

STANDARD MOTOR PRODUCTS INC
Form 10-Q
August 02, 2011

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 June 30, 2011
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.

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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 July 31, 2011, there were 22,891,731 outstanding shares of the registrant's Common Stock, par value \$2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

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		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Net sales	\$244,005	\$231,048	\$464,235	\$410,399
Cost of sales	180,832	172,659	347,910	308,192
Gross profit	63,173	58,389	116,325	102,207
Selling, general and administrative expenses	40,016	41,803	80,656	78,468
Restructuring and integration expenses	125	1,289	468	2,042
Other income, net	262	136	531	516
Operating income	23,294	15,433	35,732	22,213
Other non-operating income, net	176	162	443	180
Interest expense	1,045	2,002	2,402	3,866
Earnings from continuing operations before taxes	22,425	13,593	33,773	18,527
Provision for income taxes	8,732	5,532	13,069	7,599
Earnings from continuing operations	13,693	8,061	20,704	10,928
Loss from discontinued operations, net of income taxes	(355)	(372)	(659)	(868)
Net earnings	\$13,338	\$7,689	\$20,045	\$10,060
Per share data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	\$0.60	\$0.36	\$0.91	\$0.49
Discontinued operations	(0.02)	(0.02)	(0.03)	(0.04)
Net earnings per common share – Basic	\$0.58	\$0.34	\$0.88	\$0.45
Net earnings per common share – Diluted:				
Earnings from continuing operations	\$0.59	\$0.35	\$0.90	\$0.48
Discontinued operations	(0.01)	(0.01)	(0.03)	(0.03)
Net earnings per common share – Diluted	\$0.58	\$0.34	\$0.87	\$0.45
Dividends declared per share	\$0.07	\$0.05	\$0.07	\$0.05
Average number of common shares	22,867,323	22,570,886	22,787,337	22,493,031
Average number of common shares and dilutive common shares	23,196,125	23,529,898	23,438,247	22,584,666

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
(In thousands, except share and per share data)		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,094	\$ 12,135
Accounts receivable, less allowance for discounts and doubtful accounts of \$7,319 and \$6,779 for 2011 and 2010, respectively	152,619	104,986
Inventories, net	236,451	241,158
Deferred income taxes	15,729	18,135
Assets held for sale	216	216
Prepaid expenses and other current assets	8,350	8,076
Total current assets	426,459	384,706
Property, plant and equipment, net	61,240	60,666
Goodwill	14,304	1,437
Other intangibles, net	17,075	11,050
Deferred income taxes	13,352	21,347
Other assets	12,577	13,595
Total assets	\$ 545,007	\$ 492,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 67,805	\$ 52,887
Current portion of long-term debt	108	12,402
Accounts payable	74,421	49,919
Sundry payables and accrued expenses	29,590	29,280
Accrued customer returns	37,306	23,207
Accrued rebates	29,172	23,668
Payroll and commissions	19,441	23,468
Total current liabilities	257,843	214,831
Long-term debt	258	307
Accrued postretirement benefits	5,946	21,044
Other accrued liabilities	18,301	21,944
Accrued asbestos liabilities	25,533	24,792
Total liabilities	307,881	282,918
Commitments and contingencies		
Stockholders' equity:		
Common stock – par value \$2.00 per share:		
Authorized – 30,000,000 shares; issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	78,705	77,471
Retained earnings	114,394	97,535

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Accumulated other comprehensive income	7,428	716
Treasury stock – at cost 1,049,180 and 1,276,044 shares in 2011 and 2010, respectively	(11,273)	(13,711)
Total stockholders' equity	237,126	209,883
Total liabilities and stockholders' equity	\$ 545,007	\$ 492,801

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30,	
	2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$20,045	\$10,060
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	7,044	6,673
Increase to allowance for doubtful accounts	94	804
Increase to inventory reserves	1,092	2,241
Amortization of deferred gain on sale of building	(524)	(524)
Gain on disposal of property, plant and equipment	(7)	(151)
Equity loss (income) from joint ventures	(187)	19
Employee stock ownership plan allocation	1,257	817
Stock-based compensation	997	921
Decrease in deferred income taxes	10,401	3,475
Loss on discontinued operations, net of tax	659	868
Change in assets and liabilities:		
Increase in accounts receivable	(45,783)	(49,519)
Decrease (increase) in inventories	7,442	(19,769)
Increase in prepaid expenses and other current assets	(13)	(406)
Increase in accounts payable	14,718	26,244
Increase in sundry payables and accrued expenses	15,257	16,983
Net changes in other assets and liabilities	(11,481)	(1,744)
Net cash provided by (used in) operating activities	21,011	(3,008)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	28	12
Net cash received from the sale of land and buildings	—	873
Divestiture of joint ventures	1,000	1,000
European distribution business	675	—
Capital expenditures	(4,557)	(5,838)
Acquisitions of businesses and assets	(26,984)	(2,024)
Net cash used in investing activities	(29,838)	(5,977)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings under line-of-credit agreements	14,919	11,366
Principal payments of long-term debt and capital lease obligations	(12,344)	(312)
Increase in overdraft balances	9,591	4,739
Proceeds from exercise of employee stock options	145	—
Excess tax benefits related to the exercise of employee stock grants	15	—
Adjustment to costs related to issuance of common stock	—	36
Dividends paid	(3,186)	(2,246)
Net cash provided by financing activities	9,140	13,583
Effect of exchange rate changes on cash	646	(499)

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Net increase in cash and cash equivalents	959	4,099
CASH AND CASH EQUIVALENTS at beginning of period	12,135	10,618
CASH AND CASH EQUIVALENTS at end of period	\$13,094	\$14,717

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$1,962	\$2,882
Income taxes	\$6,616	\$1,141

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME

Six Months Ended June 30, 2011

(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2010	\$47,872	\$77,471	\$97,535	\$ 716	\$(13,711)	\$209,883
Comprehensive income:						
Net income			20,045			20,045
Foreign currency translation adjustment				935		935
Pension and retiree medical adjustment, net of tax				5,777		5,777
Total comprehensive income						26,757
Cash dividends paid			(3,186)			(3,186)
Stock-based compensation and related tax benefits		671			342	1,013
Stock options and related tax benefits		15			130	145
Employee Stock Ownership Plan		548			1,966	2,514
Balance at June 30, 2011	\$47,872	\$78,705	\$114,394	\$ 7,428	\$(11,273)	\$237,126

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, 2010. 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.

Immaterial Correction Related to Prior Periods

During the year ended December 31, 2010, we identified an immaterial correction related to our classification in the consolidated statements of operations of gains/losses on the sale of long-lived assets. As a result, we have adjusted certain prior period amounts within continuing operations on the consolidated statements of operations for the three and six months ended June 30, 2010. Such correction was limited to classification within continuing operations on the consolidated statements of operations and did not impact the consolidated balance sheet, consolidated statements of cash flows or the consolidated statements of changes in stockholders' equity and comprehensive income. See Note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for additional information.

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, 2010.

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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 FASB amended Accounting Standard Codification (“ASC”) 220, Comprehensive Income. The amendment eliminates the current 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 is January 1, 2012 with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income, as it is currently presented as part of our consolidated statement of changes in stockholders’ equity.

Goodwill Impairment Testing

Goodwill is tested for impairment using a two-step approach. Initially, the fair value of a 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; a second step of comparing the carrying amount to its implied fair value is required, as this is an indication that the reporting unit goodwill may be impaired. The new standard sets forth a requirement that the second step test must be performed in circumstances where a reporting unit has a zero or negative carrying amount and there are qualitative factors, such as those used to determine whether a triggering event would require an interim goodwill impairment test, which indicate that it is more likely than not that an impairment exists. The new standard is effective for annual reporting periods beginning after December 15, 2010, which for us was January 1, 2011. Currently, none of our reporting units have a zero or negative carrying amount. As a result, the adoption of this standard will not have an immediate impact on the manner in which we conduct our impairment testing.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU 2009-13, which will update ASC 605, Revenue Recognition, and changes the accounting for certain revenue arrangements. The new standard sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010, which for us was January 1, 2011. The adoption of these provisions did not have a material impact on our consolidated financial position, results of operations and cash flows.

Note 3. Engine Controls Acquisition

In April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc., for \$27 million in cash funded by our revolving line of credit. As part of the acquisition, we acquired certain assets and assumed certain liabilities of BLD’s Engine Controls business in Holland, Michigan, and acquired 100% of the equity

of Novo Products Inc. located in Ocala, Florida. The acquired business is a manufacturer of a range of products including fuel pressure regulators, air by-pass valves, idle air control valves, and PCV valves. Revenues generated from the acquired business were approximately \$18 million for the year-ended December 31, 2010, of which approximately 40% of the volume was sold to us.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In connection with the purchase, \$7.2 million was allocated to customer relationships and will be amortized on a straight line basis over the estimated useful life of 10 years. Goodwill of \$12.9 million was allocated to the Engine Management Segment and is deductible for income tax purposes. The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed, based on their fair values (in thousands):

Purchase Price	\$26,984
Assets acquired and liabilities assumed:	
Inventory	3,826
Other Current Assets	1,947
Property, plant and equipment, net	1,965
Intangible Assets	7,200
Goodwill	12,867
Current Liabilities	(821)
Net assets acquired	\$26,984

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, 2010 and June 30, 2011 and activity for the six months ended June 30, 2011 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$6,220	\$2,435	\$8,655
Restructuring and integration costs:			
Amounts provided for during 2011	175	293	468
Non-cash usage, including asset write-downs	—	(343)	(343)
Cash payments	(4,241)	(367)	(4,608)
Exit activity liability at June 30, 2011	\$2,154	\$2,018	\$4,172

Restructuring Costs

Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to be paid through 2015. Of the original restructuring charge of \$8 million, we have \$1.8 million remaining as of June 30, 2011 that is expected to be paid in the amounts of \$0.6 million in 2011, \$0.5 million in 2012 and \$0.7 million for the period 2013-2015.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Activity, by segment, for the six months ended June 30, 2011 related to the voluntary separation program, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2010	\$ 970	\$ 321	\$ 915	\$2,206
Restructuring costs:				
Amounts provided for during 2011	—	—	—	—
Cash payments	(118)	(38)	(213)	(369)
Exit activity liability at June 30, 2011	\$ 852	\$ 283	\$ 702	\$1,837

Integration Expenses

Overhead Cost Reduction Program

Beginning in 2007 in connection with our efforts to improve our operating efficiency and reduce costs, we announced our intention to focus on company-wide overhead and operating expense cost reduction activities, such as closing excess facilities and reducing redundancies. Integration expenses remaining under this program to date relate primarily to the closure of our production operations in Corona, California and Edwardsville, Kansas. We expect that all payments related to the current liability will be made within twelve months.

Activity for the six months ended June 30, 2011 related to our overhead cost reduction program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$853	\$686	\$1,539
Integration costs:			
Amounts provided for during 2011	130	220	350
Non-cash usage, including asset write-downs	—	(343)	(343)
Cash payments	(747)	(194)	(941)
Exit activity liability at June 30, 2011	\$236	\$369	\$605

Reynosa Integration Program

During 2008, we closed our Long Island City, New York and Puerto Rico manufacturing facilities and integrated these operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of June 30, 2011, the reserve balance related to environmental clean-up at Long Island City of \$1.7 million is included in other exit costs.

In connection with the shutdown of the manufacturing operations at Long Island City, we entered into an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and its Local 365 (“UAW”). As part of the agreement, we incurred a withdrawal liability from a multi-employer plan. The

pension plan withdrawal liability is related to trust asset under-performance in a plan that covers our former UAW employees at the Long Island City facility and is payable quarterly for 20 years at \$0.3 million per year, which commenced in December 2008. In June 2011, we agreed to settle our pension withdrawal liability for \$2.8 million and recorded a gain of \$0.3 million in connection with the settlement.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Activity for the six months ended June 30, 2011 related to the Reynosa integration program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$3,161	\$1,749	\$4,910
Integration costs:			
Amounts provided for during 2011	(225)	43	(182)
Cash payments	(2,936)	(143)	(3,079)
Exit activity liability at June 30, 2011	\$—	\$1,649	\$1,649

Engine Controls Relocation

During April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc. As a result of our acquisition, we will incur integration costs within our Engine Management Segment related to employee severance and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility. We expect that all related payments will be made within twelve months.

Activity for the six months ended June 30, 2011 related to the engine controls relocation program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$—	\$—	\$—
Integration costs:			
Amounts provided for during 2011	270	30	300
Cash payments	(189)	(30)	(219)
Exit activity liability at June 30, 2011	\$81	\$—	\$81

Integration activity, by segment, for the six months ended June 30, 2011 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Total
Exit activity liability at December 31, 2010	\$ 5,580	\$ 869	\$ 6,449
Integration costs:			
Amounts provided for during 2011	504	(36)	468
Non-cash usage, including asset write-downs	(343)	—	(343)
Cash payments	(3,428)	(811)	(4,239)
Exit activity liability at June 30, 2011	\$ 2,313	\$ 22	\$ 2,335

Assets Held for Sale

As of June 30, 2011, we have reported \$0.2 million as assets held for sale on our consolidated balance sheet related to the net book value of vacant land located in the U.K. Following plant closures resulting from integration activities, this facility had been vacant, and in July 2011, we signed an agreement to sell the property pending the procurement of satisfactory planning permission. We expect there will be a gain on the sale of the property and will record the resulting gain in other income (expense), net included in operating income (loss) in the consolidated statement of operations, upon completion of such sale.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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. Pursuant to these agreements, we sold \$164.7 million and \$291.1 million of receivables during the three months and six months ended June 30, 2011, respectively. 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. A charge in the amount of \$2.3 million and \$4.1 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 six months ended June 30, 2011, respectively, and \$1.7 million and \$2.9 million for the comparable periods in 2010.

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 (in thousands):

	June 30, 2011	December 31, 2010
	(In thousands)	
Finished goods, net	\$153,609	\$162,885
Work in process, net	6,502	5,672
Raw materials, net	76,340	72,601
Total inventories, net	\$236,451	\$241,158

Note 7. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Revolving credit facilities	\$67,805	\$52,887
15% convertible subordinated debentures (1)	—	12,300
Other	366	409
Total debt	\$68,171	\$65,596
Current maturities of debt	\$67,913	\$65,289
Long-term debt	258	307
Total debt	\$68,171	\$65,596

(1) On April 15, 2011, we settled at maturity the \$12.3 million principal amount of our 15% convertible subordinated debentures with funds from our revolving credit facility.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Deferred Financing Costs

We had deferred financing cost of \$4.1 million and \$4.9 million as of June 30, 2011 and December 31, 2010, respectively. Deferred financing costs are related to our revolving credit facility and 15% convertible subordinated debentures. Deferred financing costs as of June 30, 2011 are being amortized, assuming no further prepayments of principal, in the amount of \$0.7 million in 2011, \$1.5 million in 2012, \$1.5 million in 2013 and \$0.4 million in 2014.

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 (as amended through June 2009) with General Electric Capital Corporation. The restated credit agreement provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2014. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional \$115.9 million available for us to borrow pursuant to the formula at June 30, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$67.8 million and \$52.9 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of \$65 million in direct borrowings at 3% and an index loan of \$2.8 million at 4.5%. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of \$52 million at 3.1% and an index loan of \$0.9 million at 4.5%. During the six months ended June 30, 2011 our average daily index loan balance was \$4.9 million compared to \$6.8 million for the six months ended June 30, 2010 and \$7.1 million for the year ended December 31, 2010.

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 June 30, 2011, 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In November 2010, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2014 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (see 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 June 30, 2011, we have no outstanding borrowings under the Canadian line of credit.

Subordinated Debentures

In May 2009, we exchanged \$12.3 million aggregate principal amount of our outstanding 6.75% convertible subordinated debentures due 2009 for a like principal amount of newly issued 15% convertible subordinated debentures due 2011. The convertible subordinated debentures were subordinated in right of payment to all of our existing and future senior indebtedness. On April 15, 2011, we settled at maturity the \$12.3 million outstanding principal amount of the 15% convertible subordinated debentures with funds from our revolving credit facility.

Capital Leases

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of \$0.2 million and \$0.4 million, respectively. As of June 30, 2011, our remaining capital lease obligations totaled \$0.4 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 8. Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of Accounting Standards Codification 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. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2010	312,024	\$ 13.12	3.2
Expired	(49,324)	\$ 15.74	—
Exercised	(12,125)	\$ 11.99	—

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Forfeited, other	(1,500)	\$14.23	3.0
Outstanding and exercisable at June 30, 2011	249,075	\$12.65	3.6

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The aggregate intrinsic value of all outstanding stock options as of June 30, 2011 was \$0.6 million. All outstanding stock options as of June 30, 2011 are fully vested and exercisable. The total intrinsic value of options exercised was \$24,085 for the six months ended June 30, 2011. There were no options granted in the six months ended June 30, 2011.

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 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 six months ended June 30, 2011:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2010	364,800	\$ 10.68
Granted	18,600	\$ 13.55
Vested	(6,975)	\$ 8.26
Forfeited	(6,725)	\$ 10.70
Balance at June 30, 2011	369,700	\$ 10.87

We recorded compensation expense related to restricted shares and performance-based shares of \$631,250 (\$386,950 net of tax) and \$551,000 (\$320,100 net of tax) for the six months ended June 30, 2011 and 2010, respectively. The unamortized compensation expense related to our restricted and performance-based shares was \$2.3 million at June 30, 2011, and is expected to be recognized as they vest over a weighted average period of 3.2 and 0.8 years for employees and directors, respectively.

Note 9. 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 will be 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 these 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 is being amortized on a straight-line basis over the remaining term of the plan. The \$3.6 million curtailment gain is included in selling, general and administrative expenses in the consolidated statement of operations.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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 six months ended June 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Pension Benefits				
Service cost	\$37	\$22	\$74	\$45
Interest cost	60	36	120	73
Amortization of prior service cost	27	40	54	80
Actuarial net (gain) loss	92	—	184	—
Net periodic benefit cost	\$216	\$98	\$432	\$198
Postretirement Benefits				
Service cost	\$20	\$41	\$74	\$96
Interest cost	163	330	462	613
Amortization of prior service cost	(1,615)	(2,257)	(3,231)	(4,515)
Amortization of transition obligation	1	1	2	2
Actuarial net loss	425	368	770	687
Curtailment gain	(3,647)	—	(3,647)	—
Net periodic benefit cost	\$(4,653)	\$(1,517)	\$(5,570)	\$(3,117)

For the six months ended June 30, 2011, we made employee benefit contributions of \$0.5 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately \$1.1 million in contributions for 2011.

In August 1994, we established a Supplemental Executive Retirement Plan (SERP) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2011, contributions of \$0.2 million were made related to calendar year 2010.

In 2000, we created an employee benefits trust to which we contributed 750,000 shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under employee benefit plans. 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 2011, we contributed to the trust an additional 180,000 shares from our treasury and released 183,000 shares from the trust leaving 3,930 shares remaining in the trust as of June 30, 2011.

Note 10. 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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 June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$13,094	\$13,094	\$12,135	\$12,135
Deferred compensation	6,106	6,106	5,978	5,978
Short term borrowings	67,913	67,913	65,289	65,289
Long-term debt	258	258	307	307

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. The fair value of our 15% convertible subordinated debentures, classified as current borrowings, is based upon the quoted market price, which is considered a Level 1 input.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 11. 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic Net Earnings per Common Shares:				
Earnings from continuing operations	\$ 13,693	\$ 8,061	\$ 20,704	\$ 10,928
Loss from discontinued operations	(355)	(372)	(659)	(868)
Net earnings available to common stockholders	\$ 13,338	\$ 7,689	\$ 20,045	\$ 10,060
Weighted average common shares outstanding	22,867	22,571	22,787	22,493
Net earnings from continuing operations per common share	\$0.60	\$0.36	\$0.91	\$0.49
Loss from discontinued operations per common share	(0.02)	(0.02)	(0.03)	(0.04)
Basic net earnings per common share	\$0.58	\$0.34	\$0.88	\$0.45
Diluted Net Earnings per Common Share:				
Earnings from continuing operations	\$ 13,693	\$ 8,061	\$ 20,704	\$ 10,928
Interest income on debenture conversions (net of income tax expense)	40	277	317	–
Earnings from continuing operations plus assumed conversions	13,733	8,338	21,021	10,928
Loss from discontinued operations	(355)	(372)	(659)	(868)
Net earnings available to common stockholders plus assumed conversions	\$ 13,378	\$ 7,966	\$ 20,362	\$ 10,060
Weighted average common shares outstanding	22,867	22,571	22,787	22,493
Plus incremental shares from assumed conversions:				
Dilutive effect of restricted stock and performance stock	189	139	167	92
Dilutive effect of stock options	14	–	13	–
Dilutive effect of convertible debentures	126	820	471	–
Weighted average common shares outstanding – Diluted	23,196	23,530	23,438	22,585
Net earnings from continuing operations per common share	\$0.59	\$0.35	\$0.90	\$0.48
Loss from discontinued operations per common share	(0.01)	(0.01)	(0.03)	(0.03)
Diluted net earnings per common share	\$0.58	\$0.34	\$0.87	\$0.45

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Stock options	235	317	236	317
Restricted shares	153	61	159	108
15% convertible subordinated debentures	–	–	–	820

Note 12. Comprehensive Income

Comprehensive income, net of income tax expense is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net earnings as reported	\$13,338	\$7,689	\$20,045	\$10,060
Foreign currency translation adjustment	—	(1,119)	935	(723)
Postretirement benefit plans:				
Plan amendment adjustment	8,654	—	8,654	—
Reclassification adjustment for recognition of prior period amounts	(2,446)	(1,356)	(3,449)	(2,699)
Unrecognized amounts	310	221	572	412
Total comprehensive income	\$19,856	\$5,435	\$26,757	\$7,050

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Sales				
Engine Management	\$159,919	\$152,815	\$324,123	\$289,912
Temperature Control	79,715	73,926	133,794	113,941
All Other	4,371	4,307	6,318	6,546

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Consolidated	\$244,005	\$231,048	\$464,235	\$410,399
Intersegment Revenue				
Engine Management	\$4,907	\$4,576	\$10,468	\$9,008
Temperature Control	1,342	1,004	2,623	1,923
All Other	(6,249)	(5,580)	(13,091)	(10,931)
Consolidated	\$—	\$—	\$—	\$—

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating Profit				
Engine Management	\$13,443	\$10,213	\$28,263	\$19,709
Temperature Control	8,944	7,282	10,197	7,304
All Other	907	(2,062)	(2,728)	(4,800)
Consolidated	\$23,294	\$15,433	\$35,732	\$22,213

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 June 30, 2011, approximately 2,110 cases were outstanding for which we may be responsible for any related liabilities. The increase in the number of outstanding cases as compared to the prior period primarily relates to the unbundling of previously outstanding consolidated cases. Since inception in September 2001 through June 30, 2011, the amounts paid for settled claims are approximately \$11.7 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately \$2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received \$0.8 million in reimbursement for settlement claims and defense costs.

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, 2010. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$25.7 million to \$66.9 million for the period through 2059. The change from the prior year study was a \$0.9 million decrease for the low end of the range and a \$0.6 million increase for the high end of the range. 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 2059 in our consolidated financial statements. Accordingly, an incremental \$1.8 million provision in our discontinued operation was added to the asbestos accrual in September 2010 increasing the reserve to approximately \$25.7 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 \$20.3 million to \$61.3 million during the same period.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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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 alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010 and awaits oral argument or a decision. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend this lawsuit vigorously.

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.

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 June 30, 2011 and 2010, we have accrued \$15.5 million and \$13.8 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 12,641	\$ 10,565	\$ 12,153	\$ 10,476
Liabilities accrued for current year sales	18,481	14,077	32,337	24,604
Settlements of warranty claims	(15,663)	(10,819)	(29,031)	(21,257)
Balance, end of period	\$ 15,459	\$ 13,823	\$ 15,459	\$ 13,823

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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, our significant leverage; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket and original equipment service markets; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; 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; 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 and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, AutoZone, O’Reilly Automotive, Canadian Tire and Pep Boys. Our customers also include national program distribution groups and specialty market distributors. We distribute parts under our own brand names, such as Standard, BWD, Intermotor, Four Seasons, Factory Air, ACi, Imperial and Hayden and through private labels, such as CARQUEST, 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 and failure to meet industry published specifications. 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, 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 Three Months Ended June 30, 2011 to Three Months Ended June 30, 2010

Sales. Consolidated net sales for the three months ended June 30, 2011 were \$244 million, an increase of \$13 million, or 5.6%, compared to \$231 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in both our Engine Management and Temperature Control segments. Revenues remained strong in the quarter as our customers have increased purchases to meet demand as drivers have continued to maintain their primary vehicles for a longer period of time. In addition, Temperature Control revenues in the quarter have been positively impacted by above average temperatures.

The following table summarizes net sales by segment for the quarters ended June 30, 2011 and 2010, respectively:

	Three Months Ended June 30,	Engine Management	Temperature Control	Other	Total
2011					
Net sales		\$ 159,919	\$ 79,715	\$4,371	\$244,005
Gross margins		40,012	19,646	3,515	63,173
Gross margin percentage		25	% 24.6	% —	25.9 %
2010					
Net sales		\$ 152,815	\$ 73,926	\$4,307	\$231,048
Gross margins		37,488	17,707	3,194	58,389
Gross margin percentage		24.5	% 24	% —	25.3 %

Engine Management's net sales increased \$7.1 million, or 4.6%, to \$159.9 million for the second quarter of 2011. The sales growth was driven primarily by stronger sales in the traditional and retail markets compared to the prior period and incremental sales of \$2.1 million from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011.

Temperature Control's net sales increased \$5.8 million, or 7.8%, to \$79.7 million for the second quarter of 2011. The increased sales in both the retail and traditional markets are primarily the result of strong demand driven by continued warm weather trends and our increased production and manufacturing efficiency to meet these sales demands.

Gross margins. Gross margins, as a percentage of consolidated net sales, increased to 25.9% in the second quarter of 2011, compared to 25.3% in the second quarter of 2010. The increase resulted from improvements in margins in Engine Management of 0.5 percentage points and in Temperature Control of 0.6 percentage points. The Engine Management gross margin percentage was positively impacted by higher sales volumes including \$2.1 million of incremental sales related to the acquisition of the BLD Engine Controls business which began shipping in May 2011. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of increased sales volumes and production improving fixed overhead absorption.

Selling, general and administrative expenses. Selling, general and administrative expenses (SG&A) decreased by \$1.8 million to \$40 million or 16.4% of consolidated net sales, in the second quarter of 2011, as compared to \$41.8 million or 18.1% of consolidated net sales in the second quarter of 2010. The decrease in SG&A expenses is principally due to a \$3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans offset, in part, by sales volume related increases in selling, marketing and distribution expenses and an increase in discount fees related to the sale of receivables.

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Restructuring and integration expenses. Restructuring and integration expenses decreased to \$0.1 million in the second quarter of 2011, compared to \$1.3 million in the second quarter of 2010. The 2011 expense related primarily to employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. The 2010 expense related primarily to severance costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities and a charge related to the closure of our Long Island City building.

Components of our restructuring and integration accruals, by segment, were as follows (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at March 31, 2011	\$ 6,347	\$ 495	\$ 812	\$7,654
Restructuring and integration costs:				
Amounts provided for during 2011	134	(9)	—	125
Non-cash usage, including asset write-downs	(70)	—	—	(70)
Cash payments	(3,246)	(181)	(110)	(3,537)
Exit activity liability at June 30, 2011	\$ 3,165	\$ 305	\$ 702	\$4,172

Other income, net. Other income, net increased to \$0.3 million in the second quarter of 2011 compared to \$0.1 million in the same period in 2010. During 2011 and 2010, we recognized \$0.3 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility and in 2010, we recorded a \$0.2 million loss on the sale of vacant land at one of our locations and the disposal of equipment.

Operating income. Operating income was \$23.3 million in the second quarter of 2011, compared to \$15.4 million in the second quarter of 2010. The increase of \$7.9 million was due to higher sales volumes, the increase in gross margins as a percentage of net sales, lower restructuring and integration expenses, and the \$3.6 million curtailment gain recorded as a result of our postretirement plan amendments.

Interest expense. Interest expense decreased by \$1 million in the second quarter of 2011 compared to the same period in 2010 as average borrowings declined \$16.9 million. This decrease includes the impact of the April 2011 maturity of the \$12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining \$5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the second quarter of 2011 was \$8.7 million at an effective tax rate of 38.9% compared to \$5.5 million at an effective tax rate of 40.7% for the same period in 2010. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operation, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded \$0.4 million as a loss from discontinued operations for the second quarter of 2011 and 2010. 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.

Comparison of Six Months Ended June 30, 2011 to Six Months Ended June 30, 2010

Sales. Consolidated net sales for the six months ended June 30, 2011 were \$464.2 million, an increase of \$53.8 million, or 13.1%, compared to \$410.4 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in both our Engine Management and Temperature Control segments. Revenues remained strong in the quarter as our customers have increased purchases to meet demand as drivers have continued to

maintain their primary vehicles for a longer period of time.

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The following table summarizes net sales and gross margins by segment for the six months ended June 30, 2011 and 2010, respectively:

	Six Months Ended June 30,	Engine Management	Temperature Control	Other	Total
2011					
Net sales		\$ 324,123	\$ 133,794	\$6,318	\$464,235
Gross margins		80,016	29,926	6,383	116,325
Gross margin percentage		24.7	% 22.4	% —	25.1 %
	Six Months Ended June 30,	Engine Management	Temperature Control	Other	Total
2010					
Net sales		\$ 289,912	\$ 113,941	\$6,546	\$410,399
Gross margins		70,622	25,960	5,625	102,207
Gross margin percentage		24.4	% 22.8	% —	24.9 %

Engine Management's net sales increased \$34.2 million, or 11.8%, to \$324.1 million for the first six months of 2011. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels. In addition, incremental sales from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased \$19.9 million, or 17.4%, to \$133.8 million for the first six months of 2011. The increase in sales primarily reflects inventory increases on the part of several customers due to warm weather trends in our retail and traditional markets.

Gross margins. Gross margins, as a percentage of consolidated net sales, for the six months ended June 30, 2011 increased to 25.1% compared to 24.9% the same period of 2010. The increase resulted from a 0.3 percentage point increase in Engine Management margins offset, in part, by a decrease in Temperature Control margins of 0.4 percentage points. The gross margin percentage decrease in Temperature Control compared to the prior year was primarily the result of product mix as sales of new compressors outpaced re-engineered compressors. The increase in the Engine Management margins was the result of a higher sales volumes and improving fixed overhead absorption resulting from increased production.

Selling, general and administrative expenses. Selling, general and administrative expenses (SG&A) increased by \$2.2 million to \$80.7 million or 17.4% of consolidated net sales, in the six months ended June 30, 2011, as compared to \$78.5 million or 19.1% of consolidated net sales in like period of 2010. The increase in SG&A expenses is due primarily to sales volume related increases to selling, marketing and distribution expenses and a \$1.2 million increase in expenses related to the sale of receivables partially offset by a \$3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans.

Restructuring and integration expenses. Restructuring and integration expenses decreased to \$0.5 million for the six months ended June 30, 2011, compared to \$2 million in the same period of 2010. The 2011 expense related primarily to employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. and integration expenses related to the wire and cable business. The 2010 expense related primarily to severance costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities and a charge related to the closure of our Long Island City building.

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Other income, net. Other income, net was \$0.5 million for the six months ended June 30, 2011 and 2010 primarily resulting from the recognition in both 2011 and 2010 of a deferred gain related to the sale-leaseback of our Long Island City, New York facility.

Operating income. Operating income was \$35.7 million in the first six months of 2011, compared to \$22.2 million in 2010. The increase of \$13.5 million was due primarily to stronger sales across all markets within our Engine Management and Temperature Control Segments, the increase in gross margins as a percentage of net sales, lower restructuring and integration expenses, and the \$3.6 million curtailment gain recorded as a result of our postretirement plan amendments offset, in part, by sales volume related increases to selling, marketing and distribution expenses.

Interest expense. Interest expense decreased by \$1.5 million to \$2.4 million in the six months ended June 30, 2011, compared to \$3.9 million in the same period in 2010 as average borrowings declined \$20.6 million. This decrease includes the impact of the April 2011 maturity of the \$12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining \$5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the six months ended June 30, 2011 was \$13.1 million at an effective tax rate of 38.7%, compared to \$7.6 million and an effective tax rate of 41% for the same period in 2010. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operation, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded \$0.7 million and \$0.9 million as a loss from discontinued operation for the six months ended June 30, 2011 and 2010, respectively. 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, 2010 and June 30, 2011 and activity for the six months ended June 30, 2011 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$6,220	\$2,435	\$8,655
Restructuring and integration costs:			
Amounts provided for during 2011	175	293	468
Non-cash usage, including asset write-downs	—	(343)	(343)
Cash payments	(4,241)	(367)	(4,608)
Exit activity liability at June 30, 2011	\$2,154	\$2,018	\$4,172

Restructuring Costs

Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to

be paid through 2015. Of the original restructuring charge of \$8 million, we have \$1.8 million remaining as of June 30, 2011 that is expected to be paid in the amounts of \$0.6 million in 2011, \$0.5 million in 2012 and \$0.7 million for the period 2013-2015.

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Activity, by segment, for the six months ended June 30, 2011 related to the voluntary separation program, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2010	\$ 970	\$ 321	\$915	\$2,206
Restructuring costs:				
Amounts provided for during 2011	—	—	—	—
Cash payments	(118)	(38)	(213)	(369)
Exit activity liability at June 30, 2011	\$ 852	\$ 283	\$702	\$1,837

Integration Expenses

Overhead Cost Reduction Program

Beginning in 2007 in connection with our efforts to improve our operating efficiency and reduce costs, we announced our intention to focus on company-wide overhead and operating expense cost reduction activities, such as closing excess facilities and reducing redundancies. Integration expenses remaining under this program to date relate primarily to the closure of our production operations in Corona, California and Edwardsville, Kansas. We expect that all payments related to the current liability will be made within twelve months.

Activity for the six months ended June 30, 2011 related to our overhead cost reduction program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$853	\$686	\$1,539
Integration costs:			
Amounts provided for during 2011	130	220	350
Non-cash usage, including asset write-downs	—	(343)	(343)
Cash payments	(747)	(194)	(941)
Exit activity liability at June 30, 2011	\$236	\$369	\$605

Reynosa Integration Program

During 2008, we closed our Long Island City, New York and Puerto Rico manufacturing facilities and integrated these operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of June 30, 2011, the reserve balance related to environmental clean-up at Long Island City of \$1.7 million is included in other exit costs.

In connection with the shutdown of the manufacturing operations at Long Island City, we entered into an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and its Local 365 ("UAW"). As part of the agreement, we incurred a withdrawal liability from a multi-employer plan. The pension plan withdrawal liability is related to trust asset under-performance in a plan that covers our former UAW employees at the Long Island City facility and is payable quarterly for 20 years at \$0.3 million per year, which commenced in December 2008. In June 2011, we agreed to settle our pension withdrawal liability for \$2.8 million and recorded a gain of \$0.3 million in connection with the settlement.

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Activity for the six months ended June 30, 2011 related to the Reynosa integration program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$3,161	\$1,749	\$4,910
Integration costs:			
Amounts provided for during 2011	(225)	43	(182)
Cash payments	(2,936)	(143)	(3,079)
Exit activity liability at June 30, 2011	\$—	\$1,649	\$1,649

Engine Controls Relocation

During April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc. As a result of our acquisition, we will incur integration costs within our Engine Management Segment related to employee severance and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility. We expect that all related payments will be made within twelve months.

Activity for the six months ended June 30, 2011 related to the engine controls relocation program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$—	\$—	\$—
Integration costs:			
Amounts provided for during 2011	270	30	300
Cash payments	(189)	(30)	(219)
Exit activity liability at June 30, 2011	\$81	\$—	\$81

Integration activity, by segment, for the six months ended June 30, 2011 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Total
Exit activity liability at December 31, 2010	\$ 5,580	\$ 869	\$ 6,449
Integration costs:			
Amounts provided for during 2011	504	(36)	468
Non-cash usage, including asset write-downs	(343)	—	(343)
Cash payments	(3,428)	(811)	(4,239)
Exit activity liability at June 30, 2011	\$ 2,313	\$ 22	\$ 2,335

Liquidity and Capital Resources

Operating Activities. During the first six months of 2011, cash provided by operations amounted to \$21 million compared to cash used in operations of \$3 million in the same period of 2010. The year-over-year increase in cash provided by operations is primarily the result of the increase in net earnings reflecting higher sales volumes, the decrease in inventory levels and the increased impact of our factoring program on our accounts receivables.

Investing Activities. Cash used in investing activities was \$29.8 million in the first six months of 2011, compared to \$6 million in the first six months of 2010. During 2011 and 2010, we received a \$1 million payment related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships. Investing activities in 2011 included a cash payment of \$27 million related to the acquisition of the Engine Controls business of BLD Products, Ltd. and a \$0.7 million cash receipt related to the note issued in connection with the sale of our European distribution business in 2009. Investing activities in 2010 included cash proceeds of \$0.9 million from the sale of our Wilson, North Carolina building and the sale of the vacant land at one of our locations in the U.K. and a \$2 million payment related to the acquisition of certain products lines by our Temperature Control Segment. Capital expenditures in the first three months of 2011 were \$4.6 million compared to \$5.8 million in the comparable period last year.

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Financing Activities. Cash provided by financing activities was \$9.1 million in the first six months of 2011, compared to cash provided by financing activities of \$13.6 million in the same period of 2010. The decrease is primarily due to lower borrowings. Dividends of \$3.2 million were paid in the first six months of 2011 compared to \$2.2 million in the comparable period last 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 (as amended through June 2009) with General Electric Capital Corporation. The restated credit agreement provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2014. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional \$115.9 million available for us to borrow pursuant to the formula at June 30, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$67.8 million and \$52.9 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of \$65 million in direct borrowings at 3% and an index loan of \$2.8 million at 4.5%. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of \$52 million at 3.1% and an index loan of \$0.9 million at 4.5%. During the six months ended June 30, 2011 our average daily index loan balance was \$4.9 million compared to \$6.8 million for the six months ended June 30, 2010 and \$7.1 million for the year ended December 31, 2010.

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 June 30, 2011, 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.

In November 2010, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2014 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (see 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 June 30, 2011, we have no outstanding borrowings under the Canadian line of credit.

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In May 2009, we exchanged \$12.3 million aggregate principal amount of our outstanding 6.75% convertible subordinated debentures due 2009 for a like principal amount of newly issued 15% convertible subordinated debentures due 2011. The convertible subordinated debentures were subordinated in right of payment to all of our existing and future senior indebtedness. On April 15, 2011, we settled at maturity the \$12.3 million outstanding principal amount of the 15% convertible subordinated debentures with funds from our revolving credit facility.

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of \$0.2 million and \$0.4 million, respectively. As of June 30, 2011, our remaining capital lease obligations totaled \$0.4 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 sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold \$164.7 million and \$291.1 million of receivables during the three months and six months ended June 30, 2011, respectively. 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. A charge in the amount of \$2.3 million and \$4.1 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 six months ended June 30, 2011, respectively, and \$1.7 million and \$2.9 million for the comparable periods in 2010.

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, 2010.

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The following table summarizes our contractual commitments as of June 30, 2011 and expiration dates of commitments through 2020:

(in thousands)	2011	2012	2013	2014	2015	2016-2020	Total
Lease obligations	\$ 3,784	\$ 7,404	\$ 6,448	\$ 5,333	\$ 4,938	\$5,738	33,645
Postretirement and pension benefits	703	1,161	1,196	1,228	6,869	2,426	13,583
Severance payments related to restructuring and integration	719	619	424	234	56	102	2,154
Total commitments	\$ 5,206	\$ 9,184	\$ 8,068	\$ 6,795	\$ 11,863	\$8,266	\$ 49,382

Indebtness under our revolving credit facilities of \$67.8 million as of June 30, 2011 is not included in the table above as it is reported as a current liability in our consolidated balance sheets.

Summary of Significant 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, 2010. 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.

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.

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 demand.

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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 June 30, 2011, the allowance for sales returns was \$37.3 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 June 30, 2011, the allowance for doubtful accounts and for discounts was \$7.3 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.

At June 30, 2011, we had a valuation allowance of \$29.4 million, due to uncertainties related to our ability to utilize some of our deferred tax assets. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. During 2009 and 2010 we experienced positive earnings trends which resulted in cumulative taxable income in the U.S. for the year ended December 31, 2010. The first half of 2011 has continued with positive earnings and if such earnings trends and our tax position continue, we may realize the benefits of all or a significant portion of our net U.S. deferred tax assets in the near term through a reduction in our deferred tax valuation allowance, based

upon current expectations for future taxable income in the U.S. over the periods in which the deferred tax assets are recoverable. This would result in an income tax benefit that would be primarily reflected in net income.

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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 trademarks and trade names, patents and customer relationships. 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.

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.

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 Accounting Standards Codification 712, "Nonretirement Postemployment Benefits" and Accounting Standards Codification 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.

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Share-Based Compensation. Accounting Standards Codification 718 “Stock Compensation,” requires 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, 2010 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$25.7 million to \$66.9 million for the period through 2059. As a result, in September 2010 an incremental \$1.8 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$25.7 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 2059 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 \$20.3 million to \$61.3 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 an agreement with an insurance carrier 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.

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the FASB amended Accounting Standard Codification (“ASC”) 220, Comprehensive Income. The amendment eliminates the current 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 is January 1, 2012 with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income, as it is currently presented as part of our consolidated statement of changes in stockholders' equity.

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Goodwill Impairment Testing

Goodwill is tested for impairment using a two-step approach. Initially, the fair value of a 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; a second step of comparing the carrying amount to its implied fair value is required, as this is an indication that the reporting unit goodwill may be impaired. The new standard sets forth a requirement that the second step test must be performed in circumstances where a reporting unit has a zero or negative carrying amount and there are qualitative factors, such as those used to determine whether a triggering event would require an interim goodwill impairment test, which indicate that it is more likely than not that an impairment exists. The new standard is effective for annual reporting periods beginning after December 15, 2010, which for us was January 1, 2011. Currently, none of our reporting units have a zero or negative carrying amount. As a result, the adoption of this standard will not have an immediate impact on the manner in which we conduct our impairment testing.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU 2009-13, which will update ASC 605, Revenue Recognition, and changes the accounting for certain revenue arrangements. The new standard sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010, which for us was January 1, 2011. The adoption of these provisions did not have a material impact on our consolidated financial position, results of operations and cash flows.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 June 30, 2011, we do not have any derivative financial instruments.

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British Pound, the Euro, the Polish zloty, the Mexican Peso and the Hong Kong dollar. As of June 30, 2011 and December 31, 2010, 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.

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 99.5% and 80.6% at June 30, 2011 and December 31, 2010, 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, 2010.

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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 June 30, 2011, 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 June 30, 2011, approximately 2,110 cases were outstanding for which we may be responsible for any related liabilities. The increase in the number of outstanding cases as compared to the prior period primarily relates to the unbundling of previously outstanding consolidated cases. Since inception in September 2001 through June 30, 2011, the amounts paid for settled claims are approximately \$11.7 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately \$2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received \$0.8 million in reimbursement for settlement claims and defense costs.

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, 2010. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$25.7 million to \$66.9 million for the period through 2059. The change from the prior year study was a \$0.9 million decrease for the low end of the range and a \$0.6 million increase for the high end of the range. 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 2059 in our consolidated financial statements. Accordingly, an incremental \$1.8 million provision in our discontinued operation was added to the asbestos accrual in September 2010 increasing the reserve to approximately \$25.7 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 \$20.3 million to \$61.3 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.

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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 alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010 and awaits oral argument or a decision. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend this lawsuit vigorously.

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: August 2, 2011

/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

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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.”