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STANDARD MOTOR PRODUCTS INC
Form 10-Q
November 08, 2007

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 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. 11101

(Address of principal executive offices) (Zip Code)

(718) 392-0200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of the close of business on October 31, 2007, there were 18,423,709

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outstanding shares of the registrant's Common Stock, par value \$2.00 per share.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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(In thousands, except share and per share data)

	Three Months Ended		
	September 30,		
	2007	2006	2005
	(Unaudited)		
Net sales	\$ 206,169	\$ 203,755	\$ 200,000
Cost of sales	151,527	154,423	150,000
	54,642	49,332	50,000
Gross profit			
Selling, general and administrative expenses	42,861	40,039	40,000
Restructuring and integration expenses	2,630	598	0
	9,151	8,695	0
Operating income			
Other income, net	1,864	820	0
Interest expense	4,605	5,118	0
	6,410	4,397	0
Earnings from continuing operations			
before taxes	1,628	1,814	0
Provision for income tax			
	4,782	2,583	0
Earnings from continuing operations			
(Loss) gain from discontinued operation,			
net of income taxes	(2,148)	1,656	0
	\$ 2,634	\$ 4,239	\$ 0
Net earnings	2,634	4,239	0
PER SHARE DATA:			
Net earnings per common share - Basic:			
Earnings from continuing operations	\$ 0.26	\$ 0.14	\$ 0.14
Discontinued operation	(0.12)	0.09	0.09
	\$ 0.14	\$ 0.23	\$ 0.23
Net earnings per common share - Basic			
Net earnings per common share - Diluted:			
Earnings from continuing operations	\$ 0.26	\$ 0.14	\$ 0.14
Discontinued operation	(0.12)	0.09	0.09
	\$ 0.14	\$ 0.23	\$ 0.23
Net earnings per common share -Diluted			
Average number of common shares	18,593,165	18,306,178	18,306,178
	18,623,138	18,371,435	18,371,435
Average number of common shares and dilutive			
common shares			

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2007	Decemb 2006
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,449	\$ 22,3
Accounts receivable, less allowance for discounts and doubtful accounts of \$10,017 and \$9,465 for 2007 and 2006, respectively	234,786	183,6
Inventories	239,063	233,9
Deferred income taxes	13,992	14,0
Prepaid expenses and other current assets	10,727	7,8
	-----	-----
Total current assets	518,017	461,8
Property, plant and equipment, net	76,526	80,0
Goodwill	38,488	38,4
Other intangibles, net	16,465	17,8
Other assets	38,848	41,8
	-----	-----
Total assets	\$ 688,344	\$ 640,0
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 156,550	\$ 139,7
Current portion of long-term debt	454	5
Accounts payable	60,997	53,7
Sundry payables and accrued expenses	23,476	24,5
Accrued customer returns	29,904	21,7
Restructuring accrual	673	7
Accrued rebates	22,503	20,7
Payroll and commissions	20,300	16,7
	-----	-----
Total current liabilities	314,857	278,5
	-----	-----
Long-term debt	97,572	97,9
Post-retirement medical benefits and other accrued liabilities	53,929	51,6
Restructuring accrual	200	3
Accrued asbestos liabilities	22,682	20,8
	-----	-----
Total liabilities	489,240	449,3
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common Stock - par value \$2.00 per share:		
Authorized - 30,000,000 shares; issued 20,486,036 shares ...	40,972	40,9
Capital in excess of par value	59,158	57,4
Retained earnings	116,110	112,4
Accumulated other comprehensive income	6,385	3,5
Treasury stock - at cost 2,189,079 and 2,109,816 shares in 2007 and 2006, respectively)	(23,521)	(23,7
	-----	-----

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Total stockholders' equity	199,104	190,6
	-----	-----
Total liabilities and stockholders' equity	\$ 688,344	\$ 640,0
	=====	=====

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2007	2006
	----- (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 10,598	\$ 11,239
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,256	12,016
Increase in allowance for doubtful accounts	1,301	176
Increase in inventory reserves	3,372	3,617
(Gain) loss on disposal of property, plant and equipment	(646)	2
Equity income from joint ventures	(296)	(865)
Employee stock ownership plan allocation	1,400	893
Stock-based compensation	423	695
Deferred income taxes	1,439	6,931
Loss (income) on discontinued operation, net of income tax	2,776	(603)
Change in assets and liabilities:		
Increase in accounts receivable	(52,423)	(55,554)
(Increase) decrease in inventories	(8,465)	11,582
Increase in prepaid expenses and other current assets	(2,416)	(589)
(Increase) decrease in other assets	(23)	2,781
Increase in accounts payable	5,790	8,193
Increase (decrease) in sundry payables and accrued expenses	700	(2,768)
Decrease in restructuring accrual	(213)	(902)
Increase in other liabilities	13,115	12,153
	-----	-----
Net cash (used in) provided by operating activities	(12,312)	8,997
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant and equipment	4,306	14
Capital expenditures	(9,613)	(7,664)
	-----	-----
Net cash used in investing activities	(5,307)	(7,650)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line-of-credit agreements	16,751	8,261
Principal payments and retirement of long-term debt	(495)	(422)
Increase (decrease) in overdraft balances	1,424	(5,314)
Purchase of treasury stock	(4,997)	--
Proceeds from exercise of employee stock options	4,185	--

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Excess tax benefits related to the exercise of employee stock options .	454	--
Dividends paid	(5,043)	(4,929)
	-----	-----
Net cash provided by (used in) financing activities	12,279	(2,404)
	-----	-----
Effect of exchange rate changes on cash	2,441	2,030
	-----	-----
Net (decrease) increase in cash and cash equivalents	(2,899)	973
CASH AND CASH EQUIVALENTS at beginning of the period	22,348	14,046
	-----	-----
CASH AND CASH EQUIVALENTS at end of the period	\$ 19,449	\$ 15,019
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	\$ 15,460	\$ 16,169
	=====	=====
Income taxes	\$ 2,665	\$ 2,855
	=====	=====
Non-cash financing activity:		
Reduction of restructuring accrual applied against goodwill.	\$ --	\$ 10,453
	=====	=====

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

THREE MONTHS ENDED SEPTEMBER 30, 2007
(Unaudited)

	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK
	-----	-----	-----	-----	-----
Balance at June 30, 2007	\$ 40,972	\$ 59,126	\$115,171	\$ 5,301	\$ (18,000)
Comprehensive income:					
Net earnings			2,634		
Foreign currency translation adjustment				1,084	
Minimum pension liability adjustment				--	
Total comprehensive income					
Cash dividends paid			(1,695)		
Purchase of treasury stock					(4,000)
Exercise of employee stock options		2			
Stock-based compensation		67			
Excess tax benefits related to the exercise					

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of employee stock options		(37)			
Employee Stock Ownership Plan		--			
Balance at September 30, 2007	\$ 40,972	\$ 59,158	\$116,110	\$ 6,385	\$ (23,845)

NINE MONTHS ENDED SEPTEMBER 30, 2007
(Unaudited)

	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at December 31, 2006	\$ 40,972	\$ 57,429	\$ 112,481	\$ 3,541
Comprehensive income:				
Net earnings			10,598	
Foreign currency translation adjustment				2,845
Minimum pension liability adjustment				(1)
Total comprehensive income				
Impact of adopting new accounting pronouncement (a)			(1,926)	
Cash dividends paid			(5,043)	
Purchase of treasury stock				
Exercise of employee stock options		494		
Stock-based compensation		252		
Excess tax benefits related to the exercise of employee stock options		454		
Employee Stock Ownership Plan		529		
Balance at September 30, 2007	\$ 40,972	\$ 59,158	\$ 116,110	\$ 6,385

(a) Relates to the impact of adopting the provisions of Financial Accounting Standards Board Int 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109

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

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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.

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, 2006.

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. All significant inter-company items have been eliminated.

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

NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR UNCERTAIN TAX POSITIONS

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. FIN 48 also provides guidance on accounting for derecognition, interest and penalties, and classification and disclosure of matters related to uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006 and, as a result, is effective for us beginning January 1, 2007.

On January 1, 2007, we adopted the provisions of FIN 48. The cumulative effect of adoption was a \$1.9 million reduction of retained earnings. At January 1, 2007, the total amount of unrecognized tax benefits was \$2.3 million, all of which would impact the effective tax rate, if recognized.

We continue the practice of recognizing interest and penalties associated with income tax matters as components of the "provision for income taxes". Our accrual for interest and penalties was \$0.4 million upon adoption of FIN 48 and at September 30, 2007.

We are subject to taxation in the US and various state, local and foreign jurisdictions. We remain subject to examination by US Federal, state, local and foreign tax authorities for tax year 2001 as well as 2003 through 2006. With a few exceptions, we are no longer subject to US Federal, state, local or foreign examinations by tax authorities for the tax year 2002 and for tax years prior to 2001. We do not presently anticipate that our unrecognized tax benefits will significantly increase or decrease prior to September 30, 2008; however, actual developments in this area could differ from those currently expected.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS 157 is effective for the fiscal year beginning after November 15, 2007, which for us is the year ending December 31, 2008. We are assessing the impact, if any, which the adoption of SFAS 157 will have on our consolidated financial position, results of operations and cash flows.

NOTE 3. RESTRUCTURING AND INTEGRATION COSTS

RESTRUCTURING COSTS

In connection with our acquisition of substantially all of the assets and the assumption of substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("DEM") in June 2003, we have a restructuring accrual of \$0.9 million remaining as of September 30, 2007, and most of this amount we expect to pay in 2007 and 2008. The restructuring accrual relates to work force reductions, employee termination benefits and contract termination costs. During the nine months ended September 30, 2007, termination benefits of \$0.2 million have been charged to the restructuring accrual. As of September 30, 2007, the reserve balance for workforce reductions was at \$0.3 million. The restructuring accrual also includes costs associated with exiting certain activities, primarily related to lease and contract termination costs, which will not have future benefits. As of September 30, 2007, we have an exit reserve balance for other exit costs of \$0.6 million.

Selected information relating to the restructuring costs included in the allocation of the cost to acquire DEM is as follows (in thousands):

	Workforce Reduction	Other Exit Costs	Total
	-----	-----	-----
Restructuring liability at December 31, 2006 ...	\$ 472	\$ 614	\$ 1,086
Cash payments during first nine months of 2007 .	(213)	--	(213)
	-----	-----	-----
Restructuring liability as of September 30, 2007	\$ 259	\$ 614	\$ 873
	=====	=====	=====

INTEGRATION EXPENSES

During the third quarter of 2007 and 2006, we incurred integration expenses of approximately \$2.6 million and \$0.6 million, respectively. Integration expenses incurred during the third quarter of 2007 were \$1.2 million for one-time termination benefits and \$1.4 million for other exit costs. For the nine months ended September 30, 2007 and 2006, we incurred integration expenses of \$3.9 million and \$0.8 million, respectively. Integration expenses incurred for the nine months ended September 30, 2007 were \$1.9 million for one-time termination benefits and \$2 million for other exit costs. The 2007 amount relates primarily to the cost of moving and closing our Puerto Rico production operations, the integration of operations in Mexico and the closure of our Fort Worth, Texas production facility, while the 2006 amount relates mostly to the cost of moving our European production operations and the divestiture of a production unit of

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our Temperature Control segment.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

In October 2006, we announced plans to close our Puerto Rico manufacturing facility related to the Engine Management Segment following the expiration of the Internal Revenue Code Section 936 benefit and to further our efforts in streamlining costs. These operations will be moved to other manufacturing sites. The facility move and closure is planned to occur in a phased manner through December 31, 2008. In connection with this closing, we will incur one-time termination benefits to be paid to certain employees at the end of a specified requisite service period. We estimate these termination benefits will amount to approximately \$2 million which will be recognized as expense ratably over the requisite service period. We also expect to incur approximately \$2.4 million of various expenses to move the production assets, close the Puerto Rico facility, and relocate some employees. These expenses will be recognized as incurred.

In July 2007, we sold our Fort Worth, Texas manufacturing facility. As a result of the sale, we are in the process of moving operations conducted at this facility to other manufacturing sites. In connection with these moves, we will incur one-time termination benefits to be paid to certain employees at the end of a specified requisite service period. We estimate these termination benefits will amount to approximately \$0.4 million, which are being recognized over the requisite service period. In addition, we expect to incur approximately \$0.5 million in various expenses to move the production assets and close the facility. These expenses will be recognized as incurred.

Selected information relating to the closure of our Puerto Rico manufacturing facility, integration of operations in Mexico and the closure of our Fort Worth, Texas production facility is as follows (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2006	\$ 387	\$ 35	\$ 422
Amounts expensed during first nine months of 2007	1,919	1,948	3,867
Cash payments during first nine months of 2007 ..	(90)	(1,319)	(1,409)
	-----	-----	-----
Exit activity liability at September 30, 2007 ...	\$ 2,216	\$ 664	\$ 2,880
	=====	=====	=====

In December 2006, we divested a majority portion of our European Temperature Control business. The transaction involved the sale of all of our voting stock of our subsidiaries in Italy and France. The proceeds from the divestiture were approximately \$3.1 million, and we incurred a loss on divestiture of \$3.2 million. The major classes of assets and liabilities at the time of sale were as follows: accounts receivable of \$4 million, inventory of \$3.9 million, accounts payable of \$1.7 million, and accrued liabilities of \$0.8 million. The European Temperature Control business was previously included in our European Segment.

NOTE 4. SALE OF FORT WORTH FACILITY

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In July 2007, we sold our Fort Worth, Texas manufacturing facility for net proceeds of \$4.2 million, with a pre-tax gain of \$0.8 million. The pre-tax gain is included in Other Income, Net in the consolidated statements of operations. The proceeds from the sale were used to pay down debt under our revolving credit facility.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 5. INVENTORIES

	September 30, 2007	December 31, 2006
	-----	-----
	(in thousands)	
Finished goods, net	\$164,336	\$169,183
Work in process, net	6,252	4,654
Raw materials, net	68,475	60,133
	-----	-----
Total inventories, net	\$239,063	\$233,970
	=====	=====

NOTE 6. CREDIT FACILITIES AND LONG-TERM DEBT

Total debt consists of (in thousands):

	September 30, 2007	December 31, 2006
	-----	-----
CURRENT		

Revolving credit facilities (1)	\$156,550	\$139,799
Current portion of mortgage loan	454	542
	-----	-----
	157,004	140,341
	-----	-----
LONG-TERM DEBT		

6.75% convertible subordinated debentures	90,000	90,000
Mortgage loan	8,026	8,416
Other	--	105
Less: current portion of long-term debt	454	542
	-----	-----
	97,572	97,979
	-----	-----
Total debt	\$254,576	\$238,320
	=====	=====

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- (1) Consists of the revolving credit facility, the Canadian term loan and the European revolving credit facility.

Maturities of long-term debt during the five years ending December 31, 2007 through 2011 are \$0.5 million, \$0.6 million, \$90.6 million, \$0.6 million and \$0.7 million, respectively.

We had deferred financing costs of \$2.9 million and \$3 million as of December 31, 2006 and September 30, 2007, respectively. These costs related to our revolving credit facility, the convertible subordinated debentures and a mortgage loan agreement, and these costs are being amortized in the amount of \$1 million in 2007, \$0.8 million in 2008, \$0.6 million in 2009, \$0.4 million in 2010 and \$0.7 million for the period 2011-2018.

REVOLVING CREDIT FACILITY

In March 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation, which prior credit facility provided for a \$305 million credit facility and which was to expire in 2008. The restated credit agreement provides for a line of credit of up to \$275 million (inclusive of the Canadian term loan described below) and expires in 2012. The restated credit agreement also provides a \$50 million accordion feature, which would allow us to expand the facility. 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

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by our same subsidiaries and secured by our same assets as the prior \$305 million credit facility.

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 \$88.8 million available for us to borrow pursuant to the formula at September 30, 2007. At December 31, 2006, the interest rate on the Company's prior credit facility was 7.8%, and at September 30, 2007, the interest rate on our restated credit agreement was 7.1%. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian term loan described below), which are classified as current liabilities, were \$133.3 million and \$152 million at December 31, 2006 and September 30, 2007, respectively.

At any time our borrowing availability in the aggregate is less than \$30 million and until such time that we have maintained an average borrowing availability in the aggregate of \$30 million or greater for a continuous period of 90 days, the

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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. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. In addition, the restated credit agreement provides that, beginning on January 15, 2008 and on a quarterly basis thereafter, an increasing amount of the Company's borrowing availability shall be reserved for the repayment, repurchase or redemption, as the case may be, of the aggregate outstanding amount of our convertible debentures. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

CANADIAN TERM LOAN

In March 2007, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. This credit agreement amends our existing \$7 million credit agreement which was to expire in 2008. The amended credit agreement provides for a line of credit of up to \$12 million, of which \$7 million is currently outstanding and which amount is part of the \$275 million available for borrowing under our restated credit agreement with General Electric Capital Corporation (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in 2012. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation (described above).

REVOLVING CREDIT FACILITY--EUROPE

Our European subsidiary has a revolving credit facility which, at September 30, 2007, provides for a line of credit up to \$10.2 million. The amount of short-term bank borrowings outstanding under this facility was \$6.5 million on December 31, 2006 and \$4.6 million on September 30, 2007. The weighted average interest rate on these borrowings on December 31, 2006 and September 30, 2007 was 6.3% and 6.2%, respectively. At September 30, 2007, there was an additional \$5.6 million available for our European subsidiary to borrow.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

SUBORDINATED DEBENTURES

In July 1999, we completed a public offering of convertible subordinated debentures amounting to \$90 million. The convertible debentures carry an interest rate of 6.75%, payable semi-annually, and will mature in July 2009. The convertible debentures are convertible into 2,796,120 shares of our common stock at the option of the holder. We may, at our option, redeem some or all of the convertible debentures at any time on or after July 15, 2004, for a redemption price equal to the issuance price plus accrued interest. In addition, if a change in control, as defined in the agreement, occurs at the Company, we will be required to make an offer to purchase the convertible debentures at a purchase price equal to 101% of their aggregate principal amount, plus accrued interest. The convertible debentures are subordinated in right of payment to all of our existing and future senior indebtedness.

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MORTGAGE LOAN AGREEMENT

In June 2003, we borrowed \$10 million under a mortgage loan agreement. The loan is payable in monthly installments. The loan bears interest at a fixed rate of 5.50% maturing in July 2018. The mortgage loan is secured by a building and related property.

NOTE 7. COMPREHENSIVE INCOME

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	----	----	----	----
Net earnings as reported.....	\$ 2,634	\$ 4,239	\$ 10,598	\$ 11,239
Foreign currency translation adjustment.....	1,084	724	2,845	2,412
Minimum pension liability adjustment.....	--	(75)	(1)	(160)
Unrealized loss on interest rate swap agreements, net of tax.....	--	(110)	--	(262)
	-----	-----	-----	-----
Total comprehensive income.....	\$ 3,718	\$ 4,778	\$ 13,442	\$ 13,229
	=====	=====	=====	=====

NOTE 8. STOCK-BASED COMPENSATION PLANS

We have five stock-based compensation plans. Under the 1994 Omnibus Stock Option Plan, as amended, which terminated in May 2004, we were authorized to issue options to purchase 1,500,000 shares. The options become exercisable over a three to five year period and expire at the end of five years following the date they become exercisable. Under the 2004 Omnibus Stock Plan, we were authorized to issue options to purchase 500,000 shares. The options become exercisable over a three to five year period and expire at the end of ten years following the date of grant. Under the 1996 Independent Directors' Stock Option Plan and the 2004 Independent Directors' Stock Option Plan, we were authorized to issue options to purchase 50,000 shares under each plan. The options become exercisable one year after the date of grant and expire at the end of ten years following the date of grant. Under the 2006 Omnibus Incentive Plan, we are authorized to issue equity awards of up to 700,000 shares. Equity awards forfeited under the previous stock option plans and incentive plan are eligible to be granted again under the 2006 Omnibus Incentive Plan with respect to the equity awards so forfeited.

We follow the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("Statement") No. 123 (revised 2004), Share-Based Payment ("FAS 123R"), 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.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

On January 1, 2006, we adopted SFAS 123R using the modified prospective transition method. Under this transition method, the financial statement amounts for the periods before 2006 have not been restated to reflect the fair value method of expensing the stock-based compensation. The compensation expense recognized on or after January 1, 2006 includes the compensation cost based on the grant-date fair value estimated in accordance with: (a) SFAS 123 for all stock-based compensation that was granted prior to, but vested on or after, January 1, 2006 and (b) SFAS 123R for all stock-based compensation that was granted on or after January 1, 2006.

STOCK OPTION GRANTS

There were no stock options granted in the nine months ended September 30, 2007 and 2006. We have recognized compensation expense for prior years' grants which vest after January 1, 2006 based on the grant-date fair value, estimated in accordance with SFAS 123 which was used in our prior pro forma disclosure. The expense for the nine months ended September 30, 2007 and 2006 reflects our estimate of expected forfeitures which we determine to be immaterial, based on history and remaining time until vesting of the remaining options.

The stock options granted prior to 2006 have been vesting gradually at annual intervals. In our prior period SFAS 123 pro forma disclosures, our policy was to calculate the compensation expense related to the stock-based compensation granted to employees and directors on a straight-line basis over the full vesting period of the grants.

The following is a summary of the changes in outstanding stock options for the nine months ended September 30, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at beginning of year.....	990,898	\$13.61	5.1
Exercised.....	328,211	\$12.75	--
Expired.....	39,999	\$24.84	--
Forfeited.....	12,568	\$13.71	5.4

Outstanding at end of Quarter.....	610,120	\$13.34	5.2
Options exercisable at end of quarter.....	610,120	\$13.34	5.2

At September 30, 2007, the aggregate intrinsic value of outstanding and exercisable stock options was essentially zero. At December 31, 2006, the aggregate intrinsic value of outstanding stock options was \$1.9 million, of which \$1.4 million relates to options that were exercisable.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

The following is a summary of the changes in non-vested stock options for the nine months ended September 30, 2007:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	-----	-----
Non-vested shares at January 1, 2007.....	129,750	\$ 2.72
Forfeitures.....	1,125	\$ 2.72
Vested.....	128,625	\$ 2.72

Non-vested shares at September 30, 2007.....	--	
	=====	

Stock option-based compensation expense was \$85,200 (\$55,800 net of tax) and \$461,400 (\$283,300 net of tax) for the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, we have no unrecognized compensation cost related to stock options. Stock options to purchase 328,211 shares of common stock were exercised during the nine months ended September 30, 2007, and no stock options were exercised during the same period in 2006.

RESTRICTED AND PERFORMANCE STOCK GRANTS

Under our 2006 Omnibus Incentive Plan, the Company is authorized to issue, among other things, shares of restricted and performance-based stock to eligible employees and directors. Prior to the time a restricted share becomes fully vested or a performance share is issued, the awardee cannot transfer, pledge, or otherwise encumber such shares. Prior to the time a restricted share is fully vested, the awardee has all other rights of a stockholder, including the right to vote (but not receive dividends). Prior to the time a performance share is issued, the awardee shall have no rights as a stockholder. Restricted shares become fully vested upon the third and first anniversary of the date of grant for employees and directors, respectively. Performance-based shares, which are granted only to eligible employees, are subject to a three year measuring period and the achievement of Company performance targets and, depending upon the achievement of such performance targets, then may become vested on the third anniversary of the date of grant. Management believes it is probable that the performance targets associated with performance-based shares previously issued will be achieved.

All shares and rights are subject to forfeiture if certain employment conditions are not met. Under the plan, 700,000 shares are authorized to be issued. For the nine months ended September 30, 2007 and 2006, 6,000 and 95,225 restricted and performance-based shares were granted, respectively. The Company recorded compensation expense related to restricted shares and performance-based shares of \$196,000 (\$128,500 net of tax) and \$98,100 (\$60,200 net of tax) for the nine months ended September 30, 2007 and 2006, respectively. The unamortized compensation expense related to the Company's restricted and performance-based shares was \$377,200 at September 30, 2007 and is expected to be recognized as they vest over a weighted average period of 1.8 and 0.8 years for employees and directors, respectively. In determining the grant date fair value, we refer to the stock price on the date of grant, as quoted on the New York Stock Exchange,

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reduced by the present value of dividends expected to be paid on shares issued and outstanding during the requisite service period, discounted at a risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the restriction or vesting period at the grant date. The fair value of the shares at the date of grant is amortized to expense ratably over the restriction period. Forfeitures are estimated at 2% for employees and 0% for executive officers and directors, respectively, based on evaluations of historical and expected future turnover.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

The Company's restricted and performance-based share activity was as follows for the nine months ended September 30, 2007:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER SHARE
	-----	-----
Balance at January 1, 2007	93,775	\$7.21
Granted	6,000	\$14.15
Vested	5,500	\$7.49
Forfeited	3,225	\$7.10

Balance at September 30, 2007.....	91,050	\$7.66
	=====	

The weighted-average grant date fair value of restricted and performance based shares granted during the nine months ended September 30, 2007 and 2006 was \$84,900 (or \$14.15 per share) and \$686,500 (or \$7.21 per share), respectively.

NOTE 9. 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 share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Earnings from continuing operations	\$ 4,782	\$ 2,583	\$ 13,374	\$ 10,636
(Loss) income from discontinued operation	(2,148)	1,656	(2,776)	603
	-----	-----	-----	-----
Net earnings available to				

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common stockholders	\$ 2,634	\$ 4,239	\$ 10,598	\$ 11,239
	=====	=====	=====	=====
Weighted average common shares				
outstanding - basic	18,593,165	18,306,178	18,609,268	18,265,784
Dilutive effect of restricted stock	26,817	64,998	28,453	32,195
Dilutive effect of stock options ..	3,156	259	54,496	--
	-----	-----	-----	-----
Weighted average common shares	18,623,138	18,371,435	18,692,217	18,297,979
	=====	=====	=====	=====

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.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	----	----	----	----
Stock options.....	536,620	1,059,311	225,534	1,059,311
Convertible debentures...	2,796,120	2,796,120	2,796,120	2,796,120

NOTE 10. EMPLOYEE BENEFITS

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 2007, we committed 119,023 shares to be released leaving 62,977 shares remaining in the trust.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

In August 1994, we established an unfunded 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 2007 and 2006, contributions of \$83,000 and \$69,000 were made related to calendar years 2006 and 2005, respectively.

In October 2001, we adopted a second unfunded SERP. The SERP is a defined benefit plan pursuant to which we will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service and compensation. We use a January 1 measurement date for this plan.

Our UK pension plan is comprised of a defined benefit plan and a defined contribution plan. Effective April 1, 2001, the defined benefit plan was closed to new entrants and existing active members ceased accruing any further benefits.

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We provide certain medical and dental care benefits to eligible retired employees. Our current policy is to fund the cost of the health care plans on a pay-as-you-go basis. Eligibility of employees who can participate in this program is limited to employees hired before 1996.

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Medicare Reform Act") was signed into law. The Medicare Reform Act expanded Medicare to include, for the first time, coverage for prescription drugs. In connection with the Medicare Reform Act, the FASB issued FASB Staff Position ("FSP") No. FAS 106-2, which provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D and are therefore entitled to receive subsidies from the federal government beginning in 2006. In January 2005, the Centers for Medicare and Medicaid Services released final regulations implementing major provisions of the Medicare Reform Act. The regulations address key concepts, such as defining a plan, as well as the actuarial equivalence test for purposes of obtaining a government subsidy. Pursuant to the guidance in FSP No. FAS 106-2, we have assessed the financial impact of the regulations and concluded that our post-retirement benefit plan will be qualified for the direct subsidies and, consequently, our accumulated post-retirement benefit obligation decreased by \$6.1 million.

As a result of the reduced eligibility and Medicare subsidy explained above, we are benefiting from a reduction to our post-retirement benefit costs through negative amortization of prior service costs.

The components of net periodic benefit cost for the three months ended September 30 of our North America and UK defined benefit plans are as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Service cost	\$ 99	\$ 99	\$ 204	\$ 200
Interest cost	113	100	584	581
Amortization of prior service cost (credit)	27	28	(714)	(713)
Amortization of unrecognized loss	--	--	1	1
Actuarial net (gain) loss	(27)	(16)	395	480
Net periodic benefit cost	\$ 212	\$ 211	\$ 470	\$ 549

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

The components of net periodic benefit cost for the nine months ended September 30 of our North America and UK defined benefit plans are as follows (in thousands):

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	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Service cost	\$ 295	\$ 296	\$ 610	\$ 604
Interest cost	341	301	1,666	1,536
Amortization of prior service cost (credit)	83	83	(2,140)	(2,140)
Amortization of unrecognized loss	--	--	3	3
Actuarial net (gain) loss	(83)	(48)	971	1,099
Net periodic benefit cost	\$ 636	\$ 632	\$ 1,110	\$ 1,102

NOTE 11. INDUSTRY SEGMENTS

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

	Three Months Ended September 30,			
	2007		2006	
	NET SALES	OPERATING INCOME (LOSS)	NET SALES	OPERATING INCOME (LOSS)
Engine Management	\$130,513	\$ 8,334	\$127,752	\$ 6,958
Temperature Control	60,124	3,288	59,917	3,986
Europe	11,161	588	12,813	98
All Other	4,371	(3,059)	3,273	(2,347)
Consolidated	\$206,169	\$ 9,151	\$203,755	\$ 8,695

	Nine Months Ended September 30,			
	2007		2006	
	NET SALES	OPERATING INCOME (LOSS)	NET SALES	OPERATING INCOME (LOSS)
Engine Management	\$406,039	\$ 32,264	\$416,462	\$ 30,450
Temperature Control	174,262	8,914	181,289	11,585
Europe	32,850	1,967	36,191	490
All Other	9,783	(12,722)	9,063	(10,906)
Consolidated	\$622,934	\$ 30,423	\$643,005	\$ 31,619

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

NOTE 12. 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 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2006 and September 30, 2007, approximately 3,270 cases and 3,430 cases, respectively, were outstanding for which we were responsible for any related liabilities. We expect the outstanding cases to increase gradually due to legislation in certain states mandating minimum medical criteria before a case can be heard. Since inception in September 2001 through September 30, 2007, the amounts paid for settled claims are approximately \$6 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 are currently reviewing our asbestos-related claims to determine those claims eligible for coverage under this agreement.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by a leading 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, 2007. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs, ranging from \$23.8 million to \$55.2 million for the period through 2050. As a result, in September 2007 an incremental \$2.8 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$23.8 million. According to the updated study, legal costs, which are expensed as incurred and are reported in loss from discontinued operation in the accompanying statement of operations, are estimated to range from \$18.7 million to \$32.6 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. Management 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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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 the Company 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

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(CONTINUED)

Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. The 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. 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 vigorously this lawsuit.

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 September 30, 2007 and 2006, we have accrued \$14.4 million and \$15.1 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. Warranty expense for the three months ended September 30, 2007 and 2006 were \$11.5 million and \$13.7 million, respectively, and \$37.9 million and \$41.2 million for the nine months ended September 30, 2007 and 2006, respectively.

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2007	2006	2007	2006
----	----	----	----

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Balance, beginning of period.....	\$ 14,715	\$ 15,391	\$ 11,704	\$ 12,701
Liabilities accrued for current year sales...	11,472	13,674	37,870	41,211
Settlements of warranty claims.....	(11,814)	(13,917)	(35,201)	(38,764)
	-----	-----	-----	-----
Balance, end of period.....	\$ 14,373	\$ 15,148	\$ 14,373	\$ 15,148
	=====	=====	=====	=====

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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, ECONOMIC AND MARKET CONDITIONS; THE PERFORMANCE OF THE AFTERMARKET SECTOR; CHANGES IN BUSINESS RELATIONSHIPS WITH OUR 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; PRODUCT AND ENVIRONMENTAL LIABILITY MATTERS (INCLUDING, WITHOUT LIMITATION, THOSE RELATED TO ASBESTOS-RELATED CONTINGENT LIABILITIES OR ENVIRONMENTAL REMEDIATION LIABILITIES); AS WELL AS OTHER RISKS AND UNCERTAINTIES, SUCH AS THOSE DESCRIBED UNDER RISK FACTORS, 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 CONDENSED 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. We are organized into two major operating segments, each of which focuses on a specific segment of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, on-board computers, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, and other air conditioning and heating parts. We sell our products primarily in the United States, Canada and Latin America. We also sell our products in Europe through our European Segment.

As part of our efforts to grow our business, as well as to achieve increased production and distribution efficiencies, in June 2003 we acquired substantially all of the assets and assumed substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("DEM") for \$130.5 million. In

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connection with our acquisition of DEM, we have a restructuring accrual of \$0.9 million as of September 30, 2007, and most of this amount we expect to pay in 2007 and 2008.

SEASONALITY. Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and 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 usually 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 borrowing from our revolving credit facility.

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The seasonality of our business offers significant operational challenges in our manufacturing and distribution functions. To limit these challenges and to provide a rapid turnaround time of customer orders, we have traditionally offered a pre-season selling program, known as our "Spring Promotion," in which customers are offered longer payment terms.

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 addition, the seasonality of our Temperature Control Segment requires that we increase our inventory during the winter season in preparation of the summer selling season and customers purchasing such inventory have the right to make returns.

In order to better control warranty and overstock return levels, we tightened the rules for authorized warranty returns, placed further restrictions on the amounts customers can return and instituted a program so that our management can better estimate potential future product returns. In addition, with respect to our air conditioning compressors, 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 AC 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 discounted 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

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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.

INTERIM RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2007 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006

SALES. Consolidated net sales for the three months ended September 30, 2007 were \$206.2 million, an increase of \$2.4 million, or 1.2%, compared to \$203.8 million in the same period of 2006, mainly due to net sales increases in our Engine Management Segment of \$2.8 million or 2.2%, and an increase in Other Segments of \$1.1 million driven mainly by the strengthening Canadian dollar, partially offset by a \$1.7 million decrease in our European Segment. Net sales for the three months ended September 30, 2006 included \$3.3 million related to the European Temperature Control business that was divested in December 2006. Excluding this divested business, Europe sales increased \$1.7 million, or 13.1%.

GROSS MARGINS. Gross margins, as a percentage of consolidated net sales, increased to 26.5% in the third quarter of 2007 compared to 24.2% in the third quarter of 2006 mainly due to margin improvements in our Engine Management and European Segments of 4 percentage points and 2.2 percentage points, respectively, partially offset by a 2.1 percentage point decrease in the Temperature Control margin. In the third quarter of 2007, the margins in Engine

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Management and Europe benefited mainly from continued improvements in procurement and manufacturing costs. The Europe margin also benefited from the divestiture of its Temperature Control business in 2006 which carried lower margins. The Temperature Control margin was primarily affected by selective price decreases to match offshore price competition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses (SG&A) increased \$2.9 million to \$42.9 million, or 20.8% of consolidated net sales, for the third quarter of 2007, as compared to \$40 million, or 19.7% of consolidated net sales, in the same period in 2006. The increase was due to higher marketing expenses, a higher bad debt provision on certain accounts receivable, and higher general and administrative expenses due to increased professional fees.

RESTRUCTURING EXPENSES. Restructuring expenses, which include restructuring and integration expenses, increased to \$2.6 million in the third quarter of 2007, compared to \$0.6 million in the third quarter of 2006. The 2007 expenses related mostly to charges made for the closure of our Puerto Rico production operations, the integration of operations in Mexico and the closure of our Fort Worth, Texas production facility. The 2006 expenses related mostly to severance costs related to the move of our European production operations and the divestiture of a production unit of our Temperature Control Segment.

OPERATING INCOME. Operating income was \$9.2 million in the third quarter of 2007, compared to \$8.7 million in the third quarter of 2006. The increase of \$0.5 million was primarily due to higher sales and improved margins in our Engine Management Segment, partially offset by lower margins in our Temperature Control Segment, as well as higher SG&A expenses.

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OTHER INCOME, NET. Other income, net increased \$1 million in the third quarter 2007 compared to the same period in 2006, primarily due to a \$0.8 million gain on the sale of the Fort Worth, Texas manufacturing facility.

INTEREST EXPENSE. Interest expense decreased by \$0.5 million in the third quarter 2007 compared to the same period in 2006 mainly due to lower borrowing costs and lower average borrowings during the period.

INCOME TAX PROVISION. The income tax provision was \$1.6 million in the third quarter of 2007 and \$1.8 million in the third quarter of 2006. The decrease of \$0.2 million on higher earnings before taxes was primarily due to a lower effective tax rate for the third quarter for 2007, which was 25% compared to 41% in the third quarter of 2006. The estimated tax rate for 2007 is benefiting from pre-tax income in Europe and a capital gain on the disposal of our Fort Worth, Texas property, where previously unrecognized losses carried forward are offsetting taxes otherwise payable.

LOSS FROM DISCONTINUED OPERATION. Loss from discontinued operation, net of income tax, reflects legal expenses associated with our asbestos-related liability and adjustments thereto based on the information contained in the August 2007 actuarial study and all other available information considered by us. We recorded \$2.1 million as a loss and \$1.7 million as income from discontinued operation for the third quarter of 2007 and 2006, respectively. The loss for the third quarter of 2007 reflects a \$2.8 million pre-tax adjustment to increase our indemnity liability in line with the August 2007 actuarial study, as well as legal fees incurred in litigation, whereas the income for the same period of 2006 reflects a \$3.4 million pre-tax adjustment to reduce our indemnity liability in line with the August 2006 actuarial study, partially offset by legal fees incurred in litigation in the third quarter of 2006. As discussed more fully in Note 12 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

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COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2007 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2006

SALES. Consolidated net sales for the nine months ended September 30, 2007 were \$622.9 million, a decrease of \$20.1 million, or 3.1%, compared to \$643 million in the same period in 2006, driven by decreases in our Engine Management, Temperature Control and European Segments of \$10.4 million, \$7 million and \$3.3 million, respectively. The decrease in Engine Management sales was mainly due to the expiration of an Original Equipment contract at the end of 2006. The decrease in Temperature Control sales was primarily due to lower pricing, volume erosion to low cost foreign imports, and lower customer demand for air conditioning compressors due to an unusually cool and damp summer. Net sales for the nine months ended September 30, 2006 included \$11.4 million related to the European Temperature Control business that was divested in December 2006. Excluding this divested business, Europe sales increased \$8.1 million.

GROSS MARGINS. Gross margins, as a percentage of consolidated net sales, increased to 26.2% for the nine months ended September 30, 2007 compared to 24.8% in the same period in 2006 mainly due to margin improvements in our Engine Management and European Segments of 2.5 percentage points and 2.7 percentage points, respectively, partially offset by a 1.9 percentage point decrease in our Temperature Control margin. For the nine months ended September 30, 2007, the margins in Engine Management and Europe benefited mainly from continued

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improvements in procurement and manufacturing costs. The Europe margin also benefited from the divestiture of its Temperature Control business which carried lower margins. The decrease in Temperature Control margin was primarily affected by selective price decreases to match offshore price competition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses (SG&A) increased by \$2.1 million to \$128.9 million, or 20.7% of consolidated net sales, for the nine months ended September 30, 2007, as compared to \$126.8 million, or 19.7% of consolidated net sales, in the same period in 2006. The increase was due to a higher bad debt provision on certain accounts receivable, and higher general and administrative expenses due to increased professional fees, partially offset by a reduction in selling and distribution expenses.

RESTRUCTURING EXPENSES. Restructuring expenses, which include restructuring and integration expenses, increased to \$3.9 million for the nine months ended September 30, 2007, compared to \$0.8 million in the same period in 2006. The 2007 expense related mostly to charges made for the closure of our Puerto Rico production operations, the integration of operations in Mexico, and the closure of our Fort Worth, Texas production facility. The restructuring expense for the same period in 2006 related mostly to severance costs related to the move of our European production operations and the divestiture of a production unit of our Temperature Control unit.

OPERATING INCOME. Operating income was \$30.4 million for the nine months ended September 30, 2007, compared to \$31.6 million in the same period in 2006. The decrease of \$1.2 million was due to lower consolidated net sales, as well as higher SG&A and restructuring expenses, partially offset by improved gross margins.

OTHER INCOME, NET. Other income, net was \$2.9 million for the nine months ended September 30, 2007, which was \$0.9 million higher than the same period in 2006, primarily due to a \$0.8 million gain on the sale of the Fort Worth, Texas manufacturing facility.

INTEREST EXPENSE. Interest expense decreased by \$0.9 million for the nine months ended September 30, 2007 compared to the same period in 2006 mainly due to lower borrowing costs and lower average borrowings during the period.

INCOME TAX PROVISION. The income tax provision was \$6 million for the nine months ended September 30, 2007 compared to \$8.1 million for the same period in 2006. The \$2.1 million decrease was primarily due to a lower effective rate for the nine months ended September 30, 2007, which was 31% compared to 43% in the same period in 2006. The 2006 rate was higher due to the adverse impact of discrete items attributable to changes in state tax rates, while the 2007 estimated tax rate is benefiting from pre-tax income in Europe where previously unrecognized losses carried forward are offsetting taxes otherwise payable.

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LOSS FROM DISCONTINUED OPERATION. Loss from discontinued operation, net of income tax, reflects legal expenses associated with our asbestos-related liability and adjustments thereto based on the information contained in the August 2007 actuarial study and all other available information considered by us. We recorded \$2.8 million as a loss and \$0.6 million as income from discontinued operation for the nine months ended September 30, 2007 and 2006, respectively. The loss for the nine months ended September 30, 2007 reflects a \$2.8 million pre-tax adjustment to increase our indemnity liability in line with the August 2007 actuarial study, as well as legal fees incurred in litigation,

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whereas the income for the same period of 2006 reflects a \$3.4 million pre-tax adjustment to reduce our indemnity liability in line with the August 2006 actuarial study, partially offset by legal fees incurred in litigation in the third quarter of 2006. As discussed more fully in Note 12 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. During the first nine months of 2007, cash used in operations amounted to \$12.3 million, compared to cash provided by operations of \$9 million in the same period of 2006. The \$21.3 million decrease in operating cash flow is primarily attributable to an increase in inventories in order to bridge our requirements while we proceed with our facility integration efforts.

INVESTING ACTIVITIES. Cash used in investing activities was \$5.3 million in the first nine months of 2007, compared to \$7.7 million in the same period of 2006. The decrease was primarily due to \$4.2 million in net proceeds on the sale of the Fort Worth, Texas manufacturing facility, partially offset by higher capital expenditures.

FINANCING ACTIVITIES. Cash provided by financing activities was \$12.3 million in the first nine months of 2007, compared to cash used in financing activities of \$2.4 million in the same period of 2006. The increase is primarily due to higher borrowings, an increase in cash overdrafts, and proceeds received from the exercise of employee stock options, partially offset by a \$5 million purchase of treasury stock, essentially completing our share buyback program.

In March 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation, which prior credit facility provided for a \$305 million credit facility and which was to expire in 2008. The restated credit agreement provides for a line of credit of up to \$275 million (inclusive of the Canadian term loan described below) and expires in 2012. The restated credit agreement also provides a \$50 million accordion feature, which would allow us to expand the facility. 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 our same subsidiaries and secured by our same assets as the prior \$305 million credit facility.

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 \$88.8 million available for us to borrow pursuant to the formula at September 30, 2007. At December 31, 2006, the interest rate on the Company's prior credit facility was 7.8%, and at September 30, 2007, the interest rate on our restated credit agreement was 7.1%. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian term loan described below), which are classified as current liabilities, were \$133.3 million and \$152 million at December 31, 2006 and September 30, 2007, respectively.

At any time our borrowing availability in the aggregate is less than \$30 million and until such time that we have maintained an average borrowing availability in the aggregate of \$30 million or greater for a continuous period of 90 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. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. In addition, the restated credit agreement provides that, beginning on January 15, 2008 and on a quarterly basis thereafter, an increasing amount of the Company's borrowing availability shall be reserved for the repayment, repurchase or redemption, as the case may be, of the aggregate outstanding amount of our convertible debentures. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Our profitability and working capital requirements are seasonal due to the sales mix of temperature control products. Our working capital requirements usually 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 begin to be received. These increased working capital requirements are funded by borrowings from our lines of credit. We anticipate that our present sources of funds will continue to be adequate to meet our near term needs.

In March 2007, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. This credit agreement amends our existing \$7 million credit agreement which was to expire in 2008. The amended credit agreement provides for a line of credit of up to \$12 million, of which \$7 million is currently outstanding and which amount is part of the \$275 million available for borrowing under our restated credit agreement with General Electric Capital Corporation (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in 2012. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation (described above).

Our European subsidiary has a revolving credit facility which, at September 30, 2007, provides for a line of credit up to \$10.2 million. The amount of short-term bank borrowings outstanding under this facility was \$6.5 million on December 31, 2006 and \$4.6 million on September 30, 2007. The weighted average interest rate on these borrowings on December 31, 2006 and September 30, 2007 was 6.3% and 6.2%, respectively. At September 30, 2007, there was an additional \$5.6 million available for our European subsidiary to borrow.

In June 2003, we borrowed \$10 million under a mortgage loan agreement. The loan is payable in equal monthly installments. The loan bears interest at a fixed rate of 5.50% maturing in July 2018. The mortgage loan is secured by the related building and property.

In October 2003, we entered into an interest rate swap agreement with a notional amount of \$25 million that matured in October 2006. Under this agreement, we received a floating rate based on the LIBOR interest rate, and paid a fixed rate of 2.45% on the notional amount of \$25 million. We have not entered into a new swap agreement to replace this agreement.

In July 1999, we issued convertible debentures, payable semi-annually, in the aggregate principal amount of \$90 million. The debentures carry an interest rate of 6.75%, payable semi-annually. The debentures are convertible into 2,796,120 shares of our common stock, and mature on July 15, 2009.

In August 2007, our Board of Directors authorized a \$3.3 million increase in our stock repurchase program. The program is in addition to our existing program authorizing \$1.7 million of stock repurchases. During the third quarter and nine

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months ended September 30, 2007, we repurchased 541,750 shares of our common stock, essentially completing the entire \$5 million repurchase program. No shares of our common stock were repurchased in the comparable 2006 periods.

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The following is a summary of our contractual commitments as of December 31, 2006.

(IN THOUSANDS)	2007	2008	2009	2010	2011	2012-2016
	-----	-----	-----	-----	-----	-----
Principal payments of long term debt	\$ 542	\$ 570	\$ 90,586	\$ 620	\$ 655	\$ 5,548
Operating leases	6,657	5,614	4,446	2,059	1,913	8,582
Postretirement benefits	1,095	1,549	1,669	1,800	1,912	12,203
Severance payments related to integration	89	383	--	--	--	--
	-----	-----	-----	-----	-----	-----
Total commitments..	\$ 8,383	\$ 8,116	\$ 96,701	\$ 4,479	\$ 4,480	\$ 26,333
	=====	=====	=====	=====	=====	=====

CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. 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, 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 assurance 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 eventually 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

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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 generally 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.

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.

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SALES RETURNS AND OTHER ALLOWANCES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS. Management must make estimates of potential future product returns related to current period product revenue. 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. At September 30, 2007, the allowance for sales returns was \$29.9 million. Similarly, management must make estimates of the uncollectability of our accounts receivable. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At September 30, 2007, the allowance for doubtful accounts and for discounts was \$10 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

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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.

Significant management judgment is required in determining the adequacy of our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At September 30, 2007, we had a valuation allowance of \$27 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.

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

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL. We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. 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. With respect to goodwill, if necessary, we test for potential impairment in the fourth quarter of each year as part of our annual budgeting process. We review the fair values of each of our reporting units using the discounted cash flows method and market multiples.

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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 POST-RETIREMENT MEDICAL BENEFITS. Each year, we calculate the costs of providing retiree benefits under the provisions of SFAS 87, Employers' Accounting for Pensions, and SFAS 106, Employers' Accounting for Post-retirement Benefits Other than Pensions. The key assumptions used in making these calculations are the eligibility criteria of participants, the discount rate used to value the future obligation, expected return on plan assets and health care cost trend rates. We select discount rates commensurate with current market interest rates on high-quality, fixed-rate debt securities. The expected return on assets is based on our current review of the long-term returns on assets held by the plans, which is influenced by historical averages. The medical cost trend rate is based on our actual medical claims and future projections of medical cost trends. Under FSP No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," the Company has concluded that its post-retirement plan is actuarially equivalent to the Medicare Part D benefit and accordingly recognizes subsidies

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from the federal government in the measurement of the accumulated post-retirement benefit obligation under SFAS 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions".

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, 2007 estimated an undiscounted liability for settlement payments, excluding legal costs, ranging from \$23.8 million to \$55.2 million for the period through 2050. As a result, in September 2007 an incremental \$2.8 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$23.8 million. 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 2050 in our consolidated financial statements, in accordance with generally accepted accounting principles. In addition, according to the updated study, legal costs, which are expensed as incurred and are reported in loss from discontinued operation in the accompanying statement of operations, are estimated to range from \$18.7 million to \$32.6 million during the same period. We plan 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.

OTHER LOSS RESERVES. We have numerous other loss exposures, such as environmental claims, 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.

ACCOUNTING FOR UNCERTAIN TAX POSITIONS

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. FIN 48 also provides guidance on accounting for derecognition, interest and penalties, and classification and disclosure of matters related to uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006 and, as a result, is effective for us beginning January 1, 2007.

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On January 1, 2007, we adopted the provisions of FIN 48. The cumulative effect of adoption was a \$1.9 million reduction of retained earnings. At January 1, 2007, the total amount of unrecognized tax benefits was \$2.3 million, all of which would impact the effective tax rate, if recognized.

We continue the practice of recognizing interest and penalties associated with income tax matters as components of the "provision for income taxes". Our accrual for interest and penalties was \$0.4 million upon adoption of FIN 48 and

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at September 30, 2007.

We are subject to taxation in the US and various state, local and foreign jurisdictions. We remain subject to examination by US Federal, state, local and foreign tax authorities for tax year 2001 as well as 2003 through 2006. With a few exceptions, we are no longer subject to US Federal, state, local or foreign examinations by tax authorities for the tax year 2002 and for tax years prior to 2001. We do not presently anticipate that our unrecognized tax benefits will significantly increase or decrease prior to September 30, 2008; however, actual developments in this area could differ from those currently expected.

FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS 157 is effective for the fiscal year beginning after November 15, 2007, which for us is the year ending December 31, 2008. We are assessing the impact, if any, which the adoption of SFAS 157 will have on our consolidated financial position, results of operations and cash flows.

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.

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British pound, the Euro, the Japanese yen and the Hong Kong dollar. As of December 31, 2006 and September 30, 2007, 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 both of the exchange rates affecting both of the foreign currencies in which the indebtedness and the financial instruments described above 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 58.7% at December 31, 2006 and 61.5% at September 30, 2007.

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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, 2006.

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ITEM 4. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

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

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

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

During the quarter ended September 30, 2007, 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 will lead to various changes in our internal control over financial reporting.

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 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2006 and September 30, 2007 approximately 3,270 cases and 3,430 cases, respectively, were outstanding for which we were responsible for any related liabilities. We expect the outstanding cases to increase gradually due to legislation in certain states mandating minimum medical criteria before a case can be heard. Since inception in September 2001 through September 30, 2007, the amounts paid for settled claims are approximately \$6 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 are currently reviewing our asbestos-related claims to determine those claims eligible for coverage under this agreement.

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 the Company and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a

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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. The 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

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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. 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 vigorously this lawsuit.

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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information relating to the Company's purchases of its common stock for the third quarter of 2007.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED (1)	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (2)	MAXIMUM NUMBER (OR APPROXIMATE DOLLAR VALUE) OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
July 1-31, 2007.....	--	--	--	--
August 1-31, 2007.....	541,750	\$ 9.22	541,750	-- (2)
September 1-30, 2007...	--	--	--	--
Total.....	541,750	\$ 9.22	541,750	-- (2)

(1) All shares were purchased through the publicly announced stock repurchase programs in open-market transactions.

(2) On May 18, 2000, our Board authorized the repurchase of up to \$2.2 million shares of our common stock, of which amount only \$1.7 million remained outstanding at December 31, 2000. On August 16, 2007, our Board of Directors authorized a \$3.3 million increase in our stock repurchase program. At September 30, 2007, only approximately \$141 remained available

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for future stock repurchases, which essentially completed our stock repurchase program. We do not anticipate engaging in any future stock repurchase transactions for this remaining amount.

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.

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SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.
(Registrant)

Date: November 8, 2007

/S/ JAMES J. BURKE

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

/S/ LUC GREGOIRE

Luc Gregoire
Corporate Controller and
Chief Accounting Officer

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STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

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