

STANDARD MOTOR PRODUCTS INC  
Form 10-Q  
November 02, 2012

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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 September 30, 2012

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  
(State or other jurisdiction of incorporation or organization)

11-1362020  
(I.R.S. Employer Identification No.)

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

11101  
(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  Accelerated Filer   
Non-Accelerated Filer  (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 October 31, 2012, there were 22,817,557 outstanding shares of the registrant’s Common Stock, par value \$2.00 per share.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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## PART I – FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net sales	\$275,975	\$236,220	\$756,561	\$700,455
Cost of sales	198,167	171,732	554,859	519,642
Gross profit	77,808	64,488	201,702	180,813
Selling, general and administrative expenses	50,937	41,680	142,322	122,336
Restructuring and integration expenses	642	275	779	743
Other income, net	433	258	454	789
Operating income	26,662	22,791	59,055	58,523
Other non-operating income (expense), net	—	230	(66 )	673
Interest expense	702	757	2,257	3,159
Earnings from continuing operations before taxes	25,960	22,264	56,732	56,037
Provision for income taxes	8,516	8,164	20,073	21,233
Earnings from continuing operations	17,444	14,100	36,659	34,804
Loss from discontinued operations, net of income taxes	(604 )	(1,055 )	(1,221 )	(1,714 )
Net earnings	\$16,840	\$13,045	\$35,438	\$33,090
Per Share Data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	\$0.77	\$0.62	\$1.61	\$1.53
Discontinued operations	(0.03 )	(0.05 )	(0.06 )	(0.08 )
Net earnings per common share – Basic	\$0.74	\$0.57	\$1.55	\$1.45
Net earnings per common share – Diluted:				
Earnings from continuing operations	\$0.76	\$0.61	\$1.59	\$1.51
Discontinued operations	(0.02 )	(0.04 )	(0.05 )	(0.08 )
Net earnings per common share – Diluted	\$0.74	\$0.57	\$1.54	\$1.43
Dividend declared per share	\$0.09	\$0.07	\$0.27	\$0.21
Average number of common shares	22,691,878	22,863,048	22,810,238	22,812,851
Average number of common shares and dilutive common shares	22,877,635	23,042,981	22,999,244	23,299,363

See accompanying notes to consolidated financial statements.



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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net earnings	\$16,840	\$13,045	\$35,438	\$33,090
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,449	(2,435 )	1,615	(1,500 )
Pension and postretirement plans:				
Amortization of:				
Prior service benefit	(1,197 )	(1,642 )	(3,589 )	(4,873 )
Unrecognized loss	773	728	2,321	1,475
Plan amendment adjustment	—	—	—	14,439
Curtailment	—	—	—	(3,647 )
Unrecognized amounts	—	—	437	1,202
Foreign currency exchange rate changes	26	(41 )	24	(29 )
Income tax related to pension and postretirement plans	161	358	310	(3,387 )
Pension and post retirement plans, net of tax	(237 )	(597 )	(497 )	5,180
Total other comprehensive income (loss), net of tax	1,212	(3,032 )	1,118	3,680
Comprehensive income	\$18,052	\$10,013	\$36,556	\$36,770

See accompanying notes to consolidated financial statements.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$10,887	\$10,871
Accounts receivable, less allowance for discounts and doubtful accounts of \$7,711 and \$6,709 for 2012 and 2011, respectively	161,348	104,115
Inventories, net	246,291	248,097
Deferred income taxes	31,292	32,199
Prepaid expenses and other current assets	7,553	5,705
<b>Total current assets</b>	<b>457,371</b>	<b>400,987</b>
Property, plant and equipment, net	64,049	64,039
Goodwill	35,827	26,124
Other intangibles, net	37,493	31,718
Deferred income taxes	13,538	16,937
Other assets	10,382	10,917
<b>Total assets</b>	<b>\$618,660</b>	<b>\$550,722</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable	\$60,260	\$73,000
Current portion of long-term debt	117	109
Accounts payable	67,335	50,880
Sundry payables and accrued expenses	39,015	33,409
Accrued customer returns	44,439	25,074
Accrued rebates	33,966	22,373
Payroll and commissions	21,944	24,036
<b>Total current liabilities</b>	<b>267,076</b>	<b>228,881</b>
Long-term debt	105	190
Accrued postretirement benefits	5,073	6,017
Other accrued liabilities	17,392	17,540
Accrued asbestos liabilities	25,646	26,141
<b>Total liabilities</b>	<b>315,292</b>	<b>278,769</b>
Commitments and contingencies		
<b>Stockholders' equity:</b>		
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	81,514	79,789
Retained earnings	182,831	153,555
Accumulated other comprehensive income	4,417	3,299
Treasury stock – at cost 1,122,325 shares and 1,116,155 shares in 2012 and 2011, respectively	(13,266 )	(12,562 )

Total stockholders' equity	303,368	271,953
Total liabilities and stockholders' equity	\$618,660	\$550,722

See accompanying notes to consolidated financial statements.



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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2012          2011 (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$35,438	\$33,090
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	12,093	10,429
Decrease to allowance for doubtful accounts	(111 )	(8 )
Increase to inventory reserves	3,460	2,375
Amortization of deferred gain on sale of building	(786 )	(786 )
Gain on disposal of property, plant and equipment	(4 )	(31 )
Equity income from joint ventures	—	(327 )
Employee Stock Ownership Plan allocation	2,899	1,885
Stock-based compensation	1,586	1,541
Decrease in deferred income taxes	4,669	12,457
Decrease in unrecognized tax benefit	—	(454 )
Decrease in valuation allowance	(363 )	—
Loss on discontinued operations, net of tax	1,221	1,714
Change in assets and liabilities:		
Increase in accounts receivable	(48,008 )	(30,583 )
Decrease in inventories	21,082	8,615
(Increase) decrease in prepaid expenses and other current assets	(822 )	349
Increase in accounts payable	4,957	8,507
Increase in sundry payables and accrued expenses	26,884	21,374
Net changes in other assets and liabilities	(1,345 )	(12,859 )
Net cash provided by operating activities	62,850	57,288
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of property, plant and equipment	9	35
Divestiture of joint ventures	—	1,273
Divestiture of European distribution business	—	1,317
Capital expenditures	(8,003 )	(6,682 )
Acquisitions of businesses and assets, net of cash acquired	(38,594 )	(26,984 )
Net cash used in investing activities	(46,588 )	(31,041 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net repayments of line-of-credit agreement	(12,740 )	(11,097 )
Principal payments of long-term debt and capital lease obligations	(77 )	(12,381 )
Increase in overdraft balances	5,769	9,441
Purchase of treasury stock	(4,999 )	(3,285 )
Proceeds from exercise of employee stock options	334	204
Excess tax benefits related to the exercise of employee stock grants	236	154
Payments of debt issuance cost	—	(400 )
Dividends paid	(6,162 )	(4,788 )
Net cash used in financing activities	(17,639 )	(22,152 )
Effect of exchange rate changes on cash	1,393	(1,332 )

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Net increase (decrease) in cash and cash equivalents	16	2,763
CASH AND CASH EQUIVALENTS at beginning of period	10,871	12,135
CASH AND CASH EQUIVALENTS at end of period	\$10,887	\$14,898
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$1,399	\$2,340
Income taxes	\$12,050	\$10,354

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Nine Months Ended September 30, 2012  
(Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
(In thousands)						
Balance at December 31, 2011	\$47,872	\$79,789	\$153,555	\$ 3,299	\$(12,562 )	\$271,953
Net earnings	—	—	35,438	—	—	35,438
Other comprehensive income	—	—	—	1,118	—	1,118
Cash dividends paid	—	—	(6,162 )	—	—	(6,162 )
Purchase of treasury stock	—	—	—	—	(4,999 )	(4,999 )
Stock-based compensation and related tax benefits	—	(144 )	—	—	1,965	1,821
Stock options and related tax benefits	—	30	—	—	304	334
Employee Stock Ownership Plan	—	1,839	—	—	2,026	3,865
Balance at September 30, 2012	\$47,872	\$81,514	\$182,831	\$ 4,417	\$(13,266 )	\$303,368

See accompanying notes to consolidated financial statements.

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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. (referred to hereinafter in these notes to consolidated financial statements 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, 2011. 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.

The impact and any associated risks related to significant accounting policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. 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, 2011.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-05, Presentation of Comprehensive Income, which amended the provisions of FASB Accounting Standards Codification (“ASC”) 220, Comprehensive Income. The amendment eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders’ equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. As a result of the adoption of this standard, we have eliminated the presentation of other comprehensive income in our consolidated statement of changes in stockholders’ equity and have instead presented other comprehensive income in a new statement, consolidated statement of comprehensive income, which immediately follows our consolidated statement of operations.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which indefinitely defers the requirement in FASB ASU 2011-05 to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. During the deferral period, entities will still need to comply with the existing requirements for the presentation of reclassification adjustments. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. The adoption of this standard did not impact the manner in which we present reclassification adjustments from other comprehensive income.

Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”), that amended the provisions of FASB ASC 350, Intangibles – Goodwill and Other (“ASC 350”). FASB ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us was January 1, 2012. We will consider this new standard when conducting our annual impairment test of goodwill.

Indefinite-Lived Intangible Assets Impairment Testing

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”), which amended the provisions of FASB ASC 350. FASB ASU 2012-02 permits an entity to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset is less than its carrying amount before applying the two-step impairment test. If an entity concludes that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it would not be required to

perform the two-step impairment test for that indefinite-lived intangible asset. The new standard is effective for annual and interim indefinite-lived intangible assets impairment tests performed in fiscal years beginning after September 15, 2012, which for us is January 1, 2013. Early adoption is permitted. We will consider this new standard when conducting our annual impairment test of indefinite-lived intangible assets.

#### Balance Sheet Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”). The update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not anticipate that the adoption of FASB ASU 2011-11 will have a material effect on our consolidated financial statements and disclosures.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Note 3. CompressorWorks Acquisition

In April 2012, we acquired substantially all of the assets of CompressorWorks, Inc. for \$38.6 million, which consisted of a purchase price of \$37.4 million and a \$1.2 million working capital adjustment. The acquisition was paid for in cash funded by our revolving credit facility. CompressorWorks, Inc. has manufacturing and distribution facilities in Dallas, Texas, and distributes a range of temperature control products including new compressors, fan clutches, and other A/C system and engine cooling products. Revenues from the acquired business were approximately \$60 million for the year ended December 31, 2011.

The allocation of purchase price to assets acquired and liabilities assumed is based upon their fair values. The following table presents the allocation of purchase price to assets acquired and liabilities assumed (in thousands):

Purchase price:		\$38,594
Assets acquired and liabilities assumed:		
Receivables	\$	9,114
Inventory		22,736
Other current assets		60
Property, plant and equipment, net		1,427
Intangible assets		8,870
Goodwill		9,703
Current liabilities		(13,316 )
Net assets acquired		\$38,594

Intangible assets acquired of \$8.9 million consists of customer relationships of \$8 million that will be amortized on a straight-line basis over the estimated useful life of 7 years; trademarks and trade names of \$0.5 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; non-compete agreements of \$0.2 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; and leaseholds of \$0.2 million that will be amortized on a straight-line basis over the estimated useful life of 2.3 years. Goodwill of \$9.7 million was allocated to the Temperature Control Segment and is deductible for income tax purposes. The goodwill reflects relationships, business specific knowledge and the replacement cost of an assembled workforce associated with personal reputations, as well as the value of expected synergies.

Revenues included in our consolidated statements of operations for the CompressorWorks, Inc. acquisition were \$24.8 million in the third quarter of 2012 and \$38.4 million in the nine months ended September 30, 2012.

## Pro Forma Information

The following table summarizes certain supplemental pro forma financial information which was prepared as if (i) the acquisitions of the Engine Control business of BLD Products, Ltd., acquired in April 2011, and Forecast Trading Corporation, acquired in October 2011, had occurred as of January 1, 2010 and (ii) the acquisition of substantially all of the assets of CompressorWorks, Inc., acquired in April 2012, had occurred as of January 1, 2011. The pro forma financial information was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future.





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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Supplemental pro forma financial information for the acquisitions is as follows (in thousands):

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Reported	Pro Forma	Reported	Pro Forma
Revenues	\$275,975	\$275,975	\$236,220	\$265,849
Net earnings	16,840	16,953	13,045	14,323
	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Reported	Pro Forma	Reported	Pro Forma
Revenues	\$756,561	\$776,303	\$700,455	\$781,773
Net earnings	35,438	37,347	33,090	35,459

Note 4. 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, 2011 and September 30, 2012 and activity for the nine months ended September 30, 2012 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2011	\$1,907	\$1,654	\$3,561
Restructuring and integration costs:			
Amounts provided for during 2012	562	217	779
Non-cash usage, including asset write-downs	—	(63 )	(63 )
Cash payments	(667 )	(255 )	(922 )
Exit activity liability at September 30, 2012	\$1,802	\$1,553	\$3,355

Liabilities associated with the remaining restructuring and integration costs as of September 30, 2012 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2016 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 5. 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 \$198.1 million and \$508.6 million of receivables during the three months and nine months ended September 30, 2012, respectively, and \$159 million and \$449.7 million for the comparable periods in 2011. A charge in the amount of \$4.3 million and \$10.5 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 and nine months ended September 30, 2012, respectively, and \$2.3 million and \$6.4 million for the comparable periods in 2011. 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 6. Inventories, Net

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:

	September 30, 2012	December 31, 2011
	(In thousands)	
Finished goods, net	\$157,504	\$165,503
Work-in-process, net	6,483	5,144
Raw materials, net	82,304	77,450
Total inventories, net	\$246,291	\$248,097

## Note 7. Acquired Intangible Assets

Acquired identifiable intangible assets consist of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Customer relationships	\$40,100	\$32,100
Trademarks and trade names	6,800	6,300
Non-compete agreements	910	700
Patents and supply contracts	723	723
Leaseholds	160	—
Total acquired intangible assets	48,693	39,823
Less accumulated amortization (1)	(12,904 )	(9,467 )
Net acquired intangible assets	\$35,789	\$30,356

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

In April 2012, we acquired substantially all of the assets of CompressorWorks, Inc. Intangible assets of \$8.9 million were acquired in the acquisition consisting of customer relationships of \$8 million that will be amortized on a straight-line basis over the estimated useful life of 7 years; trademarks and trade names of \$0.5 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; non-compete agreements of \$0.2 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; and leaseholds of \$0.2 million that will be amortized on a straight-line basis over the estimated useful life of 2.3 years.

Total amortization expense for acquired intangible assets was \$1.3 million and \$3.4 million for three months and nine months ended September 30, 2012, respectively, and \$0.5 million and \$1.3 million for the comparable periods in

2011. Based on the current estimated useful lives assigned to our acquired intangible assets, amortization expense is estimated to be \$1.3 million for the remainder of 2012, \$4.7 million in 2013, \$4.1 million in 2014 and \$20.5 million in the aggregate for the years 2015 through 2028.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Note 8. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	September 30, 2012	December 31, 2011
	(In thousands)	
Revolving credit facilities	\$60,260	\$73,000
Other	222	299
<b>Total debt</b>	<b>\$60,482</b>	<b>\$73,299</b>
Current maturities of debt	\$60,377	\$73,109
Long-term debt	105	190
<b>Total debt</b>	<b>\$60,482</b>	<b>\$73,299</b>

## Deferred Financing Costs

We had deferred financing cost of \$3 million and \$3.8 million as of September 30, 2012 and December 31, 2011, respectively. Deferred financing costs are related to our revolving credit facility. Deferred financing costs as of September 30, 2012 are being amortized, assuming no further prepayments of principal, in the amount of \$0.3 million in 2012, \$1.2 million in 2013, \$1.2 million in 2014 and \$0.3 million in 2015.

## Revolving Credit Facility

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended in September 2011) provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2015. 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.

In September 2011, we amended our restated credit agreement (1) to extend the maturity date of our credit facility to March 2015; (2) to reduce the margin added to the LIBOR rate to 1.75% - 2.25%; (3) to reduce the margin added to the index rate to 0.75% - 1.25%; and (4) to provide us with greater flexibility regarding permitted acquisitions and stock repurchases.

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 \$118.7 million available for us to borrow pursuant to the formula at September 30, 2012. Outstanding borrowings under the restated credit agreement

(inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$60.3 million and \$73 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the weighted average interest rate on our restated credit agreement was 2.01%, which consisted of \$59 million in direct borrowings at an interest rate of 1.97% and an index loan of \$1.3 million at an interest rate of 4%. At December 31, 2011, the weighted average interest rate on our restated credit agreement was 2%, which consisted of \$73 million in direct borrowings. There were no index loans outstanding at December 31, 2011. During the nine months ended September 30, 2012 our average daily index loan balance was \$5.3 million compared to \$5.4 million for the nine months ended September 30, 2011 and \$5.7 million for the year ended December 31, 2011.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

At any time that our average borrowing availability over the previous thirty days is less than \$30 million or if our borrowing availability is \$20 million or less, and until such time that we have maintained an average borrowing availability of \$30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of September 30, 2012, 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. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Canadian Revolving Credit Facility

In May 2010, we amended our Canadian Credit Agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provided for the conversion of the then existing \$10 million line of credit into a revolving credit facility. The Canadian \$10 million line of credit is part of the \$200 million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended 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 September 30, 2012, we have no outstanding borrowings under the Canadian Credit Agreement.

Capital Leases

As of September 30, 2012, our capital lease obligations related to certain equipment for use in our operations totaled \$0.2 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

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 recognition of that cost is recorded in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Stock Option Grants

The following is a summary of the changes in outstanding stock options for the nine months ended September 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2011	59,400	\$12.35	2.9
Expired	(2,000 )	14.43	—
Exercised	(26,875 )	12.42	—
Forfeited, other	—	—	—
Outstanding at September 30, 2012	30,525	\$12.16	2.2
Options exercisable at September 30, 2012	30,525	\$12.16	2.2

The aggregate intrinsic value of all outstanding stock options as of September 30, 2012 was \$0.2 million. All outstanding stock options as of September 30, 2012 are fully vested and exercisable. The total intrinsic value of options exercised was \$0.3 million for the nine months ended September 30, 2012. There were no options granted in the nine months ended September 30, 2012.

## Restricted and Performance Stock Grants

As part of the 2006 Omnibus Incentive Plan, we currently grant shares of restricted and performance-based stock to eligible employees and directors. 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.

Our restricted and performance-based share activity was as follows for the nine months ended September 30, 2012:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2011	458,050	\$ 11.92



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Granted	6,000	12.43
Vested	(110,900 )	14.03
Forfeited	(5,425 )	12.18
Balance at September 30, 2012	347,725	\$ 11.25

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

We recorded compensation expense related to restricted shares and performance-based shares of \$1,207,992 (\$764,055 net of tax) and \$1,162,000 (\$722,000 net of tax) for the nine months ended September 30, 2012 and 2011, respectively. The unamortized compensation expense related to our restricted and performance-based shares was \$2.7 million at September 30, 2012, and is expected to be recognized as they vest over a weighted average period of 5.3 years and 0.6 years for employees and directors, respectively.

## Note 10. Employee Benefits

During the second quarter of 2011, we announced that our postretirement medical benefit plans to substantially all eligible U.S. and Canadian employees will terminate on December 31, 2016. There was no change to the eligibility or plan provided to the 64 former union employees. The remeasurement of the postretirement welfare benefit plan, as a result of the benefit modifications, generated a \$14.4 million reduction in the accumulated postretirement benefit obligation and a \$3.6 million curtailment gain. The remaining unrecognized prior service cost was amortized on a straight-line basis over the remaining term of the plan. The \$3.6 million curtailment gain was included within selling, general and administrative expenses for 2011 within the consolidated statements of operations.

The discount rate assumptions used to determine the remeasurement of the costs and benefit obligation related to our U.S. and Canadian postretirement plans were 1.87% and 3.75%, respectively. These rates reflect the shorter duration of our obligation as a result of the negative plan amendments.

The components of net periodic benefit cost for our defined benefit plans and post retirement benefit plans for the three months and nine months ended September 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Pension benefits</b>				
Service cost	\$32	\$27	\$97	\$83
Interest cost	47	45	140	135
Amortization of prior service cost	28	28	83	83
Actuarial net (gain) loss	65	43	196	129
Net periodic benefit cost	\$172	\$143	\$516	\$430
<b>Postretirement benefits</b>				
Service cost	\$1	\$1	\$3	\$75
Interest cost	22	35	65	516
Amortization of prior service cost	(1,225 )	(1,642 )	(3,672 )	(4,873 )
Amortization of transition obligation	—	—	—	2
Actuarial net loss	708	728	2,125	1,473
Curtailment gain	—	—	—	(3,647 )
Net periodic benefit cost	\$(494 )	\$(878 )	\$(1,479 )	\$(6,454 )

For the nine months ended September 30, 2012, we made employee benefit contributions of \$0.6 million related to our postretirement plans. Based on current estimates, we believe we will be required to make approximately \$0.8 million in contributions for 2012.

We maintain a Supplemental Executive Retirement Plan 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 2012, contributions of \$0.5 million were made to the plan related to calendar year 2011.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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 2012, we contributed to the trust an additional 177,000 shares from our treasury and released 180,000 shares from the trust leaving 930 shares remaining in the trust as of September 30, 2012.

## 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 September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$10,887	\$10,887	\$10,871	\$10,871
Deferred compensation	6,597	6,597	5,882	5,882
Short term borrowings	60,377	60,377	73,109	73,109
Long-term debt	105	105	190	190

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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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Basic Net Earnings Per Common Shares:</b>				
Earnings from continuing operations	\$ 17,444	\$ 14,100	\$ 36,659	\$ 34,804
Loss from discontinued operations	(604 )	(1,055 )	(1,221 )	(1,714 )
Net earnings available to common stockholders	\$ 16,840	\$ 13,045	\$ 35,438	\$ 33,090
Weighted average common shares outstanding	22,692	22,863	22,810	22,813
Earnings from continuing operations per common share	\$ 0.77	\$ 0.62	\$ 1.61	\$ 1.53
Loss from discontinued operations per common share	(0.03 )	(0.05 )	(0.06 )	(0.08 )
Basic net earnings per common share	\$ 0.74	\$ 0.57	\$ 1.55	\$ 1.45
<b>Diluted Net Earnings Per Common Share:</b>				
Earnings from continuing operations	\$ 17,444	\$ 14,100	\$ 36,659	\$ 34,804
Interest income on debenture conversions (net of income tax expense)	—	—	—	316
Earnings from continuing operations plus assumed conversions	17,444	14,100	36,659	35,120
Loss from discontinued operations	(604 )	(1,055 )	(1,221 )	(1,714 )
Net earnings available to common stockholders plus assumed conversions	\$ 16,840	\$ 13,045	\$ 35,438	\$ 33,406
Weighted average common shares outstanding	22,692	22,863	22,810	22,813
<b>Plus incremental shares from assumed conversions:</b>				
Dilutive effect of restricted stock and performance stock	182	163	182	168
Dilutive effect of stock options	4	17	7	6
Dilutive effect of convertible debentures	—	—	—	312
Weighted average common shares outstanding – Diluted	22,878	23,043	22,999	23,299
Earnings from continuing operations per common share	\$ 0.76	\$ 0.61	\$ 1.59	\$ 1.51
Loss from discontinued operations per common share	(0.02 )	(0.04 )	(0.05 )	(0.08 )
Diluted net earnings per common share	\$ 0.74	\$ 0.57	\$ 1.54	\$ 1.43

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                      Nine Months Ended

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	September 30,		September 30,	
	2012	2011	2012	2011
Stock options	26	227	23	238
Restricted and performance shares	227	178	233	164

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## 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 distributes ignition and emission parts, ignition wires, battery cables and fuel system parts. 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.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Net Sales</b>				
Engine Management	\$175,789	\$165,182	\$511,448	\$489,305
Temperature Control	95,229	68,148	233,556	201,942
All Other	4,957	2,890	11,557	9,208
Consolidated	\$275,975	\$236,220	\$756,561	\$700,455
<b>Intersegment Revenue</b>				
Engine Management	\$4,480	\$5,948	\$13,326	\$16,416
Temperature Control	1,031	1,369	3,667	3,992
All Other	(5,511 )	(7,317 )	(16,993 )	(20,408 )
Consolidated	\$—	\$—	\$—	\$—
<b>Operating Income</b>				
Engine Management	\$20,664	\$18,479	\$51,982	\$46,741
Temperature Control	9,057	7,636	16,880	17,833
All Other	(3,059 )	(3,324 )	(9,807 )	(6,051 )
Consolidated	\$26,662	\$22,791	\$59,055	\$58,523

## Note 14. Commitments and Contingencies

## Asbestos

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At September 30, 2012, approximately 2,155 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through September 30, 2012, the amounts paid for settled claims are approximately \$12.8 million. We acquired limited insurance coverage up to a fixed amount for defense and indemnity costs associated with certain asbestos-related claims. Under the policy currently in effect, we have submitted claims to our insurance carrier and

have received \$0.9 million in reimbursement for settlement claims and defense costs with a nominal amount remaining under the policy.



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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by an independent actuarial firm with expertise in assessing asbestos-related liabilities, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of settlement discussions. As is our accounting policy, we engage actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability. The methodology used to project asbestos-related liabilities and costs in the study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values.

The most recent actuarial study was performed as of August 31, 2012. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$27.1 million to \$41.5 million for the period through 2058. The change from the prior year study was a \$0.4 million decrease for the low end of the range and a \$25 million decrease for the high end of the range. The decrease in the estimated undiscounted liability from the prior year study at both the low end and high end of the range reflects our actual experience over the past twelve months. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2058 in our consolidated financial statements. Accordingly, an incremental \$0.4 million provision in our discontinued operation was added to the asbestos accrual in September 2012 increasing the reserve to approximately \$27.1 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from \$32.3 million to \$57 million during the same period.

We plan to perform an annual actuarial evaluation during the third quarter of each year for the foreseeable future. Given the uncertainties associated with projecting such matters into the future and other factors outside our control, we can give no assurance that additional provisions will not be required. We will continue to monitor the circumstances surrounding these potential liabilities in determining whether additional provisions may be necessary. At the present time, however, we do not believe that any additional provisions would be reasonably likely to have a material adverse effect on our liquidity or consolidated financial position.

#### Antitrust Litigation

In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleged antitrust violations by us and a number of other auto parts manufacturers and retailers and sought injunctive relief and unspecified monetary damages. In September 2011, the court dismissed the complaint with prejudice and in October 2011, the plaintiff filed an appeal. In April 2012, we settled the lawsuit for a nominal dollar amount.

#### Other Litigation

We are involved in various other litigation and product liability matters arising in the ordinary course of business. Although the final outcome of any asbestos-related matters or any other litigation or product liability matter cannot be determined, based on our understanding and evaluation of the relevant facts and circumstances, it is our opinion that

the final outcome of these matters will not have a material adverse effect on our business, financial condition or results of operations.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Warranties

We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of September 30, 2012 and 2011, we have accrued \$19.1 million and \$14.9 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims.

The following table provides the changes in our product warranties (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	\$ 18,849	\$ 15,459	\$ 13,500	\$ 12,153
Liabilities accrued for current year sales	23,226	17,085	58,882	49,422
Settlements of warranty claims	(23,021 )	(17,635 )	(53,328 )	(46,666 )
Balance, end of period	\$ 19,054	\$ 14,909	\$ 19,054	\$ 14,909

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS

This Report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects” and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in our receivables factoring arrangements; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; the performance of the aftermarket and original equipment service markets; changes in the product mix and distribution channel mix; economic and market conditions (including access to credit and financial markets); our significant indebtedness; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under Quantitative and Qualitative Disclosures About Market Risk and those detailed herein and from time to time in the filings of the Company with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. In addition, historical information should not be considered as an indicator of future performance. The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, included elsewhere in this Report.

Business Overview

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with an increasing focus on the original equipment service market. We are organized into two major operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, ignition wires, battery cables and fuel system parts. 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.

We sell our products primarily to warehouse distributors, large retail chains, original equipment manufacturers and original equipment service part operations in the United States, Canada and Latin America. Our customers consist of many of the leading warehouse distributors, such as CARQUEST Corporation and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, Inc., AutoZone, Inc., O’Reilly Automotive, Inc., Canadian Tire Corporation and Pep Boys. Our customers also include national program distribution groups, such as Federated Auto Parts, Inc., All Pro/Bumper to Bumper (Aftermarket Auto Parts Alliance, Inc.), Automotive Distribution Network and The National Pronto Association, and specialty market distributors. We distribute parts under our own brand names, such as Standard®, BWD®, Intermotor®, GP Sorensen®, TechSmart™, OEM®, Four Seasons®, Factory Air®, EVERCO®, ACi®, Imperial®, COMPRESSORWORKS®, TORQFLO® and Hayden® and through private labels, such as CARQUEST®, O’Reilly Import Direct® and Master Pro®, NAPA® Echlin®, NAPA® Temp Products and NAPA® Belden®.

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to

continue to improve our operating efficiency, customer satisfaction and cost position by increasing cost-effective vertical integration in key product lines through internal development and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost countries such as those in Asia.

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Seasonality. Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year, with revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. For example, a cool summer may lessen the demand for our Temperature Control products, while a hot summer may increase such demand. As a result of this seasonality and variability in demand of our Temperature Control products, our working capital requirements typically peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowings from our revolving credit facility.

Inventory Management. We face inventory management issues as a result of warranty and overstock returns. Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship, failure to meet industry published specifications and/or the result of installer error. In addition to warranty returns, we also permit our customers to return products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. We accrue for overstock returns as a percentage of sales, after giving consideration to recent returns history.

In order to better control warranty and overstock return levels, we have in place procedures for authorized warranty returns, including for warranty returns which result from installer error, placed restrictions on the amounts customers can return and instituted a program to better estimate potential future product returns. In addition, with respect to our air conditioning compressors, which are our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not provide acceptable proof that complete air conditioning system repair was performed.

Discounts, Allowances and Incentives. In connection with our sales activities, we offer a variety of usual customer discounts, allowances and incentives. First, we offer cash discounts for paying invoices in accordance with the specified discount terms of the invoice. Second, we offer pricing discounts based on volume and different product lines purchased from us. These discounts are principally in the form of “off-invoice” discounts and are immediately deducted from sales at the time of sale. For those customers that choose to receive a payment on a quarterly basis instead of “off-invoice,” we accrue for such payments as the related sales are made and reduce sales accordingly. Finally, rebates and discounts are provided to customers as advertising and sales force allowances, and allowances for warranty and overstock returns are also provided. Management analyzes historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. We account for these discounts and allowances as a reduction to revenues, and record them when sales are recorded.

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## Interim Results of Operations:

## Comparison of the Three Months Ended September 30, 2012 to the Three Months Ended September 30, 2011

Sales. Consolidated net sales for the three months ended September 30, 2012 were \$276 million, an increase of \$39.8 million, or 16.8%, compared to \$236.2 million in the same period of 2011. Consolidated net sales for the three months ended September 30, 2012 includes incremental sales of \$9.6 million in Engine Management from our acquisition of Forecast Trading Corporation, which began shipping in November 2011, and \$24.8 million in Temperature Control from our asset acquisition of CompressorWorks, Inc., acquired in April 2012.

The following table summarizes net sales by segment for the quarters ended September 30, 2012 and 2011, respectively:

Three Months Ended September 30, 2012	Engine Management	Temperature Control	Other	Total
Net sales	\$ 175,789	\$ 95,229	\$4,957	\$275,975
Gross margins	51,285	23,156	3,367	77,808
Gross margin percentage	29.2	% 24.3	% —	28.2 %
2011				
Net sales	\$ 165,182	\$ 68,148	\$2,890	\$236,220
Gross margins	43,834	17,343	3,311	64,488
Gross margin percentage	26.5	% 25.4	% —	27.3 %

Engine Management's net sales increased \$10.6 million, or 6.4%, to \$175.8 million for the third quarter of 2012. Included in the third quarter of 2012 are incremental sales of \$9.6 million from our acquisition of Forecast Trading Corporation, which began shipping in November 2011. Excluding the incremental sales from the acquisition, Engine Management's net sales were slightly ahead of net sales for the third quarter of 2011.

Temperature Control's net sales increased \$27.1 million, or 39.7%, to \$95.2 million for the third quarter of 2012. Included in the third quarter of 2012 are incremental sales of \$24.8 million from our asset acquisition of CompressorWorks, Inc., acquired in April 2012. Excluding the incremental sales from the acquisition, Temperature Control's net sales increased \$2.3 million compared to the third quarter of 2011. Third quarter 2012 net sales includes the impact of stronger sales year-over-year resulting from a warm summer season, which more than offset the impact of the loss in sales from a major customer that began purchasing certain air conditioning parts direct from China.

Gross Margins. Gross margins, as a percentage of consolidated net sales, increased to 28.2% in the third quarter of 2012, compared to 27.3% in the third quarter of 2011. Compared to the third quarter of 2011, gross margins at Engine Management increased 2.7 percentage points from 26.5% to 29.2% while gross margins at Temperature Control decreased 1.1 percentage points from 25.4% to 24.3%. The gross margin percentage improvement in Engine Management compared to the prior year was primarily the result of improved global sourcing, manufacturing efficiencies including the increase in manufacturing at our lower cost facilities and improved fixed cost absorption. The gross margin decline in Temperature Control compared to the prior year was primarily the result of product mix and the impact of the mark-up of inventory to fair value from the CompressorWorks, Inc. acquisition.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") increased by \$9.2 million to \$50.9 million, or 18.5% of consolidated net sales, in the third quarter of 2012, as compared to \$41.7 million, or 17.6% of consolidated net sales, in the third quarter of 2011. The increase in SG&A expenses is

principally due to \$5.6 million of incremental expenses from our acquisitions of Forecast Trading Corporation and the assets of CompressorWorks, Inc., including amortization of intangible assets acquired, \$2 million of higher expenses related to the sale of receivables, and \$0.5 million of incremental year-over-year postretirement plan costs due to the amortization of gains included in the prior year resulting from plan amendments.



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Restructuring and Integration Expenses. Restructuring and integration expenses increased \$0.3 million in the third quarter of 2012 when compared to the third quarter of 2011. Components of our restructuring and integration accruals, by segment, were as follows (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at June 30, 2012	\$ 2,417	\$ 219	\$433	\$3,069
Restructuring and integration costs:				
Amounts provided for during 2012	642	—	—	642
Cash payments	(306 )	(13 )	(37 )	(356 )
Exit activity liability at September 30, 2012	\$ 2,753	\$ 206	\$396	\$3,355

Other Income, Net. Other income, net, increased \$0.2 million in the third quarter of 2012 when compared to the third quarter of 2011. During 2012 and 2011, we recognized \$0.3 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility and in 2012, we recorded a \$0.2 million gain on the sale of land located in the U.K.

Operating Income. Operating income was \$26.7 million in the third quarter of 2012, compared to \$22.8 million in the third quarter of 2011. The year-over-year increase in operating income resulted primarily from higher consolidated net sales, and higher gross margins as a percentage of consolidated net sales offset, in part, by higher SG&A expenses which were principally the result of the incremental expenses from our acquisitions of Forecast Trading Corporation and assets of CompressorWorks, Inc., including amortization of intangible assets acquired, higher expenses related to the sale of receivables, and the impact of incremental year-over-year postretirement plan amortization costs.

Interest Expense. Interest expense decreased slightly to \$0.7 million in the third quarter of 2012, compared to \$0.8 million in the third quarter of 2011, as average interest rates declined year-over-year. The year-over-year decline in interest rates reflects the impact of the lower interest rates in our September 2011 amendment to our restated credit agreement, and more than offset the impact of higher average debt balances during the 2012 third quarter due to recent acquisitions.

Income Tax Provision. The income tax provision in the third quarter of 2012 was \$8.5 million at an effective tax rate of 32.8% compared to \$8.2 million at an effective tax rate of 36.7% for the same period in 2011. The effective tax rate in the third quarter of 2012 was favorably impacted by \$0.8 million related to certain foreign tax and research and development credits, and production deductions which were finalized during the period. The effective tax rate in the third quarter of 2011 was favorably impacted by the reversal of previously established reserves of \$0.5 million related to certain business combinations and foreign transfer pricing as a result of the expiration of the statute of limitations for 2007 and prior years.

Loss from Discontinued Operations. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2012 and 2011 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the third quarters of 2012 and 2011, we recorded a loss of \$0.6 million and \$1.1 million from discontinued operations, respectively. The loss from discontinued operations for the third quarter of 2012 and 2011 reflects a \$0.4 million and \$1.3 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2012 and 2011 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.



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Comparison of the Nine Months Ended September 30, 2012 to the Nine Months Ended September 30, 2011

Sales. Consolidated net sales for the nine months ended September 30, 2012 were \$756.6 million, an increase of \$56.1 million, or 8%, compared to \$700.5 million in the same period of 2011. Consolidated net sales for the nine months ended September 30, 2012 includes incremental sales of \$31 million in Engine Management from our acquisitions of the Engine Control business of BLD Products, Ltd and Forecast Trading Corporation, which began shipping in May 2011 and November 2011, respectively, and \$38.4 million in Temperature Control from our asset acquisition of CompressorWorks, Inc., acquired in April 2012.

The following table summarizes net sales and gross margins by segment for the nine months ended September 30, 2012 and 2011, respectively:

Nine Months Ended September 30, 2012	Engine Management	Temperature Control	Other	Total	
Net sales	\$ 511,448	\$ 233,556	\$ 11,557	\$ 756,561	
Gross margins	140,555	51,604	9,543	201,702	
Gross margin percentage	27.5	% 22.1	% —	26.7	%
2011					
Net sales	\$ 489,305	\$ 201,942	\$ 9,208	\$ 700,455	
Gross margins	123,850	47,269	9,694	180,813	
Gross margin percentage	25.3	% 23.4	% —	25.8	%

Engine Management's net sales increased \$22.1 million, or 4.5%, to \$511.4 million for the first nine months of 2012. Included in the first nine months of 2012 are incremental sales of \$31 million from our acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation, which began shipping in May 2011 and November 2011, respectively. Excluding the incremental sales from acquisitions, Engine Management's net sales decreased \$8.9 million compared to the first nine months of 2011. The year-over-year decline in net sales, excluding acquisitions, results primarily from the decline in pipeline orders in the first quarter of 2012 from the significant levels achieved in the first quarter of 2011, as we are seeing a return to a more historical pattern of customer purchases.

Temperature Control's net sales increased \$31.6 million, or 15.7%, to \$233.6 million for the first nine months of 2012. Included in the first nine months of 2012 are incremental sales of \$38.4 million from our asset acquisition of CompressorWorks, Inc., acquired in April 2012. Excluding the incremental sales from the acquisition, Temperature Control's net sales decreased \$6.8 million compared to the first nine months of 2011. The year-over-year decline in net sales, excluding acquisitions, results primarily from the loss of sales from a major customer that began purchasing certain air conditioning parts direct from China.

Gross Margins. Gross margins, as a percentage of consolidated net sales, for the nine months ended September 30, 2012, increased to 26.7%, as compared to 25.8% during the same period in 2011. Compared to the first nine months of 2011, gross margins at Engine Management increased 2.2 percentage points from 25.3% to 27.5% while gross margins at Temperature Control decreased 1.3 percentage points from 23.4% to 22.1%. The gross margin percentage improvement in Engine Management compared to the prior year was primarily the result of improved global sourcing, manufacturing efficiencies including the increase in manufacturing at our lower cost facilities, and the change in process related to certain incremental customer costs resulting in the recording of these costs as selling expenses rather than as sales deductions. The gross margin decline in Temperature Control compared to the prior year was primarily the result of lower manufacturing cost absorption, product mix and the impact of the mark-up of inventory to fair

value from the CompressorWorks, Inc. acquisition.

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**Selling, General and Administrative Expenses.** SG&A increased by \$20 million to \$142.3 million, or 18.8% of consolidated net sales, in the nine months ended September 30, 2012, as compared to \$122.3 million, or 17.5% of consolidated net sales, in the same period of 2011. The increase in SG&A expenses is principally due to \$12.2 million of incremental expenses from our acquisitions of the Engine Controls business of BLD Products, Ltd., Forecast Trading Corporation and assets of CompressorWorks, Inc., including amortization of intangible assets acquired, \$4.1 million of higher expenses related to the sale of receivables, and \$5.2 million of incremental year-over-year postretirement plan costs, including the impact of a \$3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans and the amortization of gains of \$1.6 million from plan amendments included in SG&A expenses in the nine months ended September 30, 2011.

**Restructuring and Integration Expenses.** Restructuring and integration expenses increased to \$0.8 million for the nine months ended September 30, 2012, compared to \$0.7 million for the same period in 2011. Components of our restructuring and integration accruals, by segment, were as follows (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2011	\$ 2,629	\$ 419	\$ 513	\$ 3,561
Restructuring and integration costs:				
Amounts provided for during 2012	760	19	—	779
Non-cash usage, including asset write-downs	(63 )	—	—	(63 )
Cash payments	(573 )	(232 )	(117 )	(922 )
Exit activity liability at September 30, 2012	\$ 2,753	\$ 206	\$ 396	\$ 3,355

**Other Income, Net.** Other income, net, decreased \$0.3 million for the nine months ended September 30, 2012, when compared to the same period in 2011. During 2012 and 2011, we recognized \$0.8 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, in 2012, we recorded a \$0.2 million gain on the sale of land located in the U.K. and recognized a \$0.5 million loss on the disposal of certain machinery and equipment.

**Operating Income.** Operating income was \$59.1 million in the first nine months of 2012, compared to \$58.5 million for the same period in 2011. The higher year-over-year consolidated net sales and higher gross margins as a percentage of sales were offset by higher SG&A expenses which were principally the result of the incremental expenses from our acquisitions of the Engine Controls business of BLD Products, Ltd., Forecast Trading Corporation and assets of CompressorWorks, Inc., including amortization of intangible assets acquired, higher expenses related to the sale of receivables, and the impact of incremental year-over-year postretirement plan costs, including the impact of a \$3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans and the amortization of gains from plan amendments included in SG&A expenses in the nine months ended September 30, 2011.

**Interest Expense.** Interest expense decreased by \$0.9 million to \$2.3 million in the nine months ended September 30, 2012, compared to \$3.2 million for the same period in 2011, as average interest rates declined year-over-year. The year-over-year decline in interest rates reflects the impact of the lower interest rates in our September 2011 amendment to our revolving credit facility and the April 2011 maturity of the \$12.3 million principal amount of the 15% convertible subordinated debentures, and more than offset the impact of higher average debt balance during the nine months ended September 30, 2012.

**Income Tax Provision.** The income tax provision for the nine months ended September 30, 2012 was \$20.1 million at an effective tax rate of 35.4%, compared to \$21.2 million and an effective tax rate of 37.9% for the same period in 2011. The effective tax rate in the first nine months of 2012 was favorably impacted by \$0.8 million related to certain

foreign tax and research and development credits, and production deductions which were finalized during the period. The effective tax rate in the first nine months of 2011 was favorably impacted by the reversal of previously established reserves of \$0.5 million related to certain business combinations and foreign transfer pricing as a result of the expiration of the statute of limitations for 2007 and prior years.

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Loss from Discontinued Operations. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2012 and 2011 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the nine months ended September 30, 2012 and 2011, we recorded a loss of \$1.2 million and \$1.7 million from discontinued operations, respectively. The loss from discontinued operations for the nine months ended 2012 and 2011 reflects a \$0.4 million and \$1.3 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2012 and 2011 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

## 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, 2011 and September 30, 2012 and activity for the nine months ended September 30, 2012 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2011	\$ 1,907	\$ 1,654	\$ 3,561
Restructuring and integration costs:			
Amounts provided for during 2012	562	217	779
Non-cash usage, including asset write-downs	—	(63 )	(63 )
Cash payments	(667 )	(255 )	(922 )
Exit activity liability at September 30, 2012	\$ 1,802	\$ 1,553	\$ 3,355

Liabilities associated with the remaining restructuring and integration costs as of September 30, 2012 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2016 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.

## Liquidity and Capital Resources

Operating Activities. During the first nine months of 2012, cash provided by operations amounted to \$62.9 million compared to \$57.3 million in the same period of 2011. The year-over-year increase in cash provided by operations is primarily the result of the increase in net earnings reflecting higher sales volumes and higher gross margins, the decrease in inventory levels excluding the impact of the asset acquisition of CompressorWorks, Inc., offset, in part, by higher accounts receivable balances, excluding the impact of the asset acquisition of CompressorWorks, Inc.

Investing Activities. Cash used in investing activities was \$46.6 million in the first nine months of 2012, as compared to \$31 million in the first nine months of 2011. Investing activities in 2012 included a cash payment of \$38.6 million related to the asset acquisition of CompressorWorks, Inc. Investing activities in 2011 included a cash payment of \$27 million related to the acquisition of the Engine Controls business of BLD Products, Ltd., a \$1.3 million cash receipt related to the note issued in connection with the sale of our European distribution business in 2009 and a \$1.3 million cash receipt related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships. Capital expenditures in the first nine months of 2012 were \$8 million compared to \$6.7 million in the comparable period during the prior year.





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Financing Activities. Cash used in financing activities was \$17.6 million in the first nine months of 2012, compared to cash used in financing activities of \$22.2 million in the same period of 2011. The excess cash provided by operations over cash used in investing activities in the first nine months of 2012 was used to pay down borrowings under our revolving credit facility and to purchase \$5 million of our common stock. In the first nine months of 2011, the excess cash provided by operations over cash used in investing activities was used to pay down borrowings under our revolving credit facility, to pay at maturity the principal balance of \$12.3 million of our 15% convertible subordinated debentures, and to purchase \$3.3 million of our common stock. Dividends of \$6.2 million were paid in the first nine months of 2012 compared to \$4.8 million in the comparable period during the prior year.

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended in September 2011) provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2015. 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.

In September 2011, we amended our restated credit agreement (1) to extend the maturity date of our credit facility to March 2015; (2) to reduce the margin added to the LIBOR rate to 1.75% - 2.25%; (3) to reduce the margin added to the index rate to 0.75% - 1.25%; and (4) to provide us with greater flexibility regarding permitted acquisitions and stock repurchases.

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 \$118.7 million available for us to borrow pursuant to the formula at September 30, 2012. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$60.3 million and \$73 million at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the weighted average interest rate on our restated credit agreement was 2.01%, which consisted of \$59 million in direct borrowings at an interest rate of 1.97% and an index loan of \$1.3 million at an interest rate of 4%. At December 31, 2011, the weighted average interest rate on our restated credit agreement was 2%, which consisted of \$73 million in direct borrowings. There were no index loans outstanding at December 31, 2011. During the nine months ended September 30, 2012, our average daily index loan balance was \$5.3 million compared to \$5.4 million for the nine months ended September 30, 2011 and \$5.7 million for the year ended December 31, 2011.

At any time that our average borrowing availability over the previous thirty days is less than \$30 million or if our borrowing availability is \$20 million or less, and until such time that we have maintained an average borrowing availability of \$30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of September 30, 2012, 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. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

In May 2010, we amended our Canadian Credit Agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provided for the conversion of the then existing \$10 million line of credit into a revolving credit facility. The Canadian \$10 million line of credit is part of the \$200

million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

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In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended 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 September 30, 2012, we have no outstanding borrowings under the Canadian Credit Agreement.

As of September 30, 2012, our capital lease obligations related to certain equipment for use in our operations totaled \$0.2 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In order to reduce our accounts receivable balances and improve our cash flow, 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 \$198.1 million and \$508.6 million of receivables during the three months and nine months ended September 30, 2012, respectively, and \$159 million and \$449.7 million for the comparable periods in 2011. A charge in the amount of \$4.3 million and \$10.5 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 and nine months ended September 30, 2012, respectively, and \$2.3 million and \$6.4 million for the comparable periods in 2011. 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.

In August 2011, our Board of Directors authorized the purchase of up to \$5 million of our common stock under a stock repurchase program. Under this program, during the second quarter of 2012 and year ended December 31, 2011, we repurchased 68,250 shares and 322,250 shares, respectively, of our common stock at a total cost of \$0.9 million and \$4.1 million, respectively. No stock repurchases remain available under the 2011 program as the entire \$5 million was utilized.

In May 2012, our Board of Directors authorized the purchase of up to an additional \$5 million of our common stock under a stock repurchase program. Under this program, during the second quarter of 2012 we repurchased 312,527 shares of our common stock at a total cost of \$4.1 million, leaving approximately \$0.9 million available for future stock repurchases under the program. Restrictive covenants under our revolving credit facility, however, prohibit any such future purchases in 2012.

We anticipate that our present sources of funds, including funds from operations and additional borrowings, will continue to be adequate to meet our financing needs over the next twelve months. We continue to evaluate alternative sources to further improve the liquidity of our business. The timing, terms, size and pricing of any alternative sources of financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing. In addition, we have a substantial amount of indebtedness which could, among other things, increase our vulnerability to general adverse economic and industry conditions, make it more difficult to satisfy our obligations, limit our ability to pay future dividends, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and require that a portion of our cash flow from operations be used for the payment of interest on our indebtedness instead of for funding working capital, capital expenditures, acquisitions or for other corporate purposes. If we default on any of our indebtedness, or breach any

financial covenant in our revolving credit facility, our business could be adversely affected.

For further information regarding the risks of our business, please refer to the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2011.

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The following table summarizes our contractual commitments as of September 30, 2012 and expiration dates of commitments through 2021:

(In thousands)	2012	2013	2014	2015	2016	2017- 2021	Total
Lease obligations	\$ 1,965	\$ 7,827	\$ 5,609	\$ 4,958	\$ 4,313	\$2,128	\$ 26,800
Postretirement and pension benefits	433	1,160	1,188	6,911	1,278	56	11,026
Severance payments related to restructuring and integration	438	931	290	86	31	26	1,802
Total commitments	\$ 2,836	\$ 9,918	\$ 7,087	\$ 11,955	\$ 5,622	\$2,210	\$ 39,628

Indebtedness under our revolving credit facilities is not included in the table above as it is reported as a current liability in our consolidated balance sheets. As of September 30, 2012, amounts outstanding under our revolving credit facilities were \$60.3 million.

## Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. 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, 2011. You should be aware that preparation of our consolidated quarterly financial statements in this Report requires us 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 can give no assurances that actual results will not differ from those estimates. Although we do not believe that there is a reasonable likelihood that there will be a material change in the estimates or in the assumptions used, unforeseen changes in the industry, business or customer buying patterns could materially impact the estimate and may have a material adverse effect on our business, financial condition and results of operation.

**Revenue Recognition.** We derive our revenue primarily from sales of replacement parts for motor vehicles from both our Engine Management and Temperature Control Segments. We recognize revenues when products are shipped and title has been transferred to a customer, the sales price is fixed and determinable, and collection is reasonably assured. For some of our sales of remanufactured products, we also charge our customers a deposit for the return of a used core component which we can use in our future remanufacturing activities. Such deposit is not recognized as revenue but rather carried as a core liability. The liability is extinguished when a core is actually returned to us. We estimate and record provisions for cash discounts, quantity rebates, sales returns and warranties in the period the sale is recorded, based upon our prior experience and current trends. As described below, significant management judgments and estimates must be made and used in estimating sales returns and allowances relating to revenue recognized in any accounting period.

**Inventory Valuation.** Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost or market value of inventory are determined at the reporting unit level and are based upon the inventory at that location taken as a whole. These estimates are based upon current economic conditions, historical sales quantities and patterns and, in some cases, the

specific risk of loss on specifically identified inventories.

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We also evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve on the full value of the inventory. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates our estimate of future projected demand. Future projected demand requires management judgment and is based upon (a) our review of historical trends and (b) our estimate of projected customer specific buying patterns and trends in the industry and markets in which we do business. Using twelve month historical information, we estimate future demand on a continuous basis. As such, the historical volatility of such estimates has been minimal.

We utilize cores (used parts) in our remanufacturing processes for air conditioning compressors. The production of air conditioning compressors involves the rebuilding of used cores, which we acquire generally either in outright purchases or from returns pursuant to an exchange program with customers. Under such exchange programs, we reduce our inventory, through a charge to cost of sales, when we sell a finished good compressor, and put back to inventory at standard cost through a credit to cost of sales the used core exchanged at the time it is eventually received from the customer.

**Sales Returns and Other Allowances and Allowance for Doubtful Accounts.** We must make estimates of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At September 30, 2012, the allowance for sales returns was \$44.4 million. Similarly, we must make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At September 30, 2012, the allowance for doubtful accounts and for discounts was \$7.7 million.

**New Customer Acquisition Costs.** New customer acquisition costs refer to arrangements pursuant to which we incur change-over costs to induce a new customer to switch from a competitor's brand. In addition, change-over costs include the costs related to removing the new customer's inventory and replacing it with Standard Motor Products inventory commonly referred to as a stocklift. New customer acquisition costs are recorded as a reduction to revenue when incurred.

**Accounting for Income Taxes.** As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that it is more likely than not that the deferred tax assets will not be recovered, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we must include an expense or recovery, respectively, within the tax provision in the statement of operations.

We maintain valuation allowances when it is more likely than not that all or a portion of a deferred asset will not be realized. In determining whether a valuation allowance is warranted, we evaluate factors such as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies. Management considers all positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the deferred tax asset. We consider cumulative losses in recent years as well as the impact of one time events in assessing our core pretax earnings. Assumptions regarding future taxable income require significant judgment. Our assumptions are consistent with estimates and plans used to manage our business which includes restructuring and integration

initiatives which are expected to generate significant savings in future periods.



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The valuation allowance of \$7.5 million as of September 30, 2012 is intended to provide for the uncertainty regarding the ultimate realization of our state tax credit carryovers, U.S. capital loss carryforwards, U.S. foreign tax credit carryovers, and foreign net operating loss carryforwards. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income in these jurisdictions and the period over which our deferred tax assets will be recoverable.

In the event that actual results differ from these estimates, or we adjust these estimates in future periods for current trends or expected changes in our estimating assumptions, we may need to modify the level of valuation allowance which could materially impact our business, financial condition and results of operations.

In accordance with generally accepted accounting practices, we recognize in our financial statements only those tax positions that meet the more-likely-than-not-recognition threshold. We establish tax reserves for uncertain tax positions that do not meet this threshold. Interest and penalties associated with income tax matters are included in the provision for income taxes in our consolidated statement of operations.

**Valuation of Long-Lived and Intangible Assets and Goodwill.** At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consists of customer relationships, trademarks and trade names, patents and non-compete agreements. The fair values of these intangible assets are estimated based on our assessment. Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill and certain other intangible assets having indefinite lives are not amortized to earnings, but instead are subject to periodic testing for impairment. Intangible assets determined to have definite lives are amortized over their remaining useful lives.

We assess the impairment of long-lived and identifiable intangibles assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. With respect to goodwill, we test for impairment of goodwill of a reporting unit on an annual basis or in interim periods if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. Factors we consider important, which could trigger an impairment review, include the following: (a) significant underperformance relative to expected historical or projected future operating results; (b) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and (c) significant negative industry or economic trends. We review the fair values of each of our reporting units using the discounted cash flows method and market multiples.

Goodwill is tested for impairment using a two-step approach. When performing our evaluation, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, than the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. Initially, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Intangible and other long-lived assets are reviewed for impairment whenever events such as product discontinuance, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may not be recoverable. In addition, identifiable intangible assets having indefinite lives are reviewed for impairment on an annual basis. In reviewing for impairment, we compare the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the

difference between the assets fair value and their carrying value.

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There are inherent assumptions and estimates used in developing future cash flows requiring our judgment in applying these assumptions and estimates to the analysis of identifiable intangibles and long-lived asset impairment including projecting revenues, interest rates, tax rates and the cost of capital. Many of the factors used in assessing fair value are outside our control and it is reasonably likely that assumptions and estimates will change in future periods. These changes can result in future impairments. In the event our planning assumptions were modified resulting in impairment to our assets, we would be required to include an expense in our statement of operations, which could materially impact our business, financial condition and results of operations.

**Retirement and Postretirement Medical Benefits.** Each year, we calculate the costs of providing retiree benefits under the provisions of FASB ASC 712, Nonretirement Postemployment Benefits, and FASB ASC 715, "Retirement Benefits." The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan benefits the employees will be entitled to. The key assumptions used in making these calculations are the eligibility criteria of participants and the discount rate used to value the future obligation. The discount rate reflects the yields available on high-quality, fixed-rate debt securities.

**Share-Based Compensation.** The provisions of FASB ASC 718, Stock Compensation, require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values on the grant date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods in our condensed consolidated statement of operations. Forfeitures are estimated at the time of grant based on historical trends in order to estimate the amount of share-based awards that will ultimately vest. We monitor actual forfeitures for any subsequent adjustment to forfeiture rates.

**Environmental Reserves.** We are subject to various U.S. Federal, state and local environmental laws and regulations and are involved in certain environmental remediation efforts. We estimate and accrue our liabilities resulting from such matters based upon a variety of factors including the assessments of environmental engineers and consultants who provide estimates of potential liabilities and remediation costs. Such estimates are not discounted to reflect the time value of money due to the uncertainty in estimating the timing of the expenditures, which may extend over several years. Potential recoveries from insurers or other third parties of environmental remediation liabilities are recognized independently from the recorded liability, and any asset related to the recovery will be recognized only when the realization of the claim for recovery is deemed probable.

**Asbestos Reserve.** We are responsible for certain future liabilities relating to alleged exposure to asbestos-containing products. In accordance with our accounting policy, our most recent actuarial study as of August 31, 2012 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$27.1 million to \$41.5 million for the period through 2058. As a result, in September 2012 an incremental \$0.4 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$27.1 million as of that date. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2058 in our consolidated financial statements. In addition, according to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation, are estimated to range from \$32.3 million to \$57 million during the same period. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a loss or gain from discontinued operation. The aforementioned estimated settlement payments and legal costs do not reflect any limited coverage that we may obtain pursuant to agreements with insurance carriers for certain asbestos-related claims.

**Other Loss Reserves.** We have other loss exposures, for such matters as product liability and litigation. Establishing loss reserves for these matters requires the use of estimates and judgment of risk exposure and ultimate liability. We estimate losses using consistent and appropriate methods; however, changes to our assumptions could materially affect our recorded liabilities for loss.

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### Recently Issued Accounting Pronouncements

#### Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-05, Presentation of Comprehensive Income, which amended the provisions of FASB Accounting Standards Codification (“ASC”) 220, Comprehensive Income. The amendment eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders’ equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. As a result of the adoption of this standard, we have eliminated the presentation of other comprehensive income in our consolidated statement of changes in stockholders’ equity and have instead presented other comprehensive income in a new statement, consolidated statement of comprehensive income, which immediately follows our consolidated statement of operations.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which indefinitely defers the requirement in FASB ASU 2011-05 to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. During the deferral period, entities will still need to comply with the existing requirements for the presentation of reclassification adjustments. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. The adoption of this standard did not impact the manner in which we present reclassification adjustments from other comprehensive income.

#### Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”), that amended the provisions of FASB ASC 350, Intangibles – Goodwill and Other (“ASC 350”). FASB ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us was January 1, 2012. We will consider this new standard when conducting our annual impairment test of goodwill.

#### Indefinite-Lived Intangible Assets Impairment Testing

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”), which amended the provisions of FASB ASC 350. FASB ASU 2012-02 permits an entity to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset is less than its carrying amount before applying the two-step impairment test. If an entity concludes that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it would not be required to perform the two-step impairment test for that indefinite-lived intangible asset. The new standard is effective for annual and interim indefinite-lived intangible assets impairment tests performed in fiscal years beginning after September 15, 2012, which for us is January 1, 2013. Early adoption is permitted. We will consider this new standard when conducting our annual impairment test of indefinite-lived intangible assets.



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Balance Sheet Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”). The update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not anticipate that the adoption of FASB ASU 2011-11 will have a material effect on our consolidated financial statements and disclosures.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk, primarily related to foreign currency exchange and interest rates. These exposures are actively monitored by management. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than one of our subsidiary's functional currency. Similarly, we are exposed to market risk as the result of changes in interest rates, which may affect the cost of our financing. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes. As of September 30, 2012, we did not have any derivative financial instruments.

Exchange Rate Risk

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the Euro, the Polish zloty, the Mexican Peso and the Hong Kong dollar. As of September 30, 2012 and December 31, 2011, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

Interest Rate Risk

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt was 99.6% at both September 30, 2012 and December 31, 2011, respectively.

Other than the aforementioned, there have been no significant changes to the information presented in Item 7A (Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2011.



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ITEM 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

(b) Changes in Internal Control Over Financial Reporting.

During the quarter ended September 30, 2012, we have not made any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We continue to review, document and test our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business. These efforts may lead to various changes in our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At September 30, 2012, approximately 2,155 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through September 30, 2012, the amounts paid for settled claims are approximately \$12.8 million. We acquired limited insurance coverage up to a fixed amount for the defense and indemnity costs associated with certain asbestos-related claims. Under the policy currently in effect, we have submitted claims to our insurance carrier and have received \$0.9 million in reimbursement for settlement claims and defense costs with a nominal amount remaining under the policy.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by an independent actuarial firm with expertise in assessing asbestos-related liabilities, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of settlement discussions. As is our accounting policy, we engage actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability. The methodology used to project asbestos-related liabilities and costs in the study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values.

The most recent actuarial study was performed as of August 31, 2012. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$27.1 million to \$41.5 million for the period through 2058. The change from the prior year study was a \$0.4 million decrease for the low end of the range and a \$25 million decrease for the high end of the range. The decrease in the estimated undiscounted liability from the prior year study at both the low end and high end of the range reflects our actual experience over the past twelve months. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2058 in our consolidated financial statements. Accordingly, an incremental \$0.4 million provision in our discontinued operation was added to the asbestos accrual in September 2012 increasing the reserve to approximately \$27.1 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from \$32.3 million to \$57 million during the same period.

We plan to perform an annual actuarial evaluation during the third quarter of each year for the foreseeable future. Given the uncertainties associated with projecting such matters into the future and other factors outside our control, we can give no assurance that additional provisions will not be required. We will continue to monitor the circumstances surrounding these potential liabilities in determining whether additional provisions may be necessary. At the present time, however, we do not believe that any additional provisions would be reasonably likely to have a material adverse effect on our liquidity or consolidated financial position.

In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleged antitrust violations by us and a number of other auto parts manufacturers and retailers and sought injunctive relief and unspecified monetary damages. In September 2011, the court dismissed the complaint with prejudice and in October 2011, the plaintiff filed an appeal. In April 2012, we settled the lawsuit for a nominal dollar amount.

We are involved in various other litigation and product liability matters arising in the ordinary course of business. Although the final outcome of any asbestos-related matters or any other litigation or product liability matter cannot be determined, based on our understanding and evaluation of the relevant facts and circumstances, it is our opinion that the final outcome of these matters will not have a material adverse effect on our business, financial condition or results of operations.

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ITEM 6.

EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

STANDARD MOTOR PRODUCTS, INC.  
(Registrant)

Date: November 2, 2012

/s/ James J. Burke  
James J. Burke  
Vice President Finance,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

Exhibit  
Number

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<u>32.2</u>	Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

\*\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to the Original Filing shall be deemed to be “furnished” and not “filed.”