STANDARD MOTOR PRODUCTS INC
Form 10-Q
May 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission file number: 1-4743

Standard Motor Products, Inc.
(Exact name of registrant as specified in its charter)

New York	11-1362020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

37-18 Northern Blvd., Long Island City, N.Y.	11101
(Address of principal executive offices)	(Zip Code)

(718) 392-0200
(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ	Accelerated Filer
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company

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

As of the close of business on April 30, 2015, there were 22,986,865 outstanding shares of the registrant's Common Stock, par value $2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
Net sales	$227,589	$232,752
Cost of sales	163,700	164,842
Gross profit	63,889	67,910
Selling, general and administrative expenses	49,198	47,594
Restructuring and integration expenses	57	171
Other income, net	281	260
Operating income	14,915	20,405
Other non-operating income (expense), net	151	(413)
Interest expense	426	308
Earnings from continuing operations before taxes	14,640	19,684
Provision for income taxes	5,301	7,277
Earnings from continuing operations	9,339	12,407
Loss from discontinued operations, net of income taxes	(391)	(682)
Net earnings	$8,948	$11,725
Net earnings per common share – Basic:		
Earnings from continuing operations	$0.41	$0.54
Discontinued operations	(0.02)	(0.03)
Net earnings per common share – Basic	$0.39	$0.51
Net earnings per common share – Diluted:		
Earnings from continuing operations	$0.40	$0.53
Discontinued operations	(0.01)	(0.03)
Net earnings per common share – Diluted	$0.39	$0.50
Dividends declared per share	$0.15	$0.13
Average number of common shares	22,910,889	22,947,241
Average number of common shares and dilutive common shares	23,238,050	23,224,698

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended March 31, 2015	2014
	(Unaudited)	
Net earnings	$8,948	$11,725
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(3,074)	(590)
Pension and postretirement plans:		
Amortization of:		
Prior service benefit	(29)	(754)
Unrecognized loss	618	592
Foreign currency exchange rate changes	8	(22)
Income tax (expense) benefit related to pension and postretirement plans	(241)	58
Pension and postretirement plans, net of tax	356	(126)
Total other comprehensive income (loss), net of tax	(2,718)	(716)
Comprehensive income	$6,230	$11,009

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,119	$ 13,728
Accounts receivable, less allowances for discounts and doubtful accounts of $6,567 and $6,369 for 2015 and 2014, respectively	150,736	126,524
Inventories	283,701	278,051
Deferred income taxes	36,509	36,534
Prepaid expenses and other current assets	9,110	11,196
Total current assets	488,175	466,033
Property, plant and equipment, net	65,065	64,611
Goodwill	54,883	54,975
Other intangibles, net	32,863	34,402
Deferred income taxes	14,677	14,941
Other assets	39,032	38,589
Total assets	$ 694,695	$ 673,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 71,567	$ 56,558
Current portion of long-term debt	122	175
Accounts payable	76,889	70,674
Sundry payables and accrued expenses	43,237	49,412
Accrued customer returns	35,814	30,621
Accrued rebates	23,950	26,076
Payroll and commissions	13,443	17,313
Total current liabilities	265,022	250,829
Long-term debt	72	83
Other accrued liabilities	15,653	15,024
Accrued asbestos liabilities	33,399	33,462
Total liabilities	314,146	299,398
Commitments and contingencies		
Stockholders' equity:		
Common stock – par value $2.00 per share:		
Authorized – 30,000,000 shares; issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	93,109	91,411
Retained earnings	264,674	259,160
Accumulated other comprehensive income	(5,370)	(2,652)
Treasury stock – at cost (951,396 shares and 1,043,064 shares in 2015 and 2014, respectively)	(19,736)	(21,638)
Total stockholders' equity	380,549	374,153
Total liabilities and stockholders' equity	$ 694,695	$ 673,551

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31, 2015 (Unaudited)	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$8,948	$11,725
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,288	4,084
Amortization of deferred financing cost	174	175
Increase to allowance for doubtful accounts	180	152
Increase to inventory reserves	238	508
Amortization of deferred gain on sale of building	(262)	(262)
Equity (income) loss from joint ventures	(390)	53
Employee stock ownership plan allocation	552	457
Stock-based compensation	1,319	972
Excess tax benefits related to exercise of employee stock grants	(38)	(36)
Increase in deferred income taxes	(64)	(335)
Loss on discontinued operations, net of tax	391	682
Change in assets and liabilities:		
Increase in accounts receivable	(25,289)	(852)
Increase in inventories	(7,473)	(12,715)
Decrease in prepaid expenses and other current assets	3,620	2,044
Increase in accounts payable	5,255	9,310
Decrease in sundry payables and accrued expenses	(6,287)	(5,971)
Net changes in other assets and liabilities	675	(759)
Net cash provided by (used in) operating activities	(14,163)	9,232
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of and investments in businesses	—	(12,225)
Capital expenditures	(4,009)	(2,763)
Other investing activities	26	—
Net cash used in investing activities	(3,983)	(14,988)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line-of-credit agreements	15,009	11,616
Principal payments of long-term debt and capital lease obligations	(63)	(32)
Purchase of treasury stock	—	(4,526)
Increase in overdraft balances	1,536	947
Proceeds from exercise of employee stock options	35	66
Excess tax benefits related to the exercise of employee stock grants	38	36
Dividends paid	(3,434)	(2,984)
Net cash provided by financing activities	13,121	5,123
Effect of exchange rate changes on cash	(584)	(503)
Net decrease in cash and cash equivalents	(5,609)	(1,136)
CASH AND CASH EQUIVALENTS at beginning of period	13,728	5,559
CASH AND CASH EQUIVALENTS at end of period	$8,119	$4,423
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		

Interest	$245	$110
Income taxes	$1,892	$2,474

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2015
(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2014	$47,872	$91,411	$259,160	$ (2,652)	$(21,638)	$374,153
Net earnings	—	—	8,948	—	—	8,948
Other comprehensive income (loss), net of tax	—	—	—	(2,718)	—	(2,718)
Cash dividends paid	—	—	(3,434)	—	—	(3,434)
Stock-based compensation and related tax benefits	—	698	—	—	630	1,328
Stock options exercised and related tax benefits	—	(1)	—	—	65	64
Employee Stock Ownership Plan	—	1,001	—	—	1,207	2,208
Balance at March 31, 2015	$47,872	$93,109	$264,674	$ (5,370)	$(19,736)	$380,549

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

Standard Motor Products, Inc. and subsidiaries (referred to as the "Company," "we," "us," or "our") is engaged in the manufacture and distribution of replacement parts for motor vehicles in the automotive aftermarket industry with an increasing focus on the original equipment service market.

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest. All significant inter-company items have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

Note 2. Summary of Significant Accounting Policies

The preparation of consolidated annual and quarterly financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We have made a number of estimates and assumptions in the preparation of these consolidated financial statements. We can give no assurance that actual results will not differ from those estimates. Some of the more significant estimates include allowances for doubtful accounts, realizability of inventory, goodwill and other intangible assets, depreciation and amortization of long-lived assets, product liability, pensions and other postretirement benefits, asbestos, environmental and litigation matters, the valuation of deferred tax assets and sales return allowances.

There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recently Issued Accounting Pronouncements

Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"), which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The new standard applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The amendment is effective for annual reporting periods beginning after December 15, 2014. We adopted the new standard as of January 1, 2015. The adoption of the new standard did not change the manner in which we present discontinued operations in our consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the new guidance, “an entity recognizes revenue to depict the transfer of promised 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 new standard provides entities the option of using either a full retrospective or a modified approach to adopt the guidance. The new standard is effective for annual reporting periods beginning after December 15, 2016, which for us is January 1, 2017, and interim periods within those annual periods; however, the FASB recently proposed a one year deferral of the effective date of the standard. Early adoption is not permitted. We are currently evaluating the impact, if any, this new standard will have on our consolidated financial statements and have not yet determined the method of adoption.

Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”), which provides guidance on determining when and how to disclose going concern uncertainties in the consolidated financial statements. Under the new guidance, management would be required to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. Certain disclosures must be provided if “conditions or events raise substantial doubt about an entity’s ability to continue as a going concern.” The new standard is effective for annual reporting periods ending after December 15, 2016, which for us is December 31, 2016, and interim periods thereafter. Early adoption is permitted. Upon adoption, although we do not anticipate that the new standard will have an impact on our disclosures, we will consider the new standard when conducting our interim and annual assessments of our ability to continue as a going concern.

Income Statement - Extraordinary and Unusual Items

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items, (“ASU 2015-01”), which removes the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is unusual and occurs infrequently. This separate, net-of-tax presentation will no longer be allowed. The existing requirement to separately disclose events or transactions that are unusual or occur infrequently on a pre-tax basis within continuing operations in the income statement has been retained. The new guidance requires similar separate presentation of items that are both unusual and infrequent. The new standard is effective for periods beginning after December 15, 2015, which for us is January 1, 2016. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, we will present transactions that are both unusual and infrequent, if any, on a pre-tax basis within continuing operations in the income statement.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, (“ASU 2015-03”), which requires that debt issuance costs be presented in the balance sheet as a direct deduction of the carrying value of the associated debt liability. Under the existing guidance, debt issuance costs are required to be presented in the balance sheet as a deferred charge (i.e., an asset). The new standard is effective for periods beginning after December 15, 2015, which for us is January 1, 2016. Early adoption is permitted for financial statements that have not been previously issued. The new standard should be applied retrospectively to all periods presented in the financial statements. Upon adoption, we will present debt financing costs as a deduction of the carrying value of our revolving credit facility debt instead of presenting such costs as an asset in our consolidated balance sheets.

Note 3. Restructuring and Integration Costs

The aggregated liabilities included in “sundry payables and accrued expenses” and “other accrued liabilities” in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2014 and March 31, 2015 and activity for the three months ended March 31, 2015 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2014	$ 947	$ 729	$ 1,676
Restructuring and integration costs:			
Amounts provided for during 2015	2	55	57
Cash payments	(294)	(57)	(351)
Exit activity liability at March 31, 2015	$ 655	$ 727	$ 1,382

Liabilities associated with the remaining restructuring and integration costs as of March 31, 2015 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2019 and environmental clean-up costs at our Long Island City, New York location in connection with the closure of our manufacturing operations at the site.

Note 4. Sale of Receivables

From time to time, we sell undivided interests in certain of our receivables to financial institutions. We enter these agreements at our discretion when we determine that the cost of factoring is less than the cost of servicing our receivables with existing debt. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale.

Pursuant to these agreements, we sold $144 million and $177.4 million of receivables during the three months ended March 31, 2015 and 2014, respectively. A charge in the amount of $2.9 million and $3.4 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months ended March 31, 2015 and 2014, respectively. If we do not enter into these arrangements or if any of the financial institutions with which we enter into these arrangements were to experience financial difficulties or otherwise terminate these arrangements, our financial condition, results of operations and cash flows could be materially and adversely affected by delays or failures to collect future trade accounts receivable.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Note 5. Inventories

Inventories, which are stated at the lower of cost (determined by means of the first-in, first-out method) or market, consist of the following:

	March 31, 2015	December 31, 2014
	(In thousands)	
Finished goods	$189,976	$185,655
Work in process	5,321	4,722
Raw materials	88,404	87,674
Total inventories	$283,701	$278,051

Note 6. Acquired Intangible Assets

Acquired identifiable intangible assets consist of the following:

	March 31, 2015	December 31, 2014
	(In thousands)	
Customer relationships	$48,473	$48,646
Trademarks and trade names	6,800	6,800
Non-compete agreements	970	970
Patents and supply contracts	723	723
Leaseholds	160	160
Total acquired intangible assets	57,126	57,299
Less accumulated amortization (1)	(25,373)	(24,120)
Net acquired intangible assets	$31,753	$33,179

(1) Applies to all intangible assets, except for trademarks and trade names totaling $5.2 million, which have indefinite useful lives and, as such, are not being amortized.

Total amortization expense for acquired intangible assets was $1.3 million and $1.1 million for the three months ended March 31, 2015 and 2014, respectively. Based on the current estimated useful lives assigned to our intangible assets, amortization expense is estimated to be $3.7 million for the remainder of 2015, $4.8 million in 2016, $4.6 million in 2017 and $13.5 million in the aggregate for the years 2018 through 2028.

Note 7. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Revolving credit facilities	$71,567	$ 56,558
Other	194	258
Total debt	$71,761	$ 56,816
Current maturities of debt	$71,689	$ 56,733
Long-term debt	72	83
Total debt	$71,761	$ 56,816

Deferred Financing Costs

We had deferred financing costs of $2.1 million and $2.3 million as of March 31, 2015 and December 31, 2014, respectively. Deferred financing costs are related to our revolving credit facility. Deferred financing costs as of March 31, 2015 are being amortized in the amounts of $0.5 million for the remainder of 2015, $0.7 million in 2016, $0.7 million in 2017 and $0.2 million in 2018.

Revolving Credit Facility

We entered into the Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. The restated credit agreement (as amended) provides for a line of credit of up to $250 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2018. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $147.5 million available for us to borrow pursuant to the formula at March 31, 2015. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $71.6 million and $56.6 million at March 31, 2015 and December 31, 2014, respectively. Borrowings under the restated credit agreement have been classified as current liabilities based upon the accounting rules and certain provisions in the agreement.

At March 31, 2015, the weighted average interest rate on our restated credit agreement was 2%, which consisted of $61 million in direct borrowings at 1.7% and an index loan of $10.6 million at 3.8%. At December 31, 2014, the weighted average interest rate on our restated credit agreement was 1.8%, which consisted of $53 million in direct borrowings at 1.7% and an index loan of $3.6 million at 3.8%. During the three months ended March 31, 2015, our average daily index loan balance was $4.3 million compared to $3.3 million for the three months ended March 31, 2014 and $4.4 million for the year ended December 31, 2014.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

At any time that our average borrowing availability is less than $25 million, the terms of our restated credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months). As of March 31, 2015, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Provided specific conditions are met, our restated credit agreement permits cash dividends, stock repurchases, acquisitions, permissible debt financing and capital expenditures.

Canadian Revolving Credit Facility

Our Canadian Credit Agreement (as amended) with GE Canada Finance Holding Company, for itself and as agent for the lenders, provides for a $10 million revolving credit facility that expires in March 2018. The Canadian $10 million line of credit is part of the $250 million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

The Canadian Credit Agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of March 31, 2015, we have no outstanding borrowings under the Canadian Credit Agreement.

Note 8. Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income by Component

	Foreign Currency Translation Adjustments	Unrecognized Pension and Postretirement Benefit Costs (Credit)	Total
Balance at December 31, 2014	$ (219)	$ (2,433)	$ (2,652)
Other comprehensive income before reclassifications	(3,074)	8	(3,066)
Amounts reclassified from accumulated other comprehensive income	—	348	348
Other comprehensive income, net	(3,074)	356	(2,718)
Balance at March 31, 2015	$ (3,293)	$ (2,077)	$ (5,370)

Reclassifications Out of Accumulated Other Comprehensive Income

Details About Accumulated Other Comprehensive Income Components	Three Months Ended March 31, 2015
Amortization of pension and postretirement benefit plans:	
Prior service benefit (1)	$ (29)
Unrecognized loss (1)	618

Total before income tax	589
Income tax expense	(241)
Total reclassifications for the period	$ 348

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement benefit costs, which are included in selling, general and administrative expenses in our consolidated statements of operations (see Note 10 for additional details).

Note 9. Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of FASB ASC 718, Stock Compensation, which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the three months ended March 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2014	9,875	$ 10.99	0.4
Expired	—	—	—
Exercised	(3,125)	11.14	—
Forfeited, other	—	—	—
Outstanding at March 31, 2015	6,750	$ 10.92	0.1
Options exercisable at March 31, 2015	6,750	$ 10.92	0.1

The aggregate intrinsic value of all outstanding stock options as of March 31, 2015 was $0.2 million. All outstanding stock options as of March 31, 2015 are fully vested and exercisable. The total intrinsic value of options exercised was $0.1 million for the three months ended March 31, 2015. There were no options granted in the three months ended March 31, 2015.

Restricted and Performance Stock Grants

As part of the 2006 Omnibus Incentive Plan, we currently grant shares of restricted stock to eligible employees and our independent directors and performance-based stock to eligible employees. Selected executives and other key personnel are granted performance awards whose vesting is contingent upon meeting various performance measures with a retention feature. Performance-based shares are subject to a three-year measuring period and the achievement of performance targets and, depending upon the achievement of such performance targets, they may become vested on the third anniversary of the date of grant. Each period we evaluate the probability of achieving the applicable targets, and we adjust our accrual accordingly. Restricted shares granted to employees become fully vested upon the third anniversary of the date of grant; and for selected key executives, certain additional restricted share grants vest 25% upon the attainment of age 60, 25% upon the attainment of age 63 and become fully vested upon the attainment of age 65. Restricted shares granted to directors become fully vested upon the first anniversary of the date of grant. Forfeitures on restricted stock grants are estimated at 5% for employees and 0% for executives and directors, respectively, based on our evaluation of historical and expected future turnover.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Our restricted and performance-based share activity was as follows for the three months ended March 31, 2015:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2014	749,018	$ 24.62
Granted	—	—
Vested	(30,343)	36.14
Forfeited	(1,100)	22.30
Balance at March 31, 2015	717,575	$ 24.13

We recorded compensation expense related to restricted shares and performance-based shares of $1.3 million ($0.8 million, net of tax) and $1million ($0.6 million, net of tax) for the three months ended March 31, 2015 and 2014, respectively. The unamortized compensation expense related to our restricted and performance-based shares was $10.7 million at March 31, 2015, and is expected to be recognized as they vest over a weighted average period of 5.1 years and 0.1 years for employees and directors, respectively.

Note 10. Employee Benefits

The components of net periodic benefit cost (credit) for our defined benefit plans and postretirement benefit plans for the three months ended March 31, 2015 and 2014 were as follows (in thousands):

	Three Months Ended March 31,	
Pension benefits	2015	2014
Service cost	$—	$41
Interest cost	54	65
Amortization of prior service cost	—	—
Actuarial net loss	184	57
Net periodic benefit cost	$238	$163
Postretirement benefits		
Service cost	$—	$—
Interest cost	7	8
Amortization of prior service cost	(29)	(754)
Actuarial net loss	434	535
Net periodic benefit cost (credit)	$412	$(211)

For the three months ended March 31, 2015, we made employee benefit contributions of $0.2 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately $2.3 million in contributions for 2015.

We maintain a Supplemental Executive Retirement Plan (“SERP”) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2015, contributions of $0.5 million were made related to calendar year 2014.

We also have an Employee Stock Ownership Plan and Trust for employees who are not covered by a collective bargaining agreement. In connection therewith, we maintain an employee benefits trust to which we contribute shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under the plan. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During the three months ended March 31, 2015, we contributed to the trust an additional 58,000 shares from our treasury and released 58,200 shares from the trust leaving 200 shares remaining in the trust as of March 31, 2015.

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Note 11. Fair Value Measurements

We follow a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$8,119	$8,119	$13,728	$13,728
Deferred compensation	11,006	11,006	9,811	9,811
Short term borrowings	71,689	71,689	56,733	56,733
Long-term debt	72	72	83	83

For fair value purposes the carrying value of cash and cash equivalents approximates fair value due to the short maturity of those investments. The fair value of the underlying assets held by the deferred compensation plan are based on the quoted market prices of the funds in registered investment companies, which are considered Level 1 inputs. The carrying value of our revolving credit facilities, classified as short term borrowings, equals fair market value because the interest rate reflects current market rates.

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Note 12. Earnings Per Share

The following are reconciliations of the earnings available to common stockholders and the shares used in calculating basic and dilutive net earnings per common share (in thousands, except per share data):

	Three Months Ended March 31,	
Basic Net Earnings Per Common Share:	2015	2014
Earnings from continuing operations	$9,339	$12,407
Loss from discontinued operations	(391)	(682)
Net earnings available to common stockholders	$8,948	$11,725
Weighted average common shares outstanding	22,911	22,947
Earnings from continuing operations per common share	$0.41	$0.54
Loss from discontinued operations per common share	(0.02)	(0.03)
Basic net earnings per common share	$0.39	$0.51
Diluted Net Earnings Per Common Share:		
Earnings from continuing operations	$9,339	$12,407
Loss from discontinued operations	(391)	(682)
Net earnings available to common stockholders	$8,948	$11,725
Weighted average common shares outstanding	22,911	22,947
Plus incremental shares from assumed conversions:		
Dilutive effect of restricted stock and performance stock	323	272
Dilutive effect of stock options	4	6
Weighted average common shares outstanding – Diluted	23,238	23,225
Earnings from continuing operations per common share	$0.40	$0.53
Loss from discontinued operations per common share	(0.01)	(0.03)
Diluted net earnings per common share	$0.39	$0.50

The shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or because they were excluded under the treasury method (in thousands):

	Three Months Ended March 31,	
	2015	2014
Stock options	3	6
Restricted and performance shares	358	308

Note 13. Industry Segments

We have two major reportable operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures and remanufactures ignition and emission parts, ignition wires, battery cables, fuel system parts and sensors for vehicle systems. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories and windshield washer system parts.

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The following tables show our net sales, intersegment revenue and operating income by our operating segments (in thousands):

	Three Months Ended March 31,	
	2015	2014
Net Sales		
Engine Management	$177,071	$179,294
Temperature Control	48,728	51,485
All Other	1,790	1,973
Consolidated	$227,589	$232,752
Intersegment Revenue		
Engine Management	$5,023	$5,953
Temperature Control	1,444	2,234
All Other	(6,467)	(8,187)
Consolidated	$—	$—
Operating Income		
Engine Management	$21,716	$24,372
Temperature Control		