. (“PACCAR”), and Yamaha Motor Manufacturing Corporation ("Yamaha") as of September 30, 2014. 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 nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Navistar product sales	$13,104,000	$11,330,000	$39,724,000	$35,548,000
Navistar tooling sales	25,000	171,000	75,000	760,000
Total Navistar sales	13,129,000	11,501,000	39,799,000	36,308,000
Volvo product sales	12,020,000	1,817,000	33,877,000	4,377,000
Volvo tooling sales	290,000	54,000	1,438,000	631,000
Total Volvo sales	12,310,000	1,871,000	35,315,000	5,008,000
PACCAR product sales	9,752,000	12,044,000	26,423,000	33,896,000
PACCAR tooling sales	90,000	4,843,000	379,000	7,052,000
Total PACCAR sales	9,842,000	16,887,000	26,802,000	40,948,000
Yamaha product sales	3,315,000	2,115,000	12,543,000	9,029,000
Yamaha tooling sales	—	—	—	—
Total Yamaha sales	3,315,000	2,115,000	12,543,000	9,029,000
Other product sales	4,980,000	5,036,000	14,585,000	14,496,000
Other tooling sales	15,000	24,000	1,746,000	688,000
Total other sales	4,995,000	5,060,000	16,331,000	15,184,000
Total product sales	43,171,000	32,342,000	127,152,000	97,346,000
Total tooling sales	420,000	5,092,000	3,638,000	9,131,000
Total sales	$43,591,000	$37,434,000	$130,790,000	$106,477,000

4. Property, Plant & Equipment

Property, plant and equipment consisted of the following at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Property, plant and equipment	$118,145,000	$109,407,000
Accumulated depreciation	(56,767,000)	(52,929,000)
Property, plant and equipment — net	$61,378,000	$56,478,000

Property, plant, and equipment are recorded at cost. 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. Additions in progress were $4,037,000 and $5,953,000 at September 30, 2014 and December 31, 2013, respectively. The Company capitalized $66,000 and $37,000 of interest expense for the nine months ended September 30, 2014 and 2013, respectively. At

September 30, 2014, and December 31, 2013, purchase commitments for capital expenditures in progress were $1,053,000 and $4,629,000, respectively.

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5. Post Retirement Benefits

The components of expense for Core Molding Technologies' post retirement benefit plans for the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Pension expense:				
Multi-employer plan contributions	$178,000	$112,000	$514,000	$327,000
Defined contribution plan contributions	169,000	147,000	530,000	432,000
Total pension expense	347,000	259,000	1,044,000	759,000
Health and life insurance:				
Interest cost	69,000	83,000	207,000	249,000
Amortization of prior service costs	(124,000)	(124,000)	(372,000)	(372,000)
Amortization of net loss	12,000	51,000	36,000	151,000
Net periodic benefit cost	(43,000)	10,000	(129,000)	28,000
Total post retirement benefits expense	$304,000	$269,000	$915,000	$787,000

The Company made payments of $1,006,000 to pension plans and $474,000 for post retirement healthcare and life insurance during the nine months ended September 30, 2014. For the remainder of 2014, the Company expects to make approximately $277,000 of pension plan payments. The Company also expects to make approximately $158,000 of post retirement healthcare and life insurance payments for the remainder of 2014, all of which were accrued at September 30, 2014.

6. Debt

Debt consists of the following at:

	September 30, 2014	December 31, 2013
Capex loan payable to a bank, interest at a variable rate (1.75% at September 30, 2014 and 1.77% at December 31, 2013) with monthly payments of interest and principal through May 2016.	$2,857,000	$4,143,000
Mexican loan payable to a bank, interest at a variable rate (1.73% at December 31, 2013) with annual principal and monthly interest payments through January 2014. Paid in full January 2014.	—	1,600,000
Revolving Line of Credit	6,365,000	—
Total	9,222,000	5,743,000
Less current portion	(8,079,000)	(3,314,000)
Long-term debt	$1,143,000	$2,429,000

Credit Agreement

In 2008, the Company and its wholly owned subsidiary, CoreComposites de Mexico, S. de R.L. de C.V., entered into a credit agreement (the "Credit Agreement") to refinance certain existing debt and borrow funds to finance the construction of the Company's manufacturing facility in Mexico.

Under this Credit Agreement, the Company received certain loans, subject to the terms and conditions stated in the agreement, which included (1) a $12,000,000 Capex loan; (2) an $8,000,000 Mexican loan; (3) an $8,000,000 variable rate revolving line of credit; (4) a letter of credit in an undrawn face amount of $3,332,000 with respect to the Company's existing Industrial Development

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Revenue Bond ("IDRB") financing. The Credit Agreement is secured by a guarantee of each U.S. subsidiary of the Company, and by a lien on substantially all of the present and future assets of the Company and its U.S. subsidiaries, except that only 65% of the stock issued by CoreComposites de Mexico, S. de C.V. has been pledged. The $8,000,000 Mexican loan is also secured by substantially all of the present and future assets of the Company's Mexican subsidiary.

On March 27, 2013, the Company and its wholly owned subsidiary, CoreComposites de Mexico, S. de R.L. de C.V., entered into an eighth amendment (the "Eighth Amendment") to the Credit Agreement. Pursuant to the terms of the Eighth Amendment, the parties agreed to modify certain terms of the Credit Agreement. These modifications included (1) an increase to the borrowing limit on the revolving line of credit from $8,000,000 to $18,000,000; (2) modification to the fixed charge definition to exclude capital expenditures of up to $18,000,000 associated with the Company's compression molding capacity expansion and any sheet molding compound manufacturing capacity expansion; (3) to extend the commitment period for the revolving line of credit to May 31, 2015; and (4) to cancel, effective immediately, the unused $10,000,000 Mexican Expansion Revolving Loan that was added as part of the sixth amendment to the Credit Agreement, which had no borrowings outstanding at December 31, 2012 and was scheduled to expire on May 31, 2013.
On October 31, 2013, the Company and its wholly owned subsidiary, CoreComposites de Mexico, S. de R.L. de C.V., entered into a ninth amendment (the "Ninth Amendment") to the Credit Agreement. Pursuant to the terms of the Ninth Amendment, the parties agreed to decrease the applicable margin for interest rates to 160 basis points from 175 basis points.

Revolving Line of Credit

The $18,000,000 revolving line of credit bears interest at daily LIBOR plus 160 basis points and is collateralized by all of the present and future assets of the Company and its U.S. subsidiaries (except that only 65% of the stock issued by CoreComposites de Mexico, S. de C.V. has been pledged). The Revolving Line of Credit, as amended, is scheduled to mature on May 31, 2015. The outstanding balance on the Revolving Line of Credit at September 30, 2014 was $6,365,000 and there was no outstanding borrowing at December 31, 2013.

Bank Covenants

The Company is required to meet certain financial covenants included in the Credit Agreement with respect to leverage ratios, fixed charge ratios, capital expenditures as well as other customary affirmative and negative covenants. As of September 30, 2014, the Company was in compliance with its financial covenants associated with the loans made under the Credit Agreement as described above.
Management regularly evaluates the Company's ability to meet its debt covenants. Based upon the Company's forecasts, which are primarily based on industry analysts' estimates of heavy and medium-duty truck production volumes, as well as other assumptions, management believes that the Company will be able to maintain compliance with its financial covenants for the next 12 months.
Interest Rate Swaps
In conjunction with its variable rate IDRB, the Company entered into an interest rate swap agreement through April 2013, which was initially designated as a cash flow hedging instrument. The IDRB interest rate swap expired in April 2013 upon the payment in full of the IDRB financing. Under this agreement, the Company paid a fixed rate of 4.89% to the counterparty and received 76% of the 30-day commercial paper rate. During 2010, the Company determined this interest rate swap was no longer highly effective. As a result, the Company discontinued the use of hedge accounting effective January 1, 2010 related to this swap, and began recording mark-to-market adjustments within interest expense in the Company's Consolidated Statements of Income. The pre-tax loss previously recognized in Accumulated Other Comprehensive Income, totaling $200,000 as of December 31, 2009, was amortized as an increase to interest expense of $5,000 per month, or $3,000 net of tax, over the remaining term of the interest rate swap agreement. The IDRB was paid in full in April 2013.

On December 18, 2008, the Company entered into an interest rate swap agreement that became effective May 1, 2009 and continues through May 2016, which was designated as a cash flow hedge of the $12,000,000 Capex loan. Under this agreement, the Company pays a fixed rate of 2.295% to the counterparty and receives LIBOR (0.15% at September 30, 2014). Effective March 31, 2009, the interest terms in the Company’s Credit Agreement related to the $12,000,000 Capex loan were amended. The Company then determined that this interest rate swap was no longer highly effective. As a result, the Company discontinued the use of hedge accounting effective March 31, 2009 related to this swap, and began recording mark-to-market adjustments within interest expense in the Company’s Consolidated Statements of Income. The pre-tax loss previously recognized in Accumulated Other Comprehensive Income, totaling $146,000 as of March 31, 2009, is being amortized as an increase to interest expense of

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approximately $2,000 per month, or $1,000 net of tax, over the remaining term of the interest rate swap agreement. The fair value of the swap as of September 30, 2014 and December 31, 2013 was a liability of $50,000 and $103,000, respectively. The Company recorded interest income of $17,000 and $19,000 for a mark-to-market adjustment of swap fair value for the first three months of 2014 and 2013, respectively related to this swap. The Company recorded interest income for the nine months ended September 30, 2014 and 2013, of $53,000 and $81,000, respectively, for mark-to-market adjustments of this swap. The notional amount of the swap at September 30, 2014 and December 31, 2013 was $2,857,000 and $4,143,000, respectively.

Interest expense included $16,000 and $25,000 of expense for settlements related to the Company's swaps for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014 and 2013, interest expense included $56,000 and $87,000, respectively, of expense for settlements related to the Company’s swap.

7. Income Taxes

The Company’s consolidated balance sheets include a net deferred tax asset of $1,911,000 at September 30, 2014 and December 31, 2013. The Company evaluates the balance of deferred tax assets that will be realized. Such evaluations are based on the premise that the Company is, and will continue to be, a going concern and that it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income.

Income tax expense for the nine months ended September 30, 2014 is estimated to be $3,526,000, or 33% of income before income taxes. Income tax expense for the nine months ended September 30, 2013 was estimated to be $2,652,000, or 34% of income before income taxes.

As of September 30, 2014 and December 31, 2013, 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. The Company files income tax returns in the U.S. federal jurisdiction, Mexico and various state jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for the years before 2010, and no longer subject to Mexican income tax examinations by Mexican authorities for the years before 2009.

8. Share Based Compensation

The Company has a Long Term Equity Incentive Plan (the “2006 Plan”), as approved by the Company’s stockholders in May 2006. This 2006 Plan replaced the Long Term Equity Incentive Plan (the “Original Plan”) as originally approved by the stockholders in May 1997 and as amended in May 2000. The 2006 Plan allows for grants to directors and employees of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units and other incentive awards (“Stock Awards”) up to an aggregate of 3,000,000 awards, each representing a right to buy a share of Core Molding Technologies common stock. Stock Awards can be granted under the 2006 Plan through the earlier of December 31, 2015, or the date the maximum number of available awards under the 2006 Plan have been granted.

Stock Options

The following summarizes the activity relating to stock options under the plans mentioned above for the nine months ended September 30, 2014:

	Number of Options		Weighted Average Exercise Price
Outstanding at December 31, 2013	227,750		$3.57
Exercised	(224,050	)	3.54
Granted	—		—
Forfeited	—		—
Outstanding at September 30, 2014	3,700		$5.71
Exercisable at September 30, 2014	3,700		$5.71

During the nine months ended September 30, 2014 employees surrendered 38,690 options as part of a net settlement transaction to cover the strike price of option exercises. The surrendered options are included in the amount of options exercised above. Total compensation cost related to incentive stock options was $0 and $5,000 for the nine months ended September 30, 2014 and 2013, respectively, which was included in selling, general and administrative expenses.

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Tax benefits received as a result of disqualified dispositions related to stock options were $311,000 during the nine months ended September 30, 2014, which was recorded as a credit to income tax expense of $84,000 and a credit to additional paid in capital of $227,000. There were no disqualified dispositions for the nine months ended September 30, 2013.

Restricted Stock

In 2006, the Company began granting shares of its common stock to certain directors, officers, and key managers in the form of unvested stock ("Restricted Stock"). These awards are recorded at the market value of Core Molding Technologies' common stock on the date of issuance and amortized ratably as compensation expense over the applicable vesting period.

The following summarizes the status of Restricted Stock and changes during the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2013	98,281	$8.91
Granted	81,763	12.04
Vested	(53,884)	9.81
Forfeited	—	—
Unvested balance at September 30, 2014	126,160	$10.75

At September 30, 2014 and 2013, there was $1,080,000 and $594,000, respectively, of total unrecognized compensation expense related to Restricted Stock granted under the 2006 Plan. That cost is expected to be recognized over the weighted-average period of 1.6 years. Total compensation cost related to restricted stock grants for the three months ended September 30, 2014 and 2013 was $135,000 and $86,000, respectively, all of which was recorded to selling, general and administrative expense. Compensation cost related to restricted stock grants for the nine months ended September 30, 2014 and 2013 was $439,000 and $324,000, respectively, all of which was recorded to selling, general and administrative expense.

Compensation expense for restricted stock is recorded at the fair market value at the time of the grant over the vesting period of the restricted stock grant. The Company does not receive a tax deduction for restricted stock until the restricted stock vests. The tax deduction for restricted stock is based on the fair market value as of the vesting date. Tax benefits received for vested restricted stock in excess of the fair market value as of the grant date was $58,000 for the nine months ended September 30, 2014 and was recorded as a credit to additional paid in capital. There were no tax benefits for vested restricted stock recorded for the nine month ended September 30, 2013.

During the nine months ended September 30, 2014 and 2013, employees surrendered 14,429 and 36,329 shares, respectively, of the Company's common stock to satisfy income tax withholding obligations in connection with the vesting of restricted stock.

9. Fair Value of Financial Instruments

The Company's financial instruments consist of long-term debt, line of credit, interest rate swaps, accounts receivable, and accounts payable. The carrying amount of these financial instruments approximated their fair value.

The level in the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. Level 2 inputs are inputs, other than quoted prices in active markets for identical asset or liabilities, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data. The Company has two Level 2 fair value measurements both of which relate to the Company's interest rate swaps. The IDRB interest rate swap expired in April 2013 upon the payment in full of the IDRB facility. The Company utilizes interest rate swap contracts to manage its targeted mix of fixed and floating rate debt, and these swaps are valued using observable benchmark rates at commonly quoted intervals for the full term of the swaps (market approach). These interest rate swaps are discussed in detail in Note 6.

The following table presents financial liabilities measured and recorded at fair value on the Company's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2014 and December 31, 2013:

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	Balance Sheet Location	(Level 2) September 30, 2014 Fair Value	December 31, 2013 Fair Value
Derivatives not designated as hedging instruments Interest rate risk activities	Interest rate swaps	$50,000	$103,000

There were no non-recurring fair value measurements for the nine months ended September 30, 2014.
The effect of derivative instruments on the Consolidated Statements of Income was as follows:

Derivatives Not Designated as Hedging Instruments	Location of (Gain) Loss Recognized in Income on Derivative	Amount of Realized/Unrealized (Gain) Loss Recognized in Income on Derivatives	
Three months ended		September 30, 2014	September 30, 2013
Interest rate swaps	Interest expense	$(12,000)	$(14,000)
Nine Months Ended			
Interest rate swaps	Interest expense	$(37,000)	$(57,000)

As discussed in Note 6, the Company discontinued the use of hedge accounting for its interest rate swaps, effective March 31, 2009 for the Capex swap and January 1, 2010 for the IDRB swap. The Company has recorded all mark-to-market adjustments related to these interest rate swaps within interest expense in the Company's Consolidated Statements of Income, since the date the Company discontinued hedge accounting for each swap. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts along with the amortization of losses on discontinued hedges will result in income statement recognition of amounts currently classified in accumulated other comprehensive loss of approximately $21,000, or $14,000 net of taxes.

10. Accumulated Other Comprehensive Income

The following table presents changes in Accumulated Other Comprehensive Income by component, net of tax, for the nine months ended September 30, 2014 and 2013:

	Losses on Interest Rate Swaps(A)	Post Retirement Benefit Plan Items(B)	Total
2013:			
Balance at December 31, 2012	$(54,000)	$3,241,000	$3,187,000
Amounts reclassified from accumulated other comprehensive income	31,000	(221,000)	(190,000)
Income tax (expense) benefit	(11,000)	65,000	54,000
Balance at September 30, 2013	$(34,000)	$3,085,000	$3,051,000
2014:			
Balance at December 31, 2013	$(30,000)	$4,902,000	$4,872,000
Amounts reclassified from accumulated other comprehensive income	16,000	(336,000)	(320,000)
Income tax (expense) benefit	(6,000)	105,000	99,000
Balance at September 30, 2014	$(20,000)	$4,671,000	$4,651,000

(A) The losses on interest rate swaps reclassified from Accumulated Other Comprehensive Income is included in interest expense on the Consolidated Statements of Income. The tax effect of losses on interest rate swaps reclassified from

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Accumulated Other Comprehensive Income is included in income tax expense on the Consolidated Statements of Income.

(B) The effect of post retirement benefit items reclassified from Accumulated Other Comprehensive Income is included in total cost of sales on the Consolidated Statements of Income. These Accumulated Other Comprehensive Income components are included in the computation of net periodic benefit cost (see Note 5 Post Retirement Benefits for additional details). The tax effect of post retirement benefit items reclassified from Accumulated Other Comprehensive Income is included in income tax expense on the Consolidated Statements of Income.

11. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 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. The ASU 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 ASU Topic 606 will be the first quarter of fiscal year 2017 using one of two retrospective application methods. The Company is currently assessing the transition alternatives and potential impact the pronouncement and adoption of ASU Topic 606 will have on the Company's financial statements. Early adoption is not permitted.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements-Going Concern (Topic 205-40)" ("ASU 2014-15"). Under the standard, management is required to evaluate for each annual and interim reporting period whether it is a probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued, or are available to be issued, where applicable. ASU 2014-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for the Company on January 1, 2017. The Company does not believe that the pronouncement will have an impact on the Company's financial statements.

Part I — Financial Information

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

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

regulations (including engine emission regulations); general economic, social and political environments in the countries in which Core Molding Technologies operates; safety and security conditions in Mexico; dependence upon certain major customers as the primary source of Core Molding Technologies' sales revenues; efforts of Core Molding Technologies to expand its customer base; the actions of competitors, customers, and suppliers; failure of Core Molding Technologies' suppliers to perform their obligations; the availability of raw materials; inflationary pressures; new technologies; regulatory matters; labor relations; the loss or inability of Core Molding Technologies to attract and retain key personnel; federal, state and local environmental laws and regulations; the availability of capital; the ability of Core Molding Technologies to provide on-time delivery to customers, which may require additional shipping expenses to ensure on-time delivery or otherwise result in late fees; risk of cancellation or rescheduling of orders; management's decision to pursue new products or businesses which involve additional costs, risks or capital expenditures; and other risks identified from time to time in Core Molding Technologies' other public documents on file with the Securities and Exchange Commission, including those described in Item 1A of the 2013 Annual Report to Shareholders on Form 10-K.

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Description of the Company

Core Molding Technologies is a manufacturer of sheet molding compound ("SMC") and molder of fiberglass reinforced plastics. The Company specializes in large-format moldings and offers a wide range of fiberglass processes, including compression molding of SMC, glass mat thermoplastics ("GMT") and bulk molding compounds ("BMC"); spray-up, hand-lay-up, and resin transfer molding ("RTM"). Additionally, the Company offers reaction injection molding ("RIM"), utilizing dicyclopentadiene technology. Core Molding Technologies serves a wide variety of markets, including medium and heavy-duty truck, marine, automotive, agriculture, construction and other commercial products. Product sales to heavy and medium-duty truck markets accounted for 83% and 81% of the Company's sales for the nine months ended September 30, 2014 and 2013, respectively. The demand for Core Molding Technologies' products is affected by economic conditions in the United States, Canada, and Mexico. Core Molding Technologies' manufacturing operations have a significant fixed cost component. Accordingly, during periods of changing demand, the profitability of Core Molding Technologies' operations may change proportionately more than revenues from operations.

In 1996, Core Molding Technologies acquired substantially all of the assets and assumed certain liabilities of Columbus Plastics, a wholly owned operating unit of Navistar's truck manufacturing division since its formation in late 1980. Columbus Plastics, located in Columbus, Ohio, was a compounder and compression molder of SMC. In 1998, Core Molding Technologies began operations at its second facility in Gaffney, South Carolina, and in 2001, Core Molding Technologies acquired certain assets of Airshield Corporation. As a result of this acquisition, Core Molding Technologies expanded its fiberglass molding capabilities to include the spray up, hand-lay-up open mold processes and RTM closed molding. In 2004, Core Molding Technologies acquired substantially all the operating assets of Keystone Restyling Products, Inc., a privately held manufacturer and distributor of fiberglass reinforced products for the automotive-aftermarket industry. In 2005, Core Molding Technologies acquired certain assets of the Cincinnati Fiberglass Division of Diversified Glass, Inc., a Batavia, Ohio-based, privately held manufacturer and distributor of fiberglass reinforced plastic components supplied primarily to the heavy-duty truck market. In 2009, the Company completed construction of a production facility in Matamoros, Mexico that replaced its leased facility.

Overview

For the nine months ended September 30, 2014, the Company recorded net income of $7,068,000, or $0.94 per basic and diluted share, compared with net income of $5,230,000, or $0.73 per basic and $0.71 per diluted share for the nine months ended September 30, 2013. Product sales for the nine months ended September 30, 2014 were approximately 31% higher as compared to the same period in 2013. This increase was primarily the result of increased sales to Volvo resulting from the previously announced new business awards that began during the second half of 2013.

Looking forward, the Company anticipates sales levels in the last quarter of 2014 to increase as compared to the last quarter of 2013 based on industry analysts forecasting higher truck production. In addition, the Company's sales will also benefit from a full quarter of production of product from the new business award with Volvo that was still ramping up during the fourth quarter of 2013.

Results of Operations

Three Months Ended September 30, 2014, as Compared to Three Months Ended September 30, 2013

Net sales for the three months ended September 30, 2014 and 2013 totaled $43,591,000 and $37,434,000, respectively. Included in total sales were tooling project sales of $420,000 and $5,092,000 for the three months ended September 30, 2014 and 2013, respectively. Tooling project sales result primarily from customer approval and acceptance of molds and assembly equipment specific to their products as well as other non-production services. These sales are sporadic in nature and fluctuate in regard to scope and related revenue on a period-to-period basis. Total product sales, excluding tooling project sales, were approximately 33% higher for the three months ended

September 30, 2014, as compared to the same period a year ago. The increased sales are primarily the result of the new business award from Volvo and an increased demand from Navistar and Yamaha, partially offset by lower sales to PACCAR.

Sales to Navistar totaled $13,129,000 for the three months ended September 30, 2014, compared to $11,501,000 in sales for the three months ended September 30, 2013. Included in total sales was $25,000 of tooling sales for the three months ended September 30, 2014 compared to $171,000 for the same three months in 2013. Product sales to Navistar increased 16% for the three months ended September 30, 2014 as compared to the same period in the prior year due to increased demand from Navistar.

Sales to Volvo totaled $12,310,000 for the three months ended September 30, 2014, compared to $1,871,000 in sales for the three months ended September 30, 2013. Included in total sales was $290,000 of tooling sales for the three months ended September 30, 2014 compared to $54,000 for the same three months in 2013. The increase in sales to Volvo was primarily due to new business awards which did not start generating product revenues for the Company until the end of the third quarter of 2013.

Sales to PACCAR totaled $9,842,000 for the three months ended September 30, 2014, compared to $16,887,000 in sales for the three months ended September 30, 2013. Included in total sales was $90,000 of tooling sales for the three months ended September 30, 2014 compared to $4,843,000 for the same three months in 2013. Product sales to PACCAR decreased 19% for the three months ended September 30, 2014 as compared to the same period in the prior year. The decrease in sales to PACCAR was primarily due to lower demand for certain products nearing the end of their production life. Additionally, sales for new programs, which were planned to partially offset the end of life products, have not yet reached expectations.

Sales to Yamaha totaled $3,315,000 for the three months ended September 30, 2014, compared to $2,115,000 in sales for the three months ended September 30, 2013. Product sales to Yamaha increased 57% for the three months ended September 30, 2014 as compared to the same period in the prior year due to Yamaha transitioning additional business to the Company and an overall increase in demand.

Sales to other customers for the three months ended September 30, 2014 decreased 1% to $4,995,000 compared to $5,060,000 for the three months ended September 30, 2013. Included in total sales was $15,000 of tooling sales for the three months ended September 30, 2014 compared to $24,000 for the same three months in 2013. Product sales to other customers decreased 1% for the three months ended September 30, 2014 as compared to the same period in the prior year.

Gross margin was approximately 18.7% of sales for the three months ended September 30, 2014, compared with 17.0% for the three months ended September 30, 2013. Improved fixed cost absorption favorably impacted gross margin as a percent of sales by 2.1%, due to higher production volumes. In addition, production efficiencies favorably impacted gross margin as a percent of sales by 2.1%. Partially offsetting these efficiencies was the change in mix, which resulted in an unfavorable impact on gross margin of 2.5% of sales.

Selling, general and administrative expense (“SG&A”) was $4,443,000 for the three months ended September 30, 2014, compared to $3,422,000 for the three months ended September 30, 2013. Contributing to the increase in SG&A expense were higher labor and benefits of $323,000, increased profit sharing costs of $132,000 and $423,000 in increased fees for professional services. Approximately $397,000 of the professional services fees were incurred in connection with certain of our strategic initiatives, which included an unsuccessful bid for a targeted acquisition. While the increased cost associated with professional fees was an unusual expense, the Company may incur similar expenses in the future to evaluate and pursue other strategic opportunities.

Net interest expense totaled $27,000 for the three months ended September 30, 2014, compared to net interest expense of $45,000 for the three months ended September 30, 2013. The reduction in interest expense for the quarter is primarily due to decreases in the outstanding loan balances as a result of regularly scheduled principal payments. This reduction in interest expense was partially offset by interest expense associated with borrowings on the revolving line of credit for the three months ended September 30, 2014. The Company recorded capitalized interest associated with capacity expansion projects of $21,000 and $24,000 for the three months ended September 30, 2014 and 2013, respectively.

Income tax expense for the three months ended September 30, 2014 and 2013 was approximately 34% and 32% , respectively, of total income before income taxes.

The Company recorded net income for the three months ended September 30, 2014 of $2,428,000, or $0.32 per basic and diluted share, compared with net income of $1,960,000, or $0.27 per basic and $0.26 per diluted share, for the three months ended September 30, 2013.

Nine Months Ended September 30, 2014, as Compared to Nine Months Ended September 30, 2013

Net sales for the nine months ended September 30, 2014 and 2013 totaled $130,790,000 and $106,477,000, respectively. Included in total sales were tooling project sales of $3,638,000 and $9,131,000 for the nine months ended September 30, 2014 and 2013, respectively. Tooling project sales result primarily from customer approval and acceptance of molds and assembly equipment specific to their products as well as other non-production services. These sales are sporadic in nature and fluctuate in regard to scope and related revenue on a period-to-period basis.

Total product sales, excluding tooling project sales, were approximately 31% higher for the nine months ended September 30, 2014, as compared to the same period a year ago. The increased sales are primarily the result of new business awards from Volvo and increased demand from Navistar and Yamaha, partially offset by lower sales to PACCAR.

Sales to Navistar totaled $39,799,000 for the nine months ended September 30, 2014, compared to $36,308,000 in sales for the nine months ended September 30, 2013. Included in total sales was $75,000 of tooling sales for the nine months ended September 30,

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2014 compared to $760,000 for the same nine months in 2013. Product sales to Navistar increased 12% for the nine months ended September 30, 2014 as compared to the same period in the prior year due to increased demand from Navistar.

Sales to Volvo totaled $35,315,000 for the nine months ended September 30, 2014, compared to $5,008,000 in sales for the nine months ended September 30, 2013. Included in total sales was $1,438,000 of tooling sales for the nine months ended September 30, 2014 compared to $631,000 for the same nine months in 2013. The increase in sales to Volvo was primarily due to new business awards which started generating product revenues for the Company in the third quarter of 2013.

Sales to PACCAR totaled $26,802,000 for the nine months ended September 30, 2014, compared to $40,948,000 in sales for the nine months ended September 30, 2013. Included in total sales was $379,000 of tooling sales for the nine months ended September 30, 2014 compared to $7,052,000 for the same nine months in 2013. Product sales to PACCAR decreased 22% for the nine months ended September 30, 2014 as compared to the same period in the prior year. The decrease in sales to PACCAR was primarily due to lower demand for certain products nearing the end of their production life. Additionally, sales for new programs, which were planned to partially offset the end of life products, have not yet reached expectations.

Sales to Yamaha totaled $12,543,000 for the nine months ended September 30, 2014, compared to $9,029,000 in sales for the nine months ended September 30, 2013. Product sales to Yamaha increased 39% for the nine months ended September 30, 2014 as compared to the same period in the prior year due to Yamaha transitioning additional business to the Company and an overall increase in demand.

Sales to other customers for the nine months ended September 30, 2014 increased 8% to $16,331,000 compared to $15,184,000 for the nine months ended September 30, 2013. Included in total sales was $1,746,000 of tooling sales for the nine months ended September 30, 2014 compared to $688,000 for the same nine months in 2013. Product sales to other customers increased 1% for the nine months ended September 30, 2014 as compared to the same period in the prior year.

Gross margin was approximately 17.1% of sales for the nine months ended September 30, 2014, compared with 17.1% for the nine months ended September 30, 2013. Improved fixed cost absorption favorably impacted gross margin as a percent of sales by 1.5%, due to higher production volumes. In addition, production efficiencies favorably impacted gross margin as a percent of sales by 0.9%. Offsetting these efficiencies was the change in sales mix, which resulted in an unfavorable impact on gross margin of 2.4% of sales.

Selling, general and administrative expense (“SG&A”) was $11,698,000 for the nine months ended September 30, 2014, compared to $10,184,000 for the nine months ended September 30, 2013. Contributing to the increase in SG&A expense were higher labor and benefits of $725,000, profit sharing of $400,000, and $247,000 in increased fees for professional services.

Net interest expense totaled $99,000 for the nine months ended September 30, 2014, compared to net interest expense of $183,000 for the nine months ended September 30, 2013. The Company recorded capitalized interest of $66,000 and $37,000 for the nine months ended September 30, 2014 and 2013, respectively. Capitalized interest related to the Company's compression molding capacity expansion. Reductions in outstanding loan balances due to regularly scheduled principal payments, lower interest rates and lower amortization from capitalized loan costs reduced interest expense by $114,000. Partially offsetting this reduction was interest expense of $40,000 associated with the Company's borrowings on the revolving lines of credit and mark-to-market adjustments on the Company's interest rate swaps had an unfavorable impact on interest expense of $20,000 for the nine months ending September 30, 2014.

Income tax expense for the nine months ended September 30, 2014 and 2013 was approximately 33% and 34%, respectively, of total income before income taxes.

The Company recorded net income for the nine months ended September 30, 2014 of $7,068,000, or $0.94 per basic and diluted share, compared with net income of $5,230,000, or $0.73 per basic and $0.71 per diluted share, for the nine months ended September 30, 2013.

Liquidity and Capital Resources

The Company’s primary sources of funds have been cash generated from operating activities and borrowings from third parties. Primary cash requirements are for operating expenses, increases in working capital and capital expenditures.

Cash provided by operating activities for the nine months ended September 30, 2014 totaled $4,579,000. Net income of $7,068,000 positively impacted operating cash flows. Non-cash expenses of depreciation and amortization contributed $3,888,000 to operating cash flow. Changes in working capital decreased cash provided by operating activities by $6,223,000, which primarily related to an increase in accounts receivable.

Cash used in investing activities for the nine months ended September 30, 2014 was $9,399,000, which primarily represented progress payments on equipment related to the Company's compression molding and SMC capacity expansions. In order to support anticipated production levels, and to allow for additional capacity to provide for future growth, the Company is expanding its compression molding and SMC capacity. The Company anticipates spending up to $1,500,000 during the remainder of 2014 on property, plant and equipment purchases for all of the Company's operations. At September 30, 2014, purchase commitments for capital expenditures in progress were $1,053,000, and were primarily related to the Company's two capacity expansion projects noted above. The Company anticipates using cash from operations and its revolving line of credit to finance the capital investment.

Cash provided by financing activities for the nine months ended September 30, 2014 totaled $3,914,000, which was primarily a result of net borrowings of $6,365,000 on the revolving line of credit. Partially offsetting these net borrowings were $2,886,000 of scheduled repayments of principal on the Company's outstanding loans.

At September 30, 2014, the Company had $1,360,000 in cash on hand, and an available balance on the revolving line of credit of $11,635,000. To secure additional funding for the compression molding and SMC capacity expansions, the Company and its wholly owned subsidiary, CoreCompositites de Mexico, S. de R.L. de C.V., entered into an eighth amendment (the "Eighth Amendment") to the Credit Agreement on March 27, 2013. These modifications included (1) an increase to the borrowing limit on the revolving line of credit from $8,000,000 to $18,000,000; (2) modification to the fixed charge definition to exclude capital expenditures of up to $18,000,000 associated with the Company's compression molding capacity expansion and any SMC compounding capacity expansion; (3) extending the commitment period for the revolving line of credit to May 31, 2015; and (4) canceling, effective immediately, the Mexican Expansion Revolving Loan, which had a zero balance and was scheduled to expire on May 31, 2013.

On October 31, 2013, the Company and its wholly owned subsidiary, CoreComposites de Mexico, S. de R.L. de C.V., entered into a ninth amendment (the "Ninth Amendment") to the Credit Agreement. Pursuant to the terms of the Ninth Amendment, the parties agreed to decrease the applicable margin for interest rates to 160 basis points from 175 basis points.

The Company is required to meet certain financial covenants included in the Credit Agreement with respect to leverage ratios, fixed charge ratios, capital expenditures as well as other customary affirmative and negative covenants. As of September 30, 2014, the Company was in compliance with its financial covenants.

Management regularly evaluates the Company’s ability to effectively meet its debt covenants based on the Company’s forecasts. Based on the Company’s forecasts which are primarily based on industry analysts’ estimates of heavy and medium-duty truck production volumes, as well as other assumptions, management believes that the Company will be able to maintain compliance with its financial covenants for the next 12 months. Management believes that cash flow from operating activities and available borrowings under the Credit Agreement will be sufficient to meet the Company’s liquidity needs. If a material adverse change in the financial position of Core Molding Technologies should occur, or if actual sales or expenses are substantially different than what has been forecasted, Core Molding Technologies’ liquidity and ability to obtain further financing to fund future operating and capital requirements could be negatively impacted.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 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. The ASU 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 ASU Topic 606 will be the first quarter of fiscal year 2017 using one of two retrospective application methods. The Company is currently assessing the transition alternatives and potential impact the pronouncement and adoption of ASU Topic 606 will have on the Company's financial statements. Early adoption is not permitted.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements-Going Concern (Topic 205-40)" ("ASU 2014-15"). Under the standard, management is required to evaluate for each annual and interim reporting period whether it is a probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued, or are available to be issued, where applicable. ASU 2014-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is

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permitted. Accordingly, the standard is effective for the Company on January 1, 2017. The Company does not believe that the pronouncement will have an impact on the Company's financial statements.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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, including those related to accounts receivable, inventories, self-insurance, post retirement benefits, and income taxes. 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.

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 $229,000 and $141,000 at September 30, 2014 and December 31, 2013, 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 $1,676,000 at September 30, 2014 and $973,000 at December 31, 2013.

Inventories: 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. 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 $921,000 at September 30, 2014 and $792,000 at December 31, 2013.

Long-Lived Assets: Long-lived assets consist primarily of property, plant and equipment. 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 nine months ended September 30, 2014 or September 30, 2013.

Goodwill: Core Molding Technologies acquired certain assets of Airshield Corporation in 2001, and as a result, recorded goodwill related to its Matamoros, Mexico operations in the amount of $1,097,000. The Company evaluates goodwill annually on December 31 to determine whether impairment exists, or at interim periods if an indicator of possible impairment exists. The Company evaluates goodwill for impairment using fair value measurements based on a projected discounted cash flow valuation model, in accordance with ASC 350, "Intangibles-Goodwill and Other." If impairment exists, the carrying amount of the goodwill is reduced to its estimated fair value. There was no impairment of the Company's goodwill for the nine months ended September 30, 2014 or September 30, 2013.

Self-Insurance: The Company is self-insured with respect to its Columbus and Batavia, Ohio, Gaffney, South Carolina 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 has recorded an estimated liability for self-insured medical and dental claims incurred but not reported and worker's compensation claims incurred but not reported at September 30, 2014 and December 31, 2013 of $1,073,000 and $1,092,000, 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 5 of the Notes to Consolidated Financial Statements, which are contained in the Company's 2013 Annual Report to Shareholders on Form 10-K.

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Core Molding Technologies had a liability for post retirement healthcare benefits based on actuarially computed estimates of $6,507,000 at September 30, 2014 and $6,774,000 at December 31, 2013.

Revenue Recognition: Revenue from product sales is recognized at the time products are shipped and title transfers. Allowances for returned products and other credits are estimated and recorded as revenue is recognized. Tooling revenue is recognized when the customer approves the tool and accepts ownership. Progress billings and expenses are shown net as an asset or liability on the Company’s Consolidated Balance Sheet. Tooling in progress can fluctuate significantly from period to period and is dependent upon the stage of tooling projects and the related billing and expense payment timetable for individual projects and therefore does not necessarily reflect projected income or loss from tooling projects. At September 30, 2014, the Company had a net liability related to tooling in progress of $2,042,000, which represented approximately $4,956,000 of progress tooling billings and $2,914,000 of progress tooling expenses. At December 31, 2013, the Company had a net liability related to tooling in progress of $334,000, which represented approximately $3,344,000 of progress tooling billings and $3,010,000 of progress tooling expenses.

Income taxes: The Company’s consolidated balance sheets include a net deferred tax asset of $1,911,000 at September 30, 2014 and December 31, 2013. The Company evaluates the balance of deferred tax assets that will be realized. Such evaluations are based on the premise that the Company is, and will continue to be, a going concern and that it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. For more information, refer to Note 7 of the Notes to Consolidated Financial Statements, which are contained in the Company's 2013 Annual Report to Shareholders on Form 10-K.

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Part I — Financial Information

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Core Molding Technologies' primary market risk results from changes in the price of commodities used in its manufacturing operations. Core Molding Technologies is also exposed to fluctuations in interest rates and foreign currency fluctuations associated with the Mexican Peso. Core Molding Technologies does not hold any material market risk sensitive instruments for trading purposes.

Core Molding Technologies has the following four items that are sensitive to market risks: (1) Revolving Line of Credit under the Credit Agreement, which bears a variable interest rate; (2) Capex Loan payable with a variable interest rate (although the Company has an interest rate swap to fix the variable portion of the applicable interest rate at 2.3%); (3) foreign currency purchases in which the Company purchases Mexican pesos with United States dollars to meet certain obligations that arise due to operations at the facility located in Mexico; and (4) raw material purchases in which Core Molding Technologies purchases various resins and fiberglass for use in production. The prices and availability of these materials are affected by the prices of crude oil and natural gas as well as processing capacity versus demand.

Assuming a hypothetical 10% increase in commodity prices, Core Molding Technologies would be impacted by an increase in raw material costs, which would have an adverse effect on operating margins.

Assuming a hypothetical 10% change in short-term interest rates, interest paid on the Company's Revolving Line of Credit and the Mexican Loan would have been impacted, as the interest rate on these loans is based upon LIBOR, however, it would not have a material effect on earnings before tax.

A 10% change in future interest rate curves would impact the fair value of the Company's interest rate swap.

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Part I — Financial Information

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon this evaluation, the Company’s management, including its Chief Executive Officer and its Chief Financial Officer, concluded that the Company’s disclosure controls and procedures were (i) effective to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act was accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and (ii) effective to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

There were no changes in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II — Other Information
Item 1. Legal Proceedings
None.

Item 1A. Risk Factors
There have been no material changes in Core Molding Technologies' risk factors from those previously disclosed in Core Molding Technologies' 2013 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information concerning our stock repurchases during the three months ended September 30, 2014 is below. All stock was purchased to satisfy tax withholding obligations upon vesting of restricted stock awards.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number that May Yet Be Purchased Under the Plans or Programs
July 1 to 31, 2014	2,022	$12.83	—	—
August 1 to 31, 2014	—	$—	—	—
September 1 to 30, 2014	—	$—	—	—

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information

None.

Item 6. Exhibits

See Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		CORE MOLDINGS TECHNOLOGIES, INC.	
Date:	November 10, 2014	By:	/s/ Kevin L. Barnett Kevin L. Barnett President, Chief Executive Officer, and Director
Date:	November 10, 2014	By:	/s/ John P. Zimmer John P. Zimmer Vice President, Secretary, Treasurer and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No.	Description	Location
2(a)(1)	Asset Purchase Agreement Dated as of September 12, 1996, As amended October 31, 1996, between Navistar and RYMAC Mortgage Investment Corporation[1]	Incorporated by reference to Exhibit 2-A to Registration Statement on Form S-4 (Registration No. 333-15809)
2(a)(2)	Second Amendment to Asset Purchase Agreement dated December 16, 1996[1]	Incorporated by reference to Exhibit 2(a)(2) to Annual Report on Form 10-K for the year-ended December 31, 2001
2(b)(1)	Agreement and Plan of Merger dated as of November 1, 1996, between Core Molding Technologies, Inc. and RYMAC Mortgage Investment Corporation	Incorporated by reference to Exhibit 2-B to Registration Statement on Form S-4 (Registration No. 333-15809)
2(b)(2)	First Amendment to Agreement and Plan of Merger dated as of December 27, 1996 Between Core Molding Technologies, Inc. and RYMAC Mortgage Investment Corporation	Incorporated by reference to Exhibit 2(b)(2) to Annual Report on Form 10-K for the year ended December 31, 2002
2(c)	Asset Purchase Agreement dated as of October 10, 2001, between Core Molding Technologies, Inc. and Airshield Corporation	Incorporated by reference to Exhibit 1 to Current Report on Form 8-K filed October 31, 2001
3(a)(1)	Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on October 8, 1996	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-8 (Registration No. 333-29203)
3(a)(2)	Certificate of Amendment of Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on November 6, 1996	Incorporated by reference to Exhibit 4(b) to Registration Statement on Form S-8 (Registration No. 333-29203)
3(a)(3)	Certificate of Amendment of Certificate of Incorporation as filed with the Secretary of State of Delaware on August 28, 2002	Incorporated by reference to Exhibit 3(a)(4) to Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
3(a)(4)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock as filed with the Secretary of State of Delaware on July 18, 2007	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed July 19, 2007
3(b)	Amended and Restated By-Laws of Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed January 4, 2008

3(b)(1)	Amendment No. 1 to the Amended and Restated By-Laws of Core Molding Technologies, Inc.	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed December 17, 2013
4(a)(1)	Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on October 8, 1996	Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-8 (Registration No. 333-29203)
4(a)(2)	Certificate of Amendment of Certificate of Incorporation of Core Molding Technologies, Inc. as filed with the Secretary of State of Delaware on November 6, 1996	Incorporated by reference to Exhibit 4(b) to Registration Statement on Form S-8 (Registration No. 333-29203)
4(a)(3)	Certificate of Amendment of Certificate of Incorporation as filed with the Secretary of State of Delaware on August 28, 2002	Incorporated by reference to Exhibit 3(a)(4) to Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
4(a)(4)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock as filed with the Secretary of State of Delaware on July 18, 2007	Incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed July 19, 2007

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Exhibit No.	Description	Location
4(b)	Stockholder Rights Agreement dated as of July 18, 2007, between Core Molding Technologies, Inc. and American Stock Transfer & Trust Company	Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed July 19, 2007
10(a)	Supply Agreement, dated August 4, 2014 between Core Molding Technologies, Inc. and Core Composites Corporation and Navistar, Inc.[2]	Filed Herein
11	Computation of Net Income per Share	Exhibit 11 omitted because the required information is Included in Notes to Financial Statement
31(a)	Section 302 Certification by Kevin L. Barnett, President, Chief Executive Officer, and Director	Filed Herein
31(b)	Section 302 Certification by John P. Zimmer, Vice President, Secretary, Treasurer, and Chief Financial Officer	Filed Herein
32(a)	Certification of Kevin L. Barnett, Chief Executive Officer of Core Molding Technologies, Inc., dated November 10, 2014, pursuant to 18 U.S.C. Section 1350	Filed Herein
32(b)	Certification of John P. Zimmer, Chief Financial Officer of Core Molding Technologies, Inc., dated November 10, 2014, pursuant to 18 U.S.C. Section 1350	Filed Herein
101.INS	XBRL Instance Document	Filed Herein
101.SCH	XBRL Taxonomy Extension Schema Document	Filed Herein
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed Herein
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed Herein
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed Herein
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed Herein

1. The Asset Purchase Agreement, as filed with the Securities and Exchange Commission as Exhibit 2-A to Registration Statement on Form S-4 (Registration No. 333-15809), omits the exhibits (including the Buyer Note, Special Warranty Deed, Supply Agreement, Registration Rights Agreement and Transition Services Agreement identified in the Asset Purchase Agreement) and schedules (including those identified in Sections 1, 3, 4, 5, 6, 8 and 30 of the Asset Purchase Agreement). Core Molding Technologies, Inc. will provide any omitted exhibit or schedule to the Securities and Exchange Commission upon request.

2.

Certain portions of this Exhibit have been omitted intentionally subject to a confidentiality treatment request. A complete version of the Exhibit has been filed separately with the Securities and Exchange Commission.

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erm investments: Mutual funds 1,909 - - 1,909 Commercial paper - 30,379 - 30,379 Corporate debt - 14,893 - 14,893 Long-term investments: Corporate debt - 48,724 - 48,724 Municipal securities - 5,439 - 5,439 Asset backed securities - 17,054 - 17,054 International government securities - 804 - 804 Total $ 34,520 $ 117,293 $ - $ 151,813

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2013
Cash equivalents:				
Money market funds	$ 14,376	$ -	$ -	$ 14,376
Short-term investments:				
Mutual funds	1,964	-	-	1,964
Total	$ 16,340	$ -	$ -	$ 16,340

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4. COMMITMENTS AND CONTINGENCIES

Guarantees

Indemnifications

In the normal course of business, the Company may agree to indemnify other parties, including customers, lessors and parties to other transactions with the Company, with respect to certain matters such as breaches of representations or covenants or intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors.

It is not possible to determine the maximum potential amount of the Company's exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results, financial position or cash flows. Under some of these agreements, however, the Company's potential indemnification liability might not have a contractual limit.

Product Warranties

The Company accrues for the estimated costs that may be incurred under its product warranties upon revenue recognition. Changes in the Company's product warranty liability, which is included in cost of product revenues in the consolidated statements of income were as follows (in thousands):

	Years Ended March 31,		
	2014	**2013**	**2012**
Balance at beginning of year	$ 452	$ 387	$ 362
Accruals for warranties	953	611	496
Payments	(745)	(546)	(471)
Balance at end of year	$ 660	$ 452	$ 387

Leases

The Company leases its headquarters facility in San Jose, California under an operating lease agreement that expires in October 2019. The lease is an industrial net lease with monthly base rent of $130,821 for the first 15 months with a 3% increase each year thereafter, and requires us to pay property taxes, utilities and normal maintenance costs.

The Company leases its UK headquarters in Aylesbury UK under an operating lease agreement that expires in March 2017, with a break clause in March 2015 exercisable with six months' notice. The lease has a base monthly rent of $10,700 until March 2015, rising to $11,522 thereafter, and requires us to pay property taxes, service charges, utilities and normal maintenance costs.

At March 31, 2014, future minimum annual lease payments under non-cancelable operating leases were as follows (in thousands):

Year Ending March 31,	
2015	$ 1,745
2016	1,803
2017	1,853
2018	1,789
2019 and Thereafter	2,936
Total	$ 10,126

Rent expense for the years ended March 31, 2014, 2013 and 2012 was $1,506,000, $1,195,000, and $746,000, respectively.

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Capital Leases

The Company has non-cancelable capital lease agreements for office equipment bearing interest at various rates. At March 31, 2014, future minimum annual lease payments under non-cancelable capital leases were as follows (in thousands):

Year ending March 31:		
2015	$	139
2016		40
Total minimum payments		179
Less: Amount representing interest		(2)
		177
Less: Short-term portion of capital lease obligations		(137)
Long-term portion of capital lease obligations	$	40

Capital leases included in office equipment were $607,000 and $110,000 at March 31, 2014 and 2013, respectively. Total accumulated amortization was $355,000 and $69,000 at March 31, 2014 and 2013, respectively. Amortization expense for assets recorded under capital leases is included in depreciation expense.

Minimum Third Party Customer Support Commitments

In the third quarter of 2010, the Company amended its contract with one of its third party customer support vendors containing a minimum monthly commitment of approximately $430,000 effective April 1, 2010. The agreement requires a 150-day notice to terminate. At March 31, 2014, the total remaining obligation under the contract was $2.2 million.

Minimum Third Party Network Service Provider Commitments

The Company entered into contracts with multiple vendors for third party network service providers which expire on various dates in fiscal 2015 through 2016. At March 31, 2014, future minimum annual payments under these third party network service contracts were as follows (in thousands):

Year ending March 31:		
2015	$	1,809
2016		52
Total minimum payments	$	1,861

Legal Proceedings

The Company, from time to time, is involved in various legal claims or litigation, including patent infringement claims that can arise in the normal course of the Company's operations. Pending or future litigation could be costly, could cause the diversion of management's attention and could upon resolution, have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

On February 22, 2011, the Company was named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. *et al.*, along with 20 other defendants. On August 17, 2011, the Company was dismissed without prejudice from this lawsuit under Rule 21 of the Federal Rules of Civil Procedure. On August 17, 2011, the Company was sued again by Bear Creek Technologies, Inc. in the United States District Court for the District of Delaware. The Company believes it has factual and legal defenses to these claims and is presenting a vigorous defense. Further, on November 28, 2012, the U.S. Patent & Trademark Office initiated a Reexamination proceeding with a Reexamination Declaration explaining that there is a substantial new question of patentability, based on four separate grounds and affecting each claim of the patent which is the basis for the complaint filed against the Company. On March 26, 2013, the USPTO issued a first Office Action in the Reexamination, with all claims of the '722 patent being rejected on each of the four separate grounds raised in the Request for Reexamination. On July 10, 2013, the Company filed an informational pleading in support of and joining a motion to stay the proceeding in the District Court; the District Court granted the motion on July 17, 2013, based on the possibility that at least one of the USPTO rejections will be upheld and considering the USPTO's conclusion that Bear Creek's patent suffers from a defective claim for priority. On March 24, 2014, the USPTO issued another Office Action in which the rejections of the claims are maintained. The Company cannot estimate potential liability in this case at this early stage of litigation.

On October 25, 2011, the Company was named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation *et al.*, along with 30 other defendants. The lawsuit alleges infringement of a patent that is now believed to have expired. On November 1, 2011, Klausner dismissed the Complaint voluntarily and filed new complaints separating the defendants, including a new Complaint against 8x8. The Company believes it has factual and legal defenses to these claims and is presenting a vigorous defense. On March 21, 2013, the District Court granted 8x8's Motion to Change Venue, and has ordered the transfer of the case to the US District Court for the Northern District of California. An answer to the complaint was filed on April 25, 2014. The Company cannot estimate potential liability in this case at this early stage of the litigation.

On March 31, 2014, the Company was named a defendant in a lawsuit, CallWave Communications LLC v. 8x8, Inc. CallWave Communications also sued Fonality Inc. on March 31, 2014, and previously sued other companies including Verizon, Google, T-Mobile, and AT&T. The Company is currently assessing factual and legal defenses to these claims and expects to present a vigorous defense. The Company has not answered the complaint yet and cannot estimate potential liability in this case at this early stage of the litigation.

On April 23, 2014, the Company was named but not served as a defendant in a lawsuit, TQP Development, LLC v. 8x8, Inc. On April 30, 2014 (and before any service of the complaint), TQP Development filed papers to dismiss this lawsuit and other lawsuits that were filed on or about the same time.

State and Municipal Taxes

From time to time, the Company has received inquiries from a number of state and municipal taxing agencies with respect to the remittance of taxes. Four states currently are conducting tax audits of the Company's records. The Company collects or has accrued for taxes that it believes are required to be remitted. The amounts that have been remitted have historically been within the accruals established by the Company.

Regulatory

VoIP communication services, like the Company's, are subject to less regulation at the federal level than traditional telecommunication services and states are preempted from regulating such services. Many regulatory actions are underway or are being contemplated by federal and state authorities, including the FCC, and state regulatory agencies. The FCC initiated a notice of public rule-making in early 2004 to gather public comment on the appropriate regulatory environment for IP telephony which would include the services we offer. In November 2004, the FCC ruled that the VoIP service of a competitor and "similar" services are jurisdictionally interstate and not subject to state certification, tariffing and other legacy telecommunication carrier regulations.

The effect of any future laws, regulations and the orders on the Company's operations, including, but not limited to, the 8x8 service, cannot be determined. But as a general matter, increased regulation and the imposition of additional funding obligations increases the Company's costs of providing service that may or may not be recoverable from the Company's customers which could result in making the Company's services less competitive with traditional telecommunications services if the Company increases its retail prices or decreases the Company's profit margins if it attempts to absorb such costs.

5. STOCKHOLDERS' EQUITY

1996 Stock Plan

In June 1996, the Company's board of directors adopted the 1996 Stock Plan ("1996 Plan"). A total of 12,035,967 shares were reserved for issuance under the 1996 Plan prior to its expiration in June 2006. The 1996 Plan provided for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted could not be less than the determined fair market value at the date of grant. Options generally vested over four years and had a ten-year term.

1996 Director Option Plan

The Company's 1996 Director Option Plan ("Director Plan") was adopted in June 1996 and became effective in July 1997. A total of 1,650,000 shares of common stock were reserved for issuance under the Director Plan prior to its expiration in June 2006. The Director Plan provided for both discretionary and periodic grants of nonstatutory stock options to non-employee directors of the Company (the "Outside Directors"). The exercise price per share of all options granted under the Director Plan was equal to the fair market value of a share of the Company's common stock on the date of grant. Options generally vested over a period of four years. Options granted to Outside Directors under the Director Plan had a ten year term, or shorter upon termination of an Outside Director's status as a director.

2006 Stock Plan

In May 2006, the Company's board of directors approved the 2006 Stock Plan ("2006 Plan"). The Company's stockholders subsequently adopted the 2006 Plan in September 2006, and the 2006 Plan became effective in October 2006. The Company reserved 7,000,000 shares of the Company's common stock for issuance under this plan. The 2006 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2006 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options generally vest over four years and expire ten years after grant. In 2009, the 2006 Plan was amended to provide for the granting of stock purchase rights. The 2006 Plan expires in May 2016.

2003 Contactual Plan

In the second fiscal quarter of 2012, the Company assumed the Amended and Restated Contactual, Inc. 2003 Stock Option Plan (the "2003 Contactual Plan") and registered an aggregate of 171,974 shares of the Company's common stock that may be issued upon the exercise of stock options previously granted under the 2003 Contactual Plan and assumed by the Company when it acquired Contactual. No new stock options or other awards can be granted under 2003 Contactual Plan.

2012 Equity Incentive Plan

In June 2012, the Company's board of directors approved the 2012 Equity Incentive Plan ("2012 Plan"). The Company's stockholders subsequently adopted the 2012 Plan in July 2012, and the 2012 Plan became effective in August 2012. The Company reserved 4,100,000 shares of the Company's common stock for issuance under this plan. The 2012 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants, and granting of stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards and stock grants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2012 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options, restricted stock and restricted stock units generally vest over four years and expire ten years after grant. The 2012 Plan expires in June 2022.

2013 New Employee Inducement Incentive Plan

In September 2013, the Company's board of directors approved the 2013 New Employee Inducement Incentive Plan ("2013 Plan"). The Company reserved 1,000,000 shares of the Company's common stock for issuance under this plan. The 2013 Plan provides for granting nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock and performance units and stock grants solely to newly hired employees as a material inducement to accepting employment with the Company. Options are granted at market value on the grant date under the 2013 Plan, unless determined otherwise at the time of grant by the administrator, which generally will be the compensation committee of the board of directors. Options, generally expire ten years after grant. The 2013 Plan expires in September 2023.

Option, Stock Purchase Right and Restricted Stock Unit Activity

Stock Purchase Right activity since March 31, 2011 is summarized as follows:

	Number of Shares	Weighted Average Grant-Date Fair Market Value	Weighted Average Remaining Contractual Term (in Years)
Balance at March 31, 2011	886,445	$ 1.51	3.00
Granted	563,100	3.64	
Vested	(326,683)	1.55	
Forfeited	(156,462)	2.99	
Balance at March 31, 2012	966,400	2.50	2.61
Granted	443,436	5.75	
Vested	(367,017)	2.14	
Forfeited	(84,244)	2.89	
Balance at March 31, 2013	958,575	4.11	2.52
Granted	22,380	9.69	
Vested	(392,844)	3.25	
Forfeited	(98,484)	5.18	
Balance at March 31, 2014	489,627	$ 4.83	1.93

Restricted Stock Unit activity since June 22, 2012 is summarized as follows:

	Number of Shares	Weighted Average Purchase Price	Weighted Average Remaining Contractual Term (in Years)
Balance at June 22, 2012	-	$ -	
Granted	25,000	6.91	
Vested	-	-	
Forfeited	-	-	
Balance at March 31, 2013	25,000	6.91	2.47
Granted	1,291,200	9.11	
Vested	(133,000)	9.49	
Forfeited	(48,344)	9.61	
Balance at March 31, 2014	1,134,856	$ 9.00	2.00

Option activity under the Company's stock option plans since March 31, 2011, is summarized as follows:

..	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price Per Share
Balance at March 31, 2011	1,553,979	6,969,196	$ 1.56
Granted - Options (2)	(685,500)	857,474	4.05
Stock purchase rights (1)	(563,100)	-	-
Exercised	-	(1,645,308)	1.35
Canceled/Forfeited	147,027	(147,027)	2.07
Termination of plans	(76,860)	-	
Balance at March 31, 2012	375,546	6,034,335	1.90
Change in options available for grant	4,100,000	-	-
Granted - Options	(932,000)	932,000	5.80
Stock purchase rights	(443,436)	-	-
Restricted stock units	(25,000)	-	-
Exercised	-	(835,246)	1.49
Canceled/Forfeited - Options	139,545	(139,545)	4.00
Canceled/Forfeited - Restricted Stock Units	4,000	-	-
Termination of plans	(43,394)	-	
Balance at March 31, 2013	3,175,261	5,991,544	2.52
Change in options available for grant	1,000,000	-	-
Granted - Options	(1,465,400)	1,465,400	9.66
Stock purchase rights	(992,572)	-	-
Restricted stock units	(321,008)	-	-
Exercised	-	(1,283,470)	2.75
Canceled/Forfeited - Options	171,092	(171,092)	5.25
Canceled/Forfeited - Restricted Stock Units	146,828	-	-
Termination of plans	(100,258)	-	
Balance at March 31, 2014	1,613,943	6,002,382	$ 4.14

(1) The reduction to shares available for grant includes awards granted of 563,100 shares.
(2) The increase to shares subject to options outstanding includes 171,974 shares subject to options assumed under the 2003 Contactual Plan.

Significant option groups outstanding at March 31, 2014 and related weighted average exercise price and contractual life information for 8x8, Inc.'s stock option plans are as follows:

	Options Outstanding				Options Exercisable		
	Shares	**Weighted Average Exercise Price Per Share**	**Weighted Average Remaining Contractual Life (Years)**	**Aggregate Intrinsic Value**	**Shares**	**Weighted Average Exercise Price Per Share**	**Aggregate Intrinsic Value**
$ 0.55 to $ 1.26	1,725,000	$ 1.04	3.8	$ 16,855,760	1,725,000	$ 1.04	$ 16,855,760
$ 1.27 to $ 1.79	1,257,178	$ 1.53	1.9	11,663,456	1,257,178	$ 1.53	11,663,456
$ 1.80 to $ 5.87	1,564,614	$ 4.58	6.0	9,740,969	774,413	$ 4.16	5,150,429
$ 5.88 to $ 9.74	1,305,590	$ 9.40	8.9	1,847,196	69,271	$ 8.79	139,929
$ 9.75 to $ 11.26	150,000	$ 11.11	9.8	-	-	$ -	-
	6,002,382			$ 40,107,381	3,825,862		$ 33,809,574

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on March 31, 2014 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on March 31, 2014.

The total intrinsic value of options exercised in the years ended March 31, 2014, 2013 and 2012 was $8.2 million, $3.3 million and $4.6 million, respectively. As of March 31, 2014, there was $17.8 million of unamortized stock-based compensation expense related to unvested stock options and awards which is expected to be recognized over a weighted average period of 2.84 years.

Cash received from option exercises and purchases of shares under the Equity Compensation Plans for the years ended March 31, 2014, 2013 and 2012 were $5.2 million, $2.4 million and $3.1 million, respectively. The total tax benefit attributable to stock options exercised in the year ended March 31, 2014 and 2013 was $142,000 and $49,000, respectively.

1996 Employee Stock Purchase Plan

The Company's 1996 Stock Purchase Plan ("Employee Stock Purchase Plan") was adopted in June 1996 and became effective upon the closing of the Company's initial public offering in July 1997. The Company suspended the Employee Stock Purchase Plan in 2003 and reactivated the Employee Stock Purchase Plan in fiscal 2005. Under the Employee Stock Purchase Plan, 500,000 shares of common stock were initially reserved for issuance. At the start of each fiscal year, the number of shares of common stock subject to the Employee Stock Purchase Plan increases so that 500,000 shares remain available for issuance. During fiscal 2014, 2013 and 2012, 282,062, 301,303 and 358,166 shares, respectively, were issued under the Employee Stock Purchase Plan. In May 2006, the Company's board of directors approved a ten-year extension of the Employee Stock Purchase Plan. Stockholders approved a ten-year extension of the Employee Stock Purchase Plan at the 2006 Annual Meeting of Stockholders held September 18, 2006. The Employee Stock Purchase Plan is effective until 2017.

The Employee Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions at a price equal to 85% of the fair market value of the common stock at the beginning of each two year offering period or the end of a six month purchase period, whichever is lower. When the Employee Stock Purchase Plan was reinstated in fiscal 2005, the offering period was reduced from two years to one year. The contribution amount may not exceed ten percent of an employee's base compensation, including commissions, but not including bonuses and overtime. In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the assets of the Company, the Employee Stock Purchase Plan provides that a new exercise date will be set for each option under the plan which exercise date will occur before the date of the merger or asset sale.

Assumptions Used to Calculate Stock-Based Compensation Expense

The fair value of each of the Company's option grants has been estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Years Ended March 31,		
	2014	**2013**	**2012**
Expected volatility	64%	70%	72%
Expected dividend yield	-	-	-
Risk-free interest rate	0.7% to 2.2%	0.5% to 0.8%	0.3% to 1.2%
Weighted average expected option term	6.1 years	5.3 years	4.8 years
Weighted average fair value of options granted	$ 5.70	$ 3.32	$ 2.30

The estimated fair value of stock purchase rights granted under the Equity Compensation Plans were estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Years Ended March 31,		
	2014	2013	2012
Expected volatility	40%	40%	73%
Expected dividend yield	-	-	-
Risk-free interest rate	0.09%	0.14%	0.10%
Weighted average expected rights term	0.75 years	0.75 years	0.75 years
Weighted average fair value of rights granted	$ 2.83	$ 1.78	$ 1.67

STOCK REPURCHASES

On October 19, 2010, the Company's board of directors authorized the Company to create a new stock repurchase plan to purchase an additional $10.0 million of its common stock from time to time until October 19, 2011. The stock repurchase plan expired on October 19, 2011. The stock repurchase activity since March 31, 2011 is summarized as follows:

	Shares Repurchased	Weighted Average Price Per Share	Amount Repurchased
Balance at March 31, 2011	3,870,985	$ 2.26	$ 8,022,690
Repurchase of common stock	301,800	2.95	888,964
Balance at March 31, 2012	4,172,785	2.23	8,911,654
Repurchase of common stock	-	-	-
Balance at March 31, 2013	4,172,785	2.23	8,911,654
Repurchase of common stock	-	-	-
Balance at March 31, 2014	4,172,785	$ 2.23	$ 8,911,654

The total purchase prices of the common stock repurchased and retired were reflected as a reduction to consolidated stockholders' equity during the period of repurchase.

In fiscal 2012, the Company also repurchased in two transactions at current market prices 352,030 shares with a total repurchase price of $1.5 million from former and current members of the board of directors outside of the stock repurchase plan.

In fiscal 2013, the Company also withheld 73,751 shares related to tax withholdings on restricted stock awards with a total price of $0.4 million.

In fiscal 2014, the Company also withheld 50,400 shares related to tax withholdings on restricted stock awards with a total price of $0.5 million.

6. EMPLOYEE BENEFIT PLAN

401(k) Savings Plan

In April 1991, the Company adopted a 401(k) savings plan (the "Savings Plan") covering substantially all of its U.S. employees. Eligible employees may contribute to the Savings Plan from their compensation up to the maximum allowed by the Internal Revenue Service. In January 2007, the Company reactivated the employer matching contribution. The matching contribution is 100% of each employee's contributions in each year, not to exceed $1,500 per annum. The matching expense in 2014, 2013 and 2012 was $0.4 million, $0.3 million and $0.3 million, respectively. The Savings Plan does not allow employee contributions to be invested in the Company's common stock.

7. SEGMENT REPORTING

ASC 280 "*Segment Reporting*" establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under ASC 280, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. The Company has one reportable operating segment. The Company's chief operating decision makers, the Chief Executive Officer, Chief Financial Officer and Chief Technology Officer, evaluate performance of the Company and make decisions regarding allocation of resources based on total Company results.

The Company's revenue distribution by geographic region (based upon the destination of shipments and the customer's service address) was as follows:

	Years Ended March 31,		
	2014	**2013**	**2012**
Americas (principally US)	97%	99%	99%
Europe	2%	0%	0%
Asia Pacific	1%	1%	1%
	100%	100%	100%

Geographic area data is based upon the location of the property and equipment and is as follows (in thousands):

	March 31,	
	2014	**2013**
United States	$ 6,305	$ 6,673
Europe	1,087	-
Asia	319	-
	$ 7,711	$ 6,673

8. ACQUISITION

Voicenet Solutions Limited

On November 11, 2013, the Company entered into a share purchase agreement with the shareholders and optionholders of Voicenet Solutions Limited ("Voicenet"), a provider of cloud communications and collaboration services in the United Kingdom (the "Transaction"). The Company completed the acquisition of Voicenet on November 29, 2013. The Company purchased all of the outstanding shares of Voicenet for total consideration transferred of $19.3 million; $3.0 million was placed in escrow and eligible for release to the Voicenet shareholders and optionholders in installments on the first and second anniversaries of the closing date. The shares of Voicenet are held by a wholly-owned subsidiary of 8x8 recently formed in the United Kingdom, such that Voicenet is an indirect, wholly-owned subsidiary of 8x8.

The Company recorded the acquired tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values. The excess of the consideration transferred over the aggregate fair values of the assets acquired and liabilities assumed is recorded as goodwill. The amount of goodwill recognized is primarily attributable to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce of the acquired business. The finite–lived intangible assets consist of customer relationship, with an estimated weighted-average useful life of 7 years. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management using the excess earnings method. Intangible assets are amortized on a straight-line basis.

The preliminary fair values of the assets acquired and liabilities assumed are as follows (in thousands):

		Estimated Fair Value
Assets acquired:		
Cash	$	854
Current assets		1,114
Property and equipment		956
Intangible asset - customer relationship		6,381
Total assets acquired		9,305
Liabilities assumed:		
Current and non-current liabilities		(4,132)
Total liabilities assumed		(4,132)
Net identifiable assets acquired		5,173
Goodwill		14,155
Total consideration transferred	$	19,328

None of the goodwill recognized is expected to be deductible for income tax purposes.

Voicenet contributed revenue of approximately $3.3 million and a net loss of approximately $0.8 million for the period from the date of acquisition to March 31, 2014. The Company determined that it is impractical to include such pro forma information given the difficulty in obtaining the historical financial information of Voicenet. Inclusion of such information would require the Company to make estimates and assumptions regarding Voicenet's historical financial results that we believe may ultimately prove inaccurate.

9. GAIN ON SETTLEMENT OF ESCROW CLAIM

In December 2013, the Company settled an escrow claim for indemnification with the sellers of Contactual, Inc. Under the terms of the settlement, the Company recorded a gain of $0.6 million in other income. Under the terms of the Contactual merger agreement and the escrow agreement, each indemnifying seller paid his, her or its pro rata share of the obligations owed to the Company on January 29, 2014. Upon receipt of the cash on January 29, 2014, the Company released the remaining escrow account balance to the sellers of Contactual Inc.

10. PATENT SALE

In June 2012, the Company entered into a patent purchase agreement and sold a family of patents to a third party for approximately $12.0 million plus a future payment of up to a maximum of $3.0 million based on future license agreements entered into by the third party purchaser. In February 2013, the third party entered into a separate license agreement with its customer; therefore, the Company earned an additional $1.0 million under the patent purchase agreement. Under the terms and conditions of the patent purchase agreement, the Company has retained certain limited rights to continue to use the patents. The patent purchase agreement contains representations and warranties customary for transactions of this type.

11. DISCONTINUED OPERATIONS

On September 30, 2013, the Company completed the sale of its dedicated server hosting business to IRC Company, Inc. ("IRC") and, as a result, no longer provides dedicated server hosting services. In the transaction, IRC purchased 100% of the stock of Central Host, Inc., which had been wholly owned by the Company and all of the assets specific to the dedicated server hosting business.

The Company sold its dedicated server hosting business for total consideration of $3.0 million in cash, which was received on October 1, 2013.

The dedicated server hosting business has been reported as discontinued operations. The results of operations and financial position of these discontinued operations are as follows:

Results of operations:

	Years Ended March 31,		
	2014	2013	2012
Revenue	$ 1,430	$ 3,828	$ 2,431
Operating expense	922	3,005	3,883
Income (loss) before income taxes	508	823	(1,452)
Provision for income taxes	188	334	-
Income (loss) from discontinued operations	320	489	(1,452)
Gain on disposal of discontinued operations, net of income tax provision of $456k	596	-	-

Financial position:

	March 31, 2014	March 31, 2013
Assets		
Property and equipment, net	$ -	$ 845
Intangible assets, net	-	8
Goodwill	-	1,210
	$ -	$ 2,063

8X8, INC.
CONSOLIDATED QUARTERLY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	QUARTER ENDED							
	March 31, 2014	**Dec. 31, 2013**	**Sept. 30, 2013**	**June 30, 2013**	**March 31, 2013**	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**
Service revenue	$ 32,545	$ 29,737	$ 27,826	$ 26,499	$ 25,070	$ 24,023	$ 23,101	$ 22,190
Product revenue	3,241	3,008	2,989	2,752	2,746	2,382	2,194	2,080
Total revenue	35,786	32,745	30,815	29,251	27,816	26,405	25,295	24,270
Operating expenses:								
Cost of service revenue	6,866	5,584	5,209	4,786	4,744	4,890	5,216	5,078
Cost of product revenue	3,999	4,041	3,783	3,347	3,216	3,203	2,672	2,710
Research and development	3,332	3,325	2,640	2,336	2,174	2,117	2,030	1,826
Sales and marketing	18,038	16,051	13,745	13,072	12,944	11,561	10,800	10,268
General, and administrative	3,924	5,547	3,125	2,772	2,332	2,119	2,054	2,053
Gain on patent sale	-	-	-	-	(1,000)	-	-	(11,965)
Total operating expenses	36,159	34,548	28,502	26,313	24,410	23,890	22,772	9,970
Income (loss) from operations	(373)	(1,803)	2,313	2,938	3,406	2,515	2,523	14,300
Other income net	140	586	1	15	15	73	9	8
Income (loss) from continuing operations before provision (benefit) for income taxes	(233)	(1,217)	2,314	2,953	3,421	2,588	2,532	14,308
Provision (benefit) for income taxes (1)	1,738	(1,306)	826	961	1,905	814	935	5,745
Income (loss) from continuing operations	(1,971)	89	1,488	1,992	1,516	1,774	1,597	8,563
Income from discontinued operations, net of income tax provision	19	-	154	147	145	146	144	54
Gain on disposal of discontinued operations, net of income tax provision of $456	7	-	589	-	-	-	-	-
Net income (loss)	$ (1,945)	$ 89	$ 2,231	$ 2,139	$ 1,661	$ 1,920	$ 1,741	$ 8,617
Income (loss) per share continuing operations:								
Basic	$ (0.02)	$ 0.00	$ 0.02	$ 0.03	$ 0.02	$ 0.02	$ 0.02	$ 0.12
Diluted	$ (0.02)	$ 0.00	$ 0.02	$ 0.03	$ 0.02	$ 0.02	$ 0.02	$ 0.12
Income per share discontinued operations:								
Basic	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Net income (loss) per share:								
Basic	$ (0.02)	$ 0.00	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.12
Diluted	$ (0.02)	$ 0.00	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.12
Shares used in per share calculations:								
Basic	88,184	79,742	72,970	72,510	71,998	71,611	71,261	70,717
Diluted	88,184	83,182	76,232	75,756	75,053	74,988	74,558	74,110

(1) Comparability affected by the increase in the valuation allowance related to the deferred tax asset which resulted in an increase in the provision for income taxes of $1.3 million and $1.0 million in the fourth quarter of fiscal 2014 and 2013, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2014. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. On November 29, 2013, the Company completed the acquisition of Voicenet Solutions, Ltd ("Voicenet"). As permitted by applicable guidelines established by the Securities and Exchange Commission, the Company's management excluded Voicenet's operations from its assessment of internal control over financial reporting as of March 31, 2014. Voicenet's operations represented 2% of the Company's consolidated total assets, excluding goodwill and intangible assets, net, and 3% of the Company's consolidated net sales as of and for the year ended March 31, 2014. Based on this assessment, our management concluded that its internal control over financial reporting was effective as of March 31, 2014.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Moss Adams LLP, an independent registered public accounting firm has audited and reported on the consolidated financial statements of 8x8, Inc. and on the effectiveness of our internal control over financial reporting. The report of Moss Adams LLP is contained in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

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PART III

Certain information required by Part III is omitted from this Report on Form 10-K. The Registrant will file its definitive Proxy Statement for its Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the 2014 Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and corporate governance will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference. However, certain information regarding current executive officers found under the heading "Executive Officers" in Item 1 of Part I hereof is also incorporated by reference in response to this Item 10.

We have adopted a Code of Conduct and Ethics that applies to our principal executive officer, principal financial officer and all other employees at 8x8, Inc. This Code of Conduct and Ethics is posted in the corporate governance section of our website at http://investors.8x8.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics by posting such information in the corporate governance section on its website at http://investors.8x8.com.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to securities authorized for issuance under equity compensation plans and other information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference. In addition, descriptions of our equity compensation plans are set forth in Part II, Item 8 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Note 5 STOCKHOLDERS' EQUITY."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements.

The information required by this item is included in Item 8.

(a)(2) Financial Statement Schedules.

The information required by this item is included in Item 8.

(a)(3) Exhibits.

The documents listed on the Exhibit Index appearing in this Report are filed herewith or hereby incorporated by reference. Copies of the exhibits listed in the Exhibit Index will be furnished, upon request, to holders or beneficial owners of the Company's common stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, 8x8, Inc., a Delaware corporation, has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on May 27, 2014.

8X8, INC.
By: /s/ VIKRAM VERMA

Vikram Verma,
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Vikram Verma and Daniel Weirich, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the date indicated:

Signature	Title	Date
/s/ VIKRAM VERMA	Chief Executive Officer (Principal Executive Officer)	May 27, 2014
Vikram Verma		
/s/ DANIEL WEIRICH	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	May 27, 2014
Daniel Weirich		
/s/ BRYAN R. MARTIN	Chairman and Chief Technology Officer	May 27, 2014
Bryan R. Martin		
/s/ GUY L. HECKER	Director	May 27, 2014
Guy L. Hecker, Jr.		
/s/ ERIC SALZMAN	Director	May 27, 2014

Eric Salzman

/s/ IAN POTTER	Director	May 27, 2014
Ian Potter		
/s/ JASWINDER PAL SINGH	Director	May 27, 2014
Jaswinder Pal Singh		
/s/ VLADIMIR JACIMOVIC	Director	May 27, 2014
Vladimir Jacimovic		

8X8, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1 (w)	Restated Certificate of Incorporation of Registrant, dated August 22, 2012
3.2 (a)	Bylaws of Registrant
10.1 (b)	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2 (c)	Employment Agreement dated September 9, 2013 between the Company and Vikram Verma
10.3 (d)*	1996 Stock Plan, as amended, and form of Stock Option Agreement
10.4 (e)*	Amended and Restated 1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement
10.5 (f)*	1996 Director Option Plan, as amended and Form of Director Option Agreement
10.5.1 (g)*	Form of Director Option Agreement for 1996 Director Option Plan
10.6 (h)	Employment Agreement dated September 9, 2013 between the Company and Darren Hakeman
10.7 (i)*	2006 Stock Plan, as amended
10.8 (j)*	Severance Agreement and General Release
10.9 (k)*	Form of 2006 Stock Option Agreement under the 2006 Stock Plan
10.10 (l)*	Form of Notice of Award of Stock Purchase Right and Stock Purchase Agreement under the 2006 Stock Plan
10.11	Reserved
10.12 (m)	Lease dated April 27, 2012, between Registrant and O'Nel Office Holdings, LLC
10.13 (n)	Acquisition Agreement between 8x8, Inc., Central Host, Inc. and Andrew Schwabecher
10.14 (o)*	Employment offer letter agreement between 8x8, Inc. and Debbie Jo Severin dated March 5, 2009
10.15	Reserved
10.16(p)*	Annual Executive Incentive Plan.
10.17(q)*	Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.18(q)*	Form of Stock Option Agreement under the Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.19(r)*	2012 Equity Incentive Plan
10.20(s)*	Form of Stock Option Agreement under the 2012 Equity Incentive Plan
10.21(s)*	Notice of Grant of Restricted Stock Unit Award and Agreement under the 2012 Equity Incentive Plan
10.22(t)*	Management Incentive Bonus Plan
10.23(u)	8x8, Inc. 2013 New Employee Inducement Incentive Plan
10.24(u)	Form of Stock Option Agreement under the 2013 New Employee Inducement Incentive Plan
10.25(u)	Form of Notice of Grant of Restricted Stock Unit Award and Agreement under the 2013 New Employee Inducement Incentive Plan
10.23(v)	Share Purchase Agreement, dated November 11, 2013, by and among 8x8 UK Investments Limited and 8x8, Inc. and the material sellers and the material optionholders and Voicenet Solutions Limited
21.1**	Subsidiaries of Registrant.
23.1**	Consent of Independent Registered Public Accounting Firm.

24.1	Power of Attorney (included on page 71)
31.1**	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14
31.2**	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14
32.1**	Certification of Chief Executive Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase

101.PRE** XBRL Taxonomy Extension Presentation Linkbase

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* Indicates management contract or compensatory plan or arrangement.

**Filed herewith.

(a) Incorporated by reference to exhibit 3.2 to the Registrant's Report on Form 8-K filed October 23, 2013 (File No. 000-21783).

(b) Incorporated by reference to the same numbered exhibits to the Registrant's Registration Statement on Form S-1 Commission File No. 333-15627), as amended, declared effective July 1, 1997.

(c) Incorporated by reference to exhibit 10.2 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783)

(d) Incorporated by reference to exhibit 4.1 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).

(e) Incorporated by reference to exhibit 10.5 to the Registrant's Form S-8 filed September 26, 2006 (File No. 333-137599).

(f) Incorporated by reference to exhibit 10.3 to the Registrant's Form S-8 filed August 28, 2003 (File No. 333-108290).

(g) Incorporated by reference to exhibit 4.2 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).

(h) Incorporated by reference to exhibit 10.6 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783)

(i) Incorporated by reference to exhibit 10.7 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).

(j) Incorporated by reference to exhibit 10.8 to the Registrant's Form 8-K filed November 5, 2013 (File No. 000-21783)

(k) Incorporated by reference to exhibit 10.1 to the Registrant's Form 10-Q filed February 7, 2007 (File No. 000-21783).

(l) Incorporated by reference to exhibit 10.10 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).

(m) Incorporated by reference to exhibit 10.12 to the Registrant's Form 10-K filed May 24, 2012 (File no. 000-21783).

(n) Incorporated by reference to exhibit 10.12 to the Registrant's Form 10-K filed May 27, 2010 (File No. 000-21783).

(o) Incorporated by reference to exhibit 10.13 to the Registrant's Form 10-K filed May 23, 2011 (File No. 000-21783).

(p) Incorporated by reference to exhibit 10.15 to the Registrant's Form 10-Q filed July 22, 2011 (File No. 000-21783).

(q) Incorporated by reference to exhibit 10.16 and 10.17 to the Registrant's Form S-8 filed September 19, 2011 (File No. 333-176895).

(r) Incorporated by reference to exhibit 10.19 to the Registrant's Form S-8 filed August 28, 2012 (File No. 333-183597).

(s) Incorporated by reference to exhibit 10.20 and 10.21 to the Registrant's Form S-8 filed August 28, 2012 (File No. 333-183597).

(t)

Incorporated by reference to exhibit 10.19 to the Registrant's Form 10-Q filed January 25, 2013 (File No. 000-21783).

(u) Incorporated by reference to exhibit 10.23, 10.24 and 10.25 to the Registrant's Form S-8 filed September 10, 2013 (File No. 333-191080).

(v) Incorporated by reference to exhibit 2.2 to the Registrant's Form 8-K filed November 13, 2013 (File no. 000-21783)

(w) Incorporated by reference to exhibit 3.1 to the Registrant's Form 10-K filed May 28, 2013 (File no. 000-21783)