CORE MOLDING TECHNOLOGIES INC
Form 10-Q
August 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015
OR

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

for the transition period from To
Commission File Number 001-12505
CORE MOLDING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	31-1481870
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
800 Manor Park Drive, Columbus, Ohio	43228-0183
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code (614) 870-5000
N/A

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

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

As of August 7, 2015, the latest practicable date, 7,708,968 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

	June 30, 2015	December 31, 2014
	(Unaudited)	
Assets:		
Current assets:		
Cash and cash equivalents	$4,117,000	$2,312,000
Accounts receivable (less allowance for doubtful accounts: June 30, 2015 - $304,000; December 31, 2014 - $289,000)	35,367,000	34,360,000
Inventories:		
Finished goods, net	1,392,000	1,402,000
Work in process, net	1,392,000	1,621,000
Stores, net	10,022,000	8,612,000
Total inventories, net	12,806,000	11,635,000
Deferred tax asset-current portion	1,868,000	1,868,000
Foreign sales tax receivable	271,000	1,447,000
Income taxes receivable	—	2,286,000
Prepaid expenses and other current assets	1,216,000	715,000
Tooling in progress	181,000	—
Total current assets	55,826,000	54,623,000
Property, plant and equipment — net	73,524,000	61,995,000
Goodwill	2,403,000	1,097,000
Intangibles, net	638,000	—
Total Assets	$132,391,000	$117,715,000
Liabilities and Stockholders' Equity:		
Current liabilities:		
Revolving line of credit	$—	$2,768,000
Current portion of long-term debt	4,571,000	1,714,000
Current portion of interest rate swaps	16,000	34,000
Accounts payable	12,634,000	9,256,000
Tooling in progress	—	8,068,000
Current portion of post retirement benefits liability	1,064,000	1,064,000
Accrued liabilities:		
Compensation and related benefits	7,379,000	7,087,000
Taxes	740,000	256,000
Other	1,758,000	1,132,000
Total current liabilities	28,162,000	31,379,000
Long-term debt	11,250,000	714,000
Interest rate swaps	—	3,000
Deferred tax liability	1,365,000	1,365,000
Post retirement benefits liability	8,022,000	8,108,000
Total Liabilities	48,799,000	41,569,000

Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock — $0.01 par value, authorized shares — 10,000,000; outstanding shares: 0 at June 30, 2015 and December 31, 2014	—	—
Common stock — $0.01 par value, authorized shares – 20,000,000; outstanding shares: 7,591,000 at June 30, 2015 and 7,559,000 at December 31, 2014	76,000	76,000
Paid-in capital	28,701,000	28,138,000
Accumulated other comprehensive income, net of income taxes	2,722,000	2,830,000
Treasury stock	(27,604,000)	(27,360,000)
Retained earnings	79,697,000	72,462,000
Total Stockholders' Equity	83,592,000	76,146,000
Total Liabilities and Stockholders' Equity	$132,391,000	$117,715,000

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales:				
Products	$53,514,000	$43,317,000	$101,368,000	$83,981,000
Tooling	1,342,000	2,807,000	3,087,000	3,218,000
Total net sales	54,856,000	46,124,000	104,455,000	87,199,000
Total cost of sales	43,874,000	38,525,000	84,448,000	72,955,000
Gross margin	10,982,000	7,599,000	20,007,000	14,244,000
Total selling, general and administrative expense	4,750,000	3,726,000	8,885,000	7,255,000
Income before interest and taxes	6,232,000	3,873,000	11,122,000	6,989,000
Interest expense	100,000	40,000	141,000	72,000
Income before income taxes	6,132,000	3,833,000	10,981,000	6,917,000
Income tax expense	2,093,000	1,313,000	3,746,000	2,277,000
Net income	$4,039,000	$2,520,000	$7,235,000	$4,640,000
Net income per common share:				
Basic	$0.53	$0.34	$0.96	$0.62
Diluted	$0.53	$0.33	$0.95	$0.62
Weighted average shares outstanding:				
Basic	7,578,000	7,519,000	7,570,000	7,467,000
Diluted	7,637,000	7,616,000	7,622,000	7,542,000

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$4,039,000	$2,520,000	$7,235,000	$4,640,000
Other comprehensive income:				
Interest rate swaps:				
Adjustment for amortization of losses included in net income	6,000	5,000	11,000	10,000
Income tax expense	(2,000)	(2,000)	(4,000)	(4,000)
Post retirement benefit plan adjustments:				
Net actuarial loss	42,000	12,000	84,000	24,000
Prior service costs	(124,000)	(124,000)	(248,000)	(248,000)
Income tax benefit	24,000	35,000	49,000	70,000
Comprehensive income	$3,985,000	$2,446,000	$7,127,000	$4,492,000

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, 2014	7,559,000	$76,000	$28,138,000	$2,830,000	$(27,360,000)	$72,462,000	$76,146,000
Net income						7,235,000	7,235,000
Change in post retirement benefits, net of tax of $49,000				(115,000)			(115,000)
Change in interest rate swaps, net of tax of $4,000				7,000			7,000
Common stock issued	3,000		19,000				19,000
Purchase of treasury stock	(10,000)				(244,000)		(244,000)
Excess tax benefit - equity transaction			122,000				122,000
Restricted stock vested	39,000						—
Share-based compensation			422,000				422,000
Balance at June 30, 2015	7,591,000	$76,000	$28,701,000	$2,722,000	$(27,604,000)	$79,697,000	$83,592,000

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$7,235,000	$4,640,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,902,000	2,717,000
Interest rate swaps — mark-to-market and amortization of losses	(14,000)	(25,000)
Share-based compensation	422,000	304,000
Loss on foreign currency translation and transaction	30,000	17,000
Change in operating assets and liabilities:		
Accounts receivable	608,000	(6,357,000)
Inventories	(496,000)	(92,000)
Prepaid and other assets	835,000	(492,000)
Accounts payable	1,546,000	119,000
Taxes receivable	2,285,000	327,000
Accrued and other liabilities	(6,900,000)	408,000
Post retirement benefits liability	(250,000)	(438,000)
Net cash provided by operating activities	8,203,000	1,128,000
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,408,000)	(7,480,000)
Purchase of assets of CPI Binani Inc.	(14,512,000)	—
Net cash used in investing activities	(16,920,000)	(7,480,000)
Cash flows from financing activities:		
Gross repayments on revolving line of credit	(10,102,000)	(26,212,000)
Gross borrowings on revolving line of credit	7,334,000	33,824,000
Proceeds from term loan	15,500,000	—
Payment of principal on term loan	(1,250,000)	—
Payment of principal on capex loan	(857,000)	(857,000)
Payment of principal on Mexican loan	—	(1,600,000)
Excess tax benefit from equity plans	122,000	272,000
Payments related to the purchase of treasury stock	(244,000)	(150,000)
Proceeds from issuance of common stock	19,000	287,000
Net cash provided by financing activities	10,522,000	5,564,000
Net change in cash and cash equivalents	1,805,000	(788,000)
Cash and cash equivalents at beginning of period	2,312,000	2,266,000
Cash and cash equivalents at end of period	$4,117,000	$1,478,000
Cash paid for:		
Interest (net of amounts capitalized)	$107,000	$46,000

Income taxes	$2,090,000	$1,409,000
Non Cash:		
Fixed asset purchases in accounts payable	$95,000	$710,000

See notes to unaudited consolidated financial statements.

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Core Molding Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim reporting, which are less than those required for annual reporting. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Core Molding Technologies, Inc. and its subsidiaries (“Core Molding Technologies” or the “Company”) at June 30, 2015, and the results of operations and cash flows for the six months ended June 30, 2015. The “Notes to Consolidated Financial Statements,” which are contained in the Company's 2014 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"), bulk molding compounds ("BMC") and direct long-fiber thermoplastics (D-LFT), 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 five production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; Winona, Minnesota 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$4,039,000	$2,520,000	$7,235,000	$4,640,000
Weighted average common shares outstanding — basic	7,578,000	7,519,000	7,570,000	7,467,000
Effect of dilutive securities	59,000	97,000	52,000	75,000
Weighted average common and potentially issuable common shares outstanding — diluted	7,637,000	7,616,000	7,622,000	7,542,000
Basic net income per common share	$0.53	$0.34	$0.96	$0.62
Diluted net income per common share	$0.53	$0.33	$0.95	$0.62

There were no unexercised stock options as of June 30, 2015, and all unexercised stock options were included in diluted earnings per share for the three and six months ended June 30, 2014.

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3. Major Customers

Core Molding Technologies has four major customers, Volvo Group North America, LLC ("Volvo"), Navistar, Inc. (“Navistar”), PACCAR, Inc. (“PACCAR”) and Yamaha Motor Manufacturing Corporation ("Yamaha") as of June 30, 2015. Major customers are defined as customers whose sales individually consist of more than ten percent of total sales during any reporting period in the current year. The following table presents sales revenue for the above-mentioned customers for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Volvo product sales	$15,011,000	$11,781,000	$28,640,000	$21,856,000
Volvo tooling sales	179,000	978,000	1,198,000	1,149,000
Total Volvo sales	15,190,000	12,759,000	$29,838,000	$23,005,000
Navistar product sales	13,493,000	13,919,000	$26,301,000	$26,621,000
Navistar tooling sales	1,033,000	39,000	1,048,000	50,000
Total Navistar sales	14,526,000	13,958,000	27,349,000	26,671,000
PACCAR product sales	9,444,000	8,484,000	19,158,000	16,671,000
PACCAR tooling sales	121,000	84,000	756,000	289,000
Total PACCAR sales	9,565,000	8,568,000	19,914,000	16,960,000
Yamaha product sales	4,251,000	4,228,000	9,484,000	9,228,000
Yamaha tooling sales	—	—	—	—
Total Yamaha sales	4,251,000	4,228,000	9,484,000	9,228,000
Other product sales	11,315,000	4,905,000	17,785,000	9,605,000
Other tooling sales	9,000	1,706,000	85,000	1,730,000
Total other sales	11,324,000	6,611,000	17,870,000	11,335,000
Total product sales	53,514,000	43,317,000	101,368,000	83,981,000
Total tooling sales	1,342,000	2,807,000	3,087,000	3,218,000
Total sales	$54,856,000	$46,124,000	$104,455,000	$87,199,000

4. Property, Plant & Equipment

Property, plant and equipment consisted of the following at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Property, plant and equipment	$134,353,000	$119,933,000
Accumulated depreciation	(60,829,000)	(57,938,000)
Property, plant and equipment — net	$73,524,000	$61,995,000

Property, plant, and equipment are recorded at cost, unless obtained through acquisition, then assets are recorded at estimated fair market value at the date of acquisition. 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 $1,909,000 and $979,000 at June 30, 2015 and December 31, 2014, respectively. The Company capitalized $2,000 and $45,000 of interest expense for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015 and December 31, 2014, purchase commitments for capital expenditures in progress were $1,412,000 and $1,682,000, respectively.

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5. Acquisition of CPI

To further increase process capabilities and to diversify the customer base, on March 20, 2015, the Company acquired substantially all of the assets of CPI Binani, Inc., a wholly owned subsidiary of Binani Industries Limited, located in Winona, Minnesota (“CPI”) for a cash purchase price $15,000,000. The purchase price was subject to working capital adjustments resulting in a reduction in the purchase price of $488,000.

Cash paid at closing was financed through borrowings under the Company's existing credit facility, as amended and further described in Note 8 below.

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

Accounts Receivable	$1,615,000
Inventory	675,000
Other Current Assets	171,000
Property and Equipment	12,474,000
Intangibles	650,000
Goodwill	1,306,000
Accounts Payable	(2,277,000)
Other Current Liabilities	(102,000)
	$14,512,000

The purchase price includes consideration for strategic benefits, including an assembled workforce, operational infrastructure and synergistic revenue opportunities, which resulted in the recognition of goodwill. The goodwill is deductible for income tax purposes.

The acquisition is not considered significant to the Company's consolidated balance sheet and results of operations. Accordingly, no pro-forma results are provided prior to the effective date of the acquisition. The Company incurred $303,000 of expense for the six months ended June 30, 2015 associated with the acquisition, which is recorded in selling general and administrative expense.

6. Goodwill and Intangibles

Goodwill activity for the six months ended June 30, 2015 consisted of the following:

Balance at December 31, 2014	$1,097,000
Additions	1,306,000
Impairment	—
Balance at June 30, 2015	$2,403,000

Intangible assets at June 30, 2015 were comprised of the following:

Definite-lived Intangible Assets	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	25 years	$250,000	$(2,000)	$248,000
Customer Relationships	10 years	400,000	(10,000)	390,000
		$650,000	$(12,000)	$638,000

All definite-lived intangible assets were acquired as part of the acquisition of CPI, therefore no definite-lived intangible assets existed at December 31, 2014. The aggregate intangible asset amortization expense was $12,000 for the three and six months ended June 30, 2015. The Company did not incur any amortization expense for the three and six months ended June 30, 2014.

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7. Post Retirement Benefits

The components of expense for Core Molding Technologies' post retirement benefit plans for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Pension expense:				
Multi-employer plan	$217,000	$171,000	$428,000	$336,000
Defined contribution plan	173,000	148,000	407,000	361,000
Total pension expense	390,000	319,000	835,000	697,000
Health and life insurance:				
Interest cost	79,000	69,000	158,000	138,000
Amortization of prior service costs	(124,000)	(124,000)	(248,000)	(248,000)
Amortization of net loss	42,000	12,000	84,000	24,000
Net periodic benefit cost	(3,000)	(43,000)	(6,000)	(86,000)
Total post retirement benefits expense	$387,000	$276,000	$829,000	$611,000

The Company made payments of $1,108,000 to pension plans and $244,000 for post retirement healthcare and life insurance during the six months ended June 30, 2015. For the remainder of 2015, the Company expects to make approximately $514,000 of pension plan payments, none of which was accrued at June 30, 2015. The Company also expects to make approximately $820,000 of post retirement healthcare and life insurance payments for the remainder of 2015, all of which were accrued at June 30, 2015.

8. Debt

Debt consists of the following at:

	June 30, 2015	December 31, 2014
Term loan payable to a bank, interest at a variable rate (1.99% at June 30, 2015) with monthly payments of interest and principal through March 2020.	$14,250,000	$—
Capex loan payable to a bank, interest at a variable rate (1.78% at June 30, 2015 and 1.76% at December 31, 2014) with monthly payments of interest and principal through May 2016.	1,571,000	2,428,000
Revolving line of credit (1.73% at December 31, 2014)	—	2,768,000
Total	15,821,000	5,196,000
Less current portion	(4,571,000)	(4,482,000)
Long-term debt	$11,250,000	$714,000

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, as amended, 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) a $8,000,000 Mexican loan, which was paid in full in January 2014; and (3) a $18,000,000 variable rate revolving line of credit. 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.

On March 20, 2015, the Company and its wholly owned subsidiary, CoreComposites de Mexico, S. de R.L. de C.V., entered into a tenth amendment (the “Tenth Amendment”) to the Credit Agreement. Pursuant to the terms of the Tenth Amendment, the parties agreed to modify certain terms of the Credit Agreement. These modifications included an extension of the commitment period for the revolving line of credit to May 31, 2017 and an agreement to make a term loan in an original amount of $15,500,000, to finance the acquisition of CPI assets. On March 30, 2015, the Company repaid $500,000 of unused proceeds from the original term loan.

Revolving Line of Credit

The $18,000,000 revolving line of credit 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, 2017.

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 June 30, 2015, the Company was in compliance with its financial covenants associated with the loans made under the Credit Agreement as described above.

Interest Rate Swap

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 (0.19% at June 30, 2015). 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 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 June 30, 2015 and December 31, 2014 was a liability of $16,000 and $37,000, respectively. The Company recorded interest income of $9,000 and $17,000 for a mark-to-market adjustment of swap fair value for the three months ended June 30, 2015 and 2014, respectively related to this swap. The Company recorded interest income for the six months ended June 30, 2015 and 2014, of $21,000 and $35,000, respectively, for mark-to-market adjustments of this swap. The notional amount of the swap at June 30, 2015 and December 31, 2014 was $1,571,000 and $2,428,000, respectively.

Interest expense included $9,000 and $20,000 of expense for settlements related to the Company's swaps for the three months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, interest expense included $20,000 and $41,000, respectively, of expense for settlements related to the Company's swap.

9. Income Taxes

The Company’s consolidated balance sheets include a net current deferred tax asset of $1,868,000 and a net non-current deferred tax liability of $1,365,000 at June 30, 2015 and December 31, 2014. 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 six months ended June 30, 2015 is estimated to be $3,746,000, or 34% of income before income taxes. Income tax expense for the six months ended June 30, 2014 was estimated to be $2,277,000, or 33% of income before income taxes.

As of June 30, 2015 and December 31, 2014, 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., Mexico and various state jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2011, and no longer subject to Mexican income tax examinations by Mexican authorities for years prior to 2008.

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10. 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 and as amended in May 2015. 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, 2025, 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 six months ended June 30, 2015:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	3,000	$6.40
Exercised	(3,000)	6.40
Granted	—	—
Forfeited	—	—
Outstanding at June 30, 2015	—	$—

There was no compensation cost related to incentive stock options for the six months ended June 30, 2015 and 2014, as all options were fully vested.

Tax benefits received as a result of disqualified dispositions related to stock options were $8,000 during the six months ended June 30, 2015, which was recorded as a credit to income tax expense of $5,000 and credit to additional paid in capital of $3,000. Tax benefits received as a result of disqualified dispositions related to stock options were $299,000 during the six months ended June 30, 2014, which was recorded as a credit to income tax expense of $77,000 and a credit to additional paid in capital of $222,000.

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 six months ended June 30, 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2014	104,068	$10.79
Granted	55,029	24.39
Vested	(39,303)	12.12
Forfeited	—	—
Unvested balance at June 30, 2015	119,794	$16.60

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At June 30, 2015 and 2014, there was $1,634,000 and $1,215,000, 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 1.8 years. Total compensation cost related to restricted stock grants for the three months ended June 30, 2015 and 2014 was $313,000 and $213,000, respectively, all of which was recorded to selling, general and administrative expense. Compensation cost related to restricted stock grants for the six months ended June 30, 2015 and 2014 was $422,000 and $304,000, 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 $119,000 and $50,000 for the six month ended June 30, 2015 and 2014, respectively.
During the six months ended June 30, 2015 and 2014, employees surrendered 9,989 and 12,407 shares, respectively, of the Company's common stock to satisfy income tax withholding obligations in connection with the vesting of restricted stock.
11. Fair Value of Financial Instruments

The Company holds certain financial instruments, which are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants as of the measurement date. Fair value is measured using the fair value hierarchy and related valuation methodologies as defined in the authoritative literature. This guidance provides a fair value framework that requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The three levels are defined as follows:

Level 1 - Quoted prices in active markets for identical assets and liabilities.
Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
Level 3 - Significant unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Company’s financial instruments consist of long-term debt, interest rate swaps, accounts receivable, and accounts payable. The carrying amount of these financial instruments approximated their fair value. The Company has one Level 2 fair value measurement, which relates to the Company’s interest rate swap. 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 8. 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 June 30, 2015 and December 31, 2014:

	Balance Sheet Location	(Level 2) June 30, 2015 Fair Value	December 31, 2014 Fair Value
Derivatives not designated as hedging instruments Interest rate risk activities	Interest rate swap	$16,000	$37,000

There were no non-recurring fair value measurements for the six months ended June 30, 2015.

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The effect of derivative instruments on the Consolidated Statements of Income was as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	Amount of Realized/Unrealized Gain Recognized in Income on Derivatives	
Three months ended		June 30, 2015	June 30, 2014
Interest rate swap	Interest expense	$3,000	$12,000
Six Months Ended			
Interest rate swap	Interest expense	$10,000	$25,000

As discussed in Note 8, the Company discontinued the use of hedge accounting for its interest rate swap, effective March 31, 2009 for the Capex swap. The Company has recorded all mark-to-market adjustments within interest expense in the Company's Consolidated Statements of Income, since the date the Company discontinued hedge accounting for the 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 $15,000, or $9,000 net of taxes.

12. Accumulated Other Comprehensive Income

The following table presents changes in Accumulated Other Comprehensive Income by component, net of tax, for the six months ended June 30, 2015 and 2014:

	Losses on Interest Rate Swaps(A)	Post Retirement Benefit Plan Items(B)	Total
2014:			
Balance at December 31, 2013	$(30,000)	$4,902,000	$4,872,000
Amounts reclassified from accumulated other comprehensive income	10,000	(224,000)	(214,000)
Income tax (expense) benefit	(4,000)	70,000	66,000
Balance at June 30, 2014	$(24,000)	$4,748,000	$4,724,000
2015:			
Balance at December 31, 2014	$(16,000)	$2,846,000	$2,830,000
Amounts reclassified from accumulated other comprehensive income	11,000	(164,000)	(153,000)
Income tax (expense) benefit	(4,000)	49,000	45,000
Balance at June 30, 2015	$(9,000)	$2,731,000	$2,722,000

(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 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 7 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.

13. 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 has been delayed until the first quarter of fiscal year 2018 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 permitted, but not before annual periods beginning after December 15, 2016.

In August 2014, the FASB issued Accounting Standards Update 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 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. 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.

In February 2015, the FASB issued ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). Under the standard, debt issuance costs are required to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The standard is effective for the Company as of January 1, 2016 and is not expected to significantly impact the Company's financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The amendments in this guidance do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost. Within the scope of this new guidance, an entity should measure inventory at the lower of cost and net realizable value; where, net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The new guidance must be applied on a prospective basis. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures.

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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 whic