STANDARD MOTOR PRODUCTS INC
Form 10-K
March 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

or

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

For the transaction period from ____ to ____

Commission file number: 1-4743
Standard Motor Products, Inc.
(Exact name of registrant as specified in its charter)

New York	11-1362020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
37-18 Northern Blvd., Long Island City, N.Y.	11101
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(718) 392-0200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $2.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).
Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the voting common stock based on the closing price on the New York Stock Exchange on June 30, 2011 (the last business day of registrant's most recently completed second fiscal quarter) of $15.23 per share held by non-affiliates of the registrant was $289,948,239. For purposes of the foregoing calculation only, all directors and officers have been deemed to be affiliates, but the registrant disclaims that any of such are affiliates.

As of February 29, 2012, there were 22,834,994 outstanding shares of the registrant's common stock, par value $2.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report is incorporated herein by reference from the registrant's definitive proxy statement relating to its annual meeting of stockholders to be held on May 17, 2012.

STANDARD MOTOR PRODUCTS, INC.

INDEX

Index

PART I

In this Annual Report on Form 10-K, “Standard Motor Products,” “we,” “us,” “our” and the “Company” refer to Standard Mot Products, Inc. and its subsidiaries, unless the context requires otherwise. This Report, including the documents incorporated herein by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects,” “strateg similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, our significant indebtedness; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket sector and the automotive sector generally; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under 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.

ITEM 1. BUSINESS

Overview

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with an increasing focus on the original equipment service market. We are organized into two major operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories, and windshield washer system parts.

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

Index

Business Strategy

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. The key elements of our strategy are as follows:

- Maintain Our Strong Competitive Position in the Engine Management and Temperature Control Businesses. We are one of the leading independent manufacturers serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. We believe that our success is attributable to our emphasis on product quality, the breadth and depth of our product lines for both domestic and import vehicles, and our reputation for outstanding customer service.

To maintain our strong competitive position in our markets, we remain committed to the following:

- providing our customers with broad lines of high quality engine management and temperature control products, supported by the highest level of customer service and reliability;
- continuing to maximize our production and distribution efficiencies;
- continuing to improve our cost position through increased global sourcing and increased manufacturing in low cost countries; and
- focusing further on our engineering development efforts including a renewed focus on bringing more product manufacturing in house.

- Provide Superior Customer Service, Product Availability and Technical Support. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability, providing insightful customer category management, and providing technical support in a cost-effective manner. In addition, our category management and technically skilled sales force professionals provide product selection and application support to our customers.

- Expand Our Product Lines. We intend to increase our sales by continuing to develop internally, or through potential acquisitions, the range of Engine Management and Temperature Control products that we offer to our customers. We are committed to investing the resources necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies.

- Broaden Our Customer Base. Our goal is to increase our customer base by (a) continuing to leverage our manufacturing capabilities to secure additional original equipment business with automotive, industrial, marine, military and heavy duty vehicle and equipment manufacturers and their service part operations as well as our existing customer base including traditional warehouse distributors, large retailers, other manufacturers and export customers, and (b) supporting the service part operations of vehicle and equipment manufacturers with value added services and product support for the life of the part.

- Improve Operating Efficiency and Cost Position. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to continue to improve our operating efficiency and cost position by:

- increasing cost-effective vertical integration in key product lines through internal development;
- focusing on integrated supply chain management;
- relocating manufacturing to our low-cost off-shore plants;

Index

- maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost countries such as those in Asia;
  - enhancing company-wide programs geared toward manufacturing and distribution efficiency; and
  - focusing on company-wide overhead and operating expense cost reduction programs, such as closing excess facilities and consolidating redundant functions.

- Cash Utilization. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, repurchase shares of our common stock and expand our product lines through potential acquisitions.

The Automotive Aftermarket

The automotive aftermarket industry is comprised of a large number of diverse manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of vehicles on the road. The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of original equipment manufacturers (“OEMs”).

During periods of economic decline or weakness, more automobile owners may choose to repair their current automobiles using replacement parts rather than purchasing a new automobile, which benefits the automotive aftermarket industry, including suppliers like us. Current global economic and financial market conditions have adversely affected, and may continue to adversely affect, the volume of new cars and truck sales, which could also benefit the automotive aftermarket.

The automotive aftermarket industry differs substantially from the OEM supply business. Unlike the OEM supply business that primarily follows trends in new car production, the automotive aftermarket industry’s performance primarily tends to follow different trends, such as:

- growth in number of vehicles on the road;
- increase in average vehicle age;
- change in total miles driven per year;
- new and modified environmental regulations;
- increase in pricing of new cars;
- economic and financial market conditions;
- new car quality and related warranties; and
- change in average fuel prices.

Traditionally, the parts manufacturers of OEMs and the independent manufacturers who supply the original equipment (“OE”) part applications have supplied a majority of the business to new car dealer networks. However, certain parts manufacturers have become more independent and are no longer affiliated with OEMs, which has provided, and may continue to provide, opportunities for us to supply replacement parts to the dealer service networks of the OEMs, both for warranty and out-of-warranty repairs.

Index

Financial Information about our Operating Segments

The table below shows our consolidated net sales by operating segment and by major product group within each segment for the three years ended December 31, 2011. Our two major reportable operating segments are Engine Management and Temperature Control.

	Year Ended December 31,					
	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)					
Engine Management:						
Ignition, Emission and Fuel System Parts	$523,984	59.9 %	$478,578	59.0 %	$420,083	57.2 %
Wires and Cables	104,689	12.0 %	98,755	12.2 %	86,352	11.7 %
Total Engine Management	628,673	71.9 %	577,333	71.2 %	506,435	68.9 %
Temperature Control:						
Compressors	123,785	14.1 %	104,733	12.9 %	89,125	12.1 %
Other Climate Control Parts	109,938	12.6 %	117,353	14.5 %	107,604	14.7 %
Total Temperature Control	233,723	26.7 %	222,086	27.4 %	196,729	26.8 %
Europe:						
Engine Management Parts	—	— %	—	— %	25,572	3.4 %
Temperature Control Parts	—	— %	—	— %	1,174	0.2 %
Total Europe	—	— %	—	— %	26,746	3.6 %
All Other	12,229	1.4 %	11,491	1.4 %	5,514	0.7 %
Total	$874,625	100 %	$810,910	100 %	$735,424	100 %

The following table shows our operating profit and identifiable assets by operating segment for the three years ended December 31, 2011.

	Year Ended December 31,					
	2011		2010		2009	
	Operating Income (Loss)	Identifiable Assets	Operating Income (Loss)	Identifiable Assets	Operating Income (Loss)	Identifiable Assets
	(In thousands)					
Engine Management	$56,261	$372,410	$43,410	$323,162	$26,927	$310,142
Temperature Control	17,699	97,656	13,096	92,732	6,855	79,066
Europe	—	—	—	—	(7,016)	—
All Other	(9,061)	80,656	(9,713)	76,907	(9,135)	95,251
Total	$64,899	$550,722	$46,793	$492,801	$17,631	$484,459

“All Other” consists of items pertaining to our corporate headquarters function and our Canadian business unit, each of which does not meet the criteria of a reportable operating segment.

Engine Management Segment

Breadth of Products. We manufacture a full line of engine management replacement parts including, electronic ignition control modules, fuel injectors, ignition wires, voltage regulators, coils, switches, emission sensors, EGR valves, distributor caps and rotors and many other engine management components primarily under our brand names Standard®, BWD®, Intermotor®, OEM®, TechSmartTM and GP Sorensen®, and through private labels such as CARQUEST®, O'Reilly Import Direct® and Master Pro®, NAPA® Echlin® and NAPA® Belden®. We are a basic manufacturer of many of the engine management parts we market. In 2011, we expanded our engine management product lines through two strategic acquisitions. In April 2011, we acquired the Engine Controls business of BLD Products, Ltd., which manufactured a range of products including fuel pressure regulators, air by-pass valves, idle air control valves and PCV valves. In October 2011, we acquired all of the capital stock of Forecast Trading Corporation, which distributes a range of engine management products including ignition coils, ignition modules, switches and sensors, and filters. In addition, our strategy includes sourcing certain products from low cost countries such as those in Asia. In our Engine Management Segment, replacement parts for ignition, emission control and fuel systems accounted for approximately 60% of our consolidated net sales in 2011, 59% of our consolidated net sales in 2010 and 57% of our consolidated net sales in 2009.

Index

Computer-Controlled Technology. Nearly all new vehicles are factory-equipped with computer-controlled engine management systems to control ignition, emission and fuel injection systems. The on-board computers monitor inputs from many types of sensors located throughout the vehicle, and control a myriad of valves, injectors, switches and motors to manage engine and vehicle performance. Electronic ignition systems enable the engine to operate with improved fuel efficiency and reduced level of hazardous fumes in exhaust gases.

Government emissions laws have been implemented throughout the majority of the United States. The Clean Air Act imposes strict emissions control test standards on existing and new vehicles, and remains the preeminent legislation in the area of vehicle emissions. As many states have implemented required inspection/maintenance tests, the Environmental Protection Agency, through its rulemaking ability, has also encouraged both manufacturers and drivers to reduce vehicle emissions. Automobiles must now comply with emissions standards from the time they were manufactured and, in most states, until the last day they are in use. This law and other government emissions laws have had, and we expect it to continue to have, a positive impact on sales of our ignition and emission controls parts since vehicles failing these laws may require repairs utilizing parts sold by us.

Our sales of sensors, valves, solenoids and related parts have increased as automobile manufacturers equip their cars with more complex engine management systems.

Wire and Cable Products. Wire and cable parts accounted for approximately 12% of our consolidated net sales in 2011, 2010 and 2009. These products include ignition (spark plug) wires, battery cables and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile’s electrical system.

The largest component of this product line is the sale of ignition wire sets. We have historically offered ignition wires and battery cables under premium brands, which capitalize on the market’s awareness of the importance of quality, along with “value” priced brands for older vehicle applications. We extrude high voltage wire for use in our ignition wire sets. This vertical integration of this critical component offers us the ability to achieve lower costs and a controlled source of supply and quality. In addition, in 2009, we supplemented our wire and cable business by acquiring the Belden® wire and cable product line from Federal-Mogul Corporation.

Temperature Control Segment

We manufacture, remanufacture and market a full line of replacement parts for automotive temperature control (air conditioning and heating) systems, engine cooling systems, power window accessories and windshield washer systems, primarily under our brand names of Four Seasons®, EVERCO®, ACi®, Hayden®, Factory Air® and Imperial® and through private labels such as CARQUEST®, NAPA® Temp Products and Murray®. The major product groups sold by our Temperature Control Segment are new and remanufactured compressors, clutch assemblies, blower and radiator fan motors, filter dryers, evaporators, accumulators, hose assemblies, expansion valves, heater valves, AC service tools and chemicals, fan assemblies, fan clutches, engine oil coolers, transmission coolers, window lift motors, motor/regulator assemblies and windshield washer pumps. Our temperature control products accounted for approximately 27% of our consolidated net sales in 2011, 2010 and 2009.

Due to increasing offshore competitive price pressure, our Temperature Control business made several changes within its manufacturing portfolio. We have outsourced the manufacturing of several major product groups to low cost areas such as those in Asia, and have consolidated excess manufacturing facilities. In addition, we continue to increase production of remanufactured and new AC compressors in our facility in Reynosa, Mexico.

Index

Today's vehicles are being produced with smaller, more complex and efficient AC system designs. These newer systems are less prone to leak resulting in fewer AC system repairs. Our Temperature Control Segment continues to be a leader in providing superior training to service dealers who seek the knowledge in which to perform proper repairs for today's vehicles. We believe that our training module (HVAC Tips & Techniques) remains one of the most sought-after training clinics in the industry and among professional service dealers.

European Segment

Our European Segment was conducted through our wholly-owned subsidiary, Standard Motor Products Holdings Limited located in Nottingham, England until we sold the distribution business in November 2009. Pursuant to the sale, we retained our manufacturing operation in Poland. Prior to the divestiture, we distributed a broad line of engine management products primarily to customers in Europe under brand names such as Intermotor®, Kerr NelsonTM, LemarkTM and Blue Streak® and through private labels such as Lucas®. Our European Segment accounted for approximately 4% of our consolidated net sales in 2009.

Financial Information about Our Foreign and Domestic Operations and Export Sales

We sell our line of products primarily in the United States, with additional sales in Canada, Europe, Asia and Latin America. Our sales are substantially denominated in U.S. dollars.

The table below shows our consolidated net sales by geographic area for the three years ended December 31, 2011.

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
United States	$ 791,625	$ 723,628	$ 635,977
Canada	52,497	51,515	48,896
Europe	9,496	8,296	29,984
Other foreign	21,007	27,471	20,567
Total	$ 874,625	$ 810,910	$ 735,424

The table below shows our long-lived assets by geographic area for the three years ended December 31, 2011.

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
United States	$ 125,189	$ 81,485	$ 85,083
Canada	1,626	1,782	1,892
Europe	2,322	2,314	2,102
Other foreign	3,661	1,168	1,626
Total	$ 132,798	$ 86,749	$ 90,703

Sales and Distribution

In the traditional distribution channel, we sell our products to warehouse distributors, who supply auto parts jobber stores, who in turn sell to professional technicians and to "do-it-yourselfers" who perform automotive repairs themselves. In recent years, warehouse distributors have consolidated with other distributors, and an increasing number of distributors own their jobber stores. In the retail distribution channel, customers buy directly from us and sell directly to technicians and “do-it-yourselfers” through their own stores. Retailers are also consolidating with other retailers and have begun to focus on the commercial market adding additional competition in the “do-it-for-me” business segment targeting the professional technician.

Index

As automotive parts grow more complex, “do-it-yourselfers” are less likely to service their own vehicles and may become more reliant on dealers and technicians. In addition to new car sales, automotive dealerships sell OE brand parts and service vehicles. The products available through the dealers are purchased through the original equipment service (“OES”) network. Traditionally, the parts manufacturers of OEMs have supplied a majority of the OES network. However, certain parts manufacturers have become independent and are no longer affiliated with OEMs. In addition, many Tier 1 OEM suppliers are disinterested in providing service parts requirements for up to 15 years after the OE model has gone out of production. As a result of these factors, there are additional opportunities for independent automotive aftermarket manufacturers like us to supply the OES network.

We believe that our sales force is the premier direct sales force for our product lines due to our concentration of highly-qualified, well-trained sales people dedicated to geographic territories. Our sales force allows us to provide customer service that we believe is unmatched by our competitors. We thoroughly train our sales people both in the function and application of our product lines, as well as in proven sales techniques. Customers, therefore, depend on these sales people as a reliable source for technical information and to assist with sales to stores and professional repair technicians. We give newly hired sales people extensive instruction at our training facility in Irving, Texas and have a continuing education program that allows our sales force to stay current on troubleshooting and repair techniques, as well as the latest automotive parts and systems technology.

We generate demand for our products by directing a significant portion of our sales effort to our customers’ customers (i.e., jobber stores and professional technicians). We also conduct instructional clinics, which teach over 50,000 technicians annually how to diagnose and repair complex systems related to our products. To help our sales people to be teachers and trainers, we focus our recruitment efforts on candidates who already have strong technical backgrounds as well as sales experience.

In connection with our sales activities, we offer a variety of customer discounts, allowances and incentives. For example, we offer cash discounts for paying invoices in accordance with the specified discounted terms of the invoice, and we offer pricing discounts based on volume and different product lines purchased from us. We also offer rebates and discounts to customers as advertising and sales force allowances, and allowances for warranty and overstock returns are also provided. We believe these discounts, allowances and incentives are a common practice throughout the automotive aftermarket industry, and we intend to continue to offer them in response to competitive pressures.

Customers

Our customer base is comprised largely of warehouse distributors, large retailers, OE/OES customers, other manufacturers and export customers. In 2011, our consolidated net sales to our major market channels consisted of $373.5 million to our traditional customers, $352.9 million to our retail customers, $81 million to our OE/OES customers, and $67.2 million to other customers.

Our five largest individual customers, including members of a marketing group, accounted for approximately 63% of our consolidated net sales in 2011, 60% of our consolidated net sales in 2010, and 55% of our consolidated net sales in 2009. During 2011, three of our customers (NAPA Auto Parts, Advance Auto Parts, Inc. and O’Reilly Automotive, Inc.) each accounted for more than 10% of our consolidated net sales and, in the aggregate, accounted for approximately 52% of our consolidated net sales.

Index

Competition

We are a leading independent manufacturer and distributor of replacement parts for product lines in Engine Management and Temperature Control. We compete primarily on the basis of product quality, product availability, customer service, product coverage, order turn-around time, order fill rate, technical support and price. We believe we differentiate ourselves from our competitors primarily through:

- a value-added, knowledgeable sales force;
- extensive product coverage;
- sophisticated parts cataloguing systems;
- inventory levels sufficient to meet the rapid delivery requirements of customers; and
- breadth of manufacturing capabilities.

In the Engine Management business, we are one of the leading independent manufacturers in the United States. Our competitors include ACDelco, Delphi Automotive PLC, Denso Corporation, Robert Bosch Corporation, Visteon Corporation, NGK/NTK, General Cable, Prestolite and United Components, Inc.

Our Temperature Control business is one of the leading independent manufacturers and distributors of a full line of temperature control products in North America and other geographic areas. ACDelco, Delphi Automotive PLC, Denso Corporation, Sanden International, Inc., Continental AG, Vista-Pro Automotive, LLC and several privately-owned companies are some of our key competitors in this market.

The automotive aftermarket is highly competitive, and we face substantial competition in all markets that we serve. Our success in the marketplace continues to depend on our ability to offer competitive prices, improved products, superior customer service and expanded offerings in competition with many other suppliers to the aftermarket. Some of our competitors may have greater financial, marketing and other resources than we do. In addition, we face competition from automobile manufacturers who supply many of the replacement parts sold by us, although these manufacturers generally supply parts only for cars they produce through OE dealerships.

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 typically peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowing from our revolving credit facility.

Working Capital Management

Automotive aftermarket companies have been under increasing pressure to provide broad SKU (stock keeping unit) coverage due to parts and brand proliferation. In response to this, we have made, and continue to make, changes to our inventory management system designed to reduce inventory requirements. We have a pack-to-order distribution system, which permits us to retain slow moving items in a bulk storage state until an order for a specific brand part is received. This system reduces the volume of a given part in inventory and reduces the labor requirements to package and repackage inventory. We also expanded our management system to improve inventory deployment, enhance our collaboration with customers on forecasts, and further integrate our supply chain both to customers and suppliers.

Index

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. 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 returns, we tightened the rules to reduce returns arising from installer error or misdiagnosis. For example, 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.

Our profitability and working capital requirements are seasonal due to our sales mix of Temperature Control products. Our working capital requirements 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. These increased working capital requirements are funded by borrowings from our revolving credit facility.

Suppliers

The principal raw materials purchased by us consist of brass, electronic components, fabricated copper (primarily in the form of magnet and insulated cable), steel magnets, laminations, tubes and shafts, stamped steel parts, copper wire, stainless steel coils and rods, aluminum coils, fittings, rods, cast aluminum parts, lead, steel roller bearings, rubber molding compound, thermo-set and thermo plastic molding powders. Additionally, we use components and cores (used parts) in our remanufacturing processes for air conditioning compressors.

We purchase materials in the U.S. and foreign open markets and have a limited number of supply agreements on key components. A number of prime suppliers make these materials available. In the case of cores for air conditioning compressors, we obtain them either from exchanges with customers who return cores subsequent to purchasing remanufactured parts or through direct purchases from a network of core brokers. In addition, we acquire certain materials by purchasing products that are resold into the market, particularly by OEM sources and other domestic and foreign suppliers.

We believe there is an adequate supply of primary raw materials and cores. In order to ensure a consistent, high quality and low cost supply of key components for each product line, we continue to develop our own sources through an internal manufacturing capacity. We are not dependent on any single commodity, however, there can be no assurance over the long term that increases in commodity prices will not materially affect our business or results of operations.

Production and Engineering

We engineer, tool and manufacture many of the components used in the assembly of our products. We also perform our own plastic molding operations, stamping and machining operations, automated electronics assembly and a wide variety of other processes. In the case of remanufactured components, we conduct our own teardown, diagnostics and rebuilding for air conditioning compressors. We have found this level of vertical integration provides advantages in terms of cost, quality and availability. We intend to continue selective efforts toward further vertical integration to ensure a consistent quality and supply of low cost components. In addition, our strategy includes sourcing an increasing number of finished goods and component parts from low cost countries such as those in Asia.

11

Index

Employees

As of December 31, 2011, we employed approximately 3,400 people, with 2,100 people in the United States and 1,300 people in Mexico, Canada, Europe and Hong Kong. Of the 3,400 people employed, approximately 1,500 are production employees. We operate primarily in non-union facilities and have binding labor agreements with employees at other unionized facilities. We have approximately 70 production employees in Edwardsville, Kansas who are covered by a contract with The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") that expires in April 2015. We also have union relationships in Mexico with agreements negotiated at various intervals. The current union agreements in Mexico cover 756 employees and expire in January 2014.

We believe that our facilities are in favorable labor markets with ready access to adequate numbers of skilled and unskilled workers, and we believe our relations with our union and non-union employees are good.

Insurance

We maintain basic liability coverage up to $2 million for automobile liability, general and product liability and $50 million for umbrella liability coverage. We also maintain environmental insurance of $10 million, covering our existing U.S. and Canadian facilities. One of our facilities is currently undergoing testing for potential environmental remediation. The environmental testing and any remediation costs at such facility may be covered by several insurance policies, although we can give no assurance that our insurance will cover any environmental remediation claims. Historically, we have not experienced casualty losses in any year in excess of our coverage. However, there can be no assurances that liability losses in the future will not exceed our coverage.

Available Information

We are a New York corporation founded in 1919. Our principal executive offices are located at 37-18 Northern Boulevard, Long Island City, New York 11101, and our main telephone number at that location is (718) 392-0200. Our Internet address is www.smpcorp.com. We provide a link to reports that we have filed with the SEC. However, for those persons that make a request in writing or by e-mail (financial@smpcorp.com), we will provide free of charge our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information are also available, free of charge, at www.sec.gov.

Index

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business and results of operations. If any of the stated risks actually occur, they could materially and adversely affect our business, financial condition or operating results.

Risks Related to Our Operations

We depend on a limited number of key customers, and the loss of any such customer, or a significant reduction in purchases by such customer, could have a material adverse effect on our business, financial condition and results of operations.

Our five largest individual customers, including members of a marketing group, accounted for approximately 63% of our consolidated net sales in 2011, 60% of our consolidated net sales in 2010, and 55% of our consolidated net sales in 2009. During 2011, three of our customers (NAPA Auto Parts, Advance Auto Parts, Inc. and O'Reilly Automotive, Inc.) each accounted for more than 10% of our consolidated net sales and, in the aggregate, accounted for approximately 52% of our consolidated net sales. The loss of one or more of these customers or, a significant reduction in purchases of our products from any one of them, could have a materially adverse impact on our business, financial condition and results of operations.

Also, we do not typically enter into long-term agreements with any of our customers. Instead, we enter into a number of purchase order commitments with our customers, based on their current or projected needs. We have in the past, and may in the future, lose customers or lose a particular product line of a customer due to the highly competitive conditions in the automotive aftermarket industry, including pricing pressures. A decision by any significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to materially decrease the amount of products purchased from us, to change their manner of doing business with us, or to stop doing business with us, including a decision to source products directly from a low cost region such as Asia, could have a material adverse effect on our business, financial condition and results of operations.

Because our sales are concentrated, and the market in which we operate is very competitive, we are under ongoing pressure from our customers to offer lower prices, extend payment terms, increase marketing allowances and other terms more favorable to these customers. These customer demands have put continued pressure on our operating margins and profitability, resulted in periodic contract renegotiation to provide more favorable prices and terms to these customers, and significantly increased our working capital needs.

Our industry is highly competitive, and our success depends on our ability to compete with suppliers of automotive aftermarket products, some of which may have substantially greater financial, marketing and other resources than we do.

The automotive aftermarket industry is highly competitive, and our success depends on our ability to compete with suppliers of automotive aftermarket products. In the Engine Management Segment, our competitors include ACDelco, Delphi Automotive PLC, Denso Corporation, Robert Bosch Corporation, Visteon Corporation, NGK/NTK, General Cable, Prestolite and United Components, Inc. In the Temperature Control Segment, we compete with ACDelco, Delphi Automotive PLC, Denso Corporation, Sanden International, Inc., Continental AG, Vista-Pro Automotive, LLC and several privately-owned companies. In addition, automobile manufacturers supply many of the replacement parts we sell.

13

Index

Some of our competitors may have larger customer bases and significantly greater financial, technical and marketing resources than we do. These factors may allow our competitors to:

- respond more quickly than we can to new or emerging technologies and changes in customer requirements by devoting greater resources than we can to the development, promotion and sale of automotive aftermarket products and services;
- engage in more extensive research and development;
- sell products at a lower price than we do;
- undertake more extensive marketing campaigns; and
- make more attractive offers to existing and potential customers and strategic partners.

We cannot assure you that our competitors will not develop products or services that are equal or superior to our products or that achieve greater market acceptance than our products or that in the future other companies involved in the automotive aftermarket industry will not expand their operations into product lines produced and sold by us. We also cannot assure you that additional entrants will not enter the automotive aftermarket industry or that companies in the aftermarket industry will not consolidate. Any such competitive pressures could cause us to lose market share or could result in significant price decreases and could have a material adverse effect upon our business, financial condition and results of operations.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure. This is the result of a number of industry trends, including the impact of offshore suppliers in the marketplace (particularly in China), the consolidated purchasing power of large customers, and actions taken by some of our competitors in an effort to ‘‘win over’’ new business. We have in the past reduced prices to remain competitive and may have to do so again in the future. Price reductions have impacted our sales and profit margins and are expected to do so in the future. In addition, we are implementing ongoing facility integration efforts to further reduce costs. Our future profitability will depend in part upon the success of our integration plans, and our ability to respond to changes in product and distribution channel mix, to continue to improve our manufacturing efficiencies, to generate cost reductions, including reductions in the cost of components purchased from outside suppliers, and to maintain a cost structure that will enable us to offer competitive prices. Our inability to maintain a competitive cost structure could have a material adverse effect on our business, financial condition and results of operations.

Our business is seasonal and is subject to substantial quarterly fluctuations, which impact our quarterly performance and working capital requirements.

Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and with revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. For example, a cool summer may lessen the demand for our Temperature Control products, while a hot summer may increase such demand. As a result of this seasonality and variability in demand of our Temperature Control products, our working capital requirements 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.

14

Index

Our operations would be materially and adversely affected if we are unable to purchase raw materials, manufactured components or equipment from our suppliers.

Because we purchase various types of raw materials, finished goods, equipment, and component parts from suppliers, we may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more of our suppliers. Our suppliers' ability to supply products to us is also subject to a number of risks, including availability of raw materials, destruction of their facilities or work stoppages. In addition, our failure to promptly pay, or order sufficient quantities of inventory from our suppliers may increase the cost of products we purchase or may lead to suppliers refusing to sell products to us at all. Our efforts to protect against and to minimize these risks may not always be effective.

We may incur material losses and significant costs as a result of warranty-related returns by our customers in excess of anticipated amounts.

Our products are required to meet rigorous standards imposed by our customers and our industry. Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship, failure to meet industry published specifications and/or the result of installer error. In the event that there are material deficiencies or defects in the design and manufacture of our products and/or installer error, the affected products may be subject to warranty returns and/or product recalls. Although we maintain a comprehensive quality control program, we cannot give any assurance that our products will not suffer from defects or other deficiencies or that we will not experience material warranty returns or product recalls in the future.

We accrue for warranty returns as a percentage of sales, after giving consideration to recent historical returns. While we believe that we make reasonable estimates for warranty returns in accordance with our revenue recognition policies, actual returns may differ from our estimates. We have in the past incurred, and may in the future incur, material losses and significant costs as a result of our customers returning products to us for warranty-related issues in excess of anticipated amounts. Deficiencies or defects in our products in the future may result in warranty returns and product recalls in excess of anticipated amounts and may have a material adverse effect on our business, financial condition and results of operations.

Our profitability may be materially adversely affected as a result of overstock inventory-related returns by our customers in excess of anticipated amounts.

We permit overstock returns of inventory that may be either new or non-defective or non-obsolete but that we believe we can re-sell. Customers are generally limited to returning overstocked inventory according to a specified percentage of their annual purchases from us. In addition, a customer's annual allowance cannot be carried forward to the upcoming year.

We accrue for overstock returns as a percentage of sales, after giving consideration to recent historical returns. While we believe that we make reasonable estimates for overstock returns in accordance with our revenue recognition policies, actual returns may differ from our estimates. To the extent that overstocked returns are materially in excess of our projections, our business, financial condition and results of operations may be materially adversely affected.

We may be materially adversely affected by asbestos claims arising from products sold by our former brake business, as well as by other product liability claims.

In 1986, we acquired a brake business, which we subsequently sold in March 1998. 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 after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense of such claims.

Index

Actuarial consultants with experience in assessing asbestos-related liabilities conducted a study to estimate our potential claim liability as of August 31, 2011. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.5 million to $66.5 million for the period through 2059. The change from the prior year study was a $1.8 million increase for the low end of the range and a $0.4 million decrease for the high end of the range. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements. Accordingly, an incremental $1.3 million provision in our discontinued operation was added to the asbestos accrual in September 2011 increasing the reserve to approximately $27.5 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from $26.2 million to $63 million during the same period.

At December 31, 2011, approximately 2,080 cases were outstanding for which we may be held responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through December 31, 2011, the amounts paid for settled claims are approximately $12.2 million. A substantial increase in the number of new claims or increased settlement payments or awards of damages could have a material adverse effect on our business, financial condition and results of operations.

Given the uncertainties associated with projecting asbestos-related matters into the future and other factors outside our control, we cannot give any assurance that significant increases in the number of claims filed against us will not occur, that asbestos-related damages or settlement awards will not exceed the amount we have in reserve, or that additional provisions will not be required. Management will continue to monitor the circumstances surrounding these potential liabilities in determining whether additional reserves and provisions may be necessary. We plan on performing a similar annual actuarial analysis during the third quarter of each year for the foreseeable future.

In addition to asbestos-related claims, our product sales entail the risk of involvement in other product liability actions. We maintain product liability insurance coverage, but we cannot give any assurance that current or future policy limits will be sufficient to cover all possible liabilities. Further, we can give no assurance that adequate product liability insurance will continue to be available to us in the future or that such insurance may be maintained at a reasonable cost to us. In the event of a successful product liability claim against us, a lack or insufficiency of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Severe weather, natural disasters and other disruptions could adversely impact our operations at our distribution centers.

Severe weather conditions and natural disasters, such as hurricanes, floods and tornados, could damage our properties and effect our operations, particularly our major distribution centers in Virginia, Texas, and Kansas. In addition, our business and operations could be materially adversely affected in the event of other serious disruptions at these facilities due to fire, electrical blackouts, power losses, telecommunications failures, terrorist attack or similar events. Any of these occurrences could impair our ability to adequately supply our customers due to all or a significant portion of our inventory being damaged. We may not be able to effectively shift the delivery of products to our customers if one or more of our distribution centers are significantly disrupted.

Index

We may not be able to achieve the cost savings that we expect from the restructuring of our operations.

We are implementing a number of cost savings programs. Although we expect to realize cost savings as a result of our restructuring plans, we may not be able to achieve the level of benefits that we expect to realize or we may not be able to realize these benefits within the time frames we currently expect. We are continuing to rationalize certain manufacturing operations in order to alleviate redundant capacity and reduce our cost structure. This restructuring will involve moving some U.S. production to Mexico and increasing production in Poland. Our ability to achieve these cost savings could be affected by a number of factors. Changes in the amount, timing and character of charges related to restructuring, failure to complete or a substantial delay in completing the restructuring and planned divestitures, or receipt of lower proceeds from such divestitures than currently is anticipated, could have a material adverse effect on us. Our cost savings is also predicated upon maintaining our sales levels.

Risks Related to Liquidity

Our significant indebtedness could negatively affect our financial health.

We have a significant amount of indebtedness. As of December 31, 2011, our total outstanding indebtedness was $73.3 million. We have an existing revolving bank credit facility of $200 million with General Electric Capital Corporation, as agent, and a syndicate of lenders, which we refer to throughout this Report as our revolving credit facility. As of December 31, 2011, we had $73 million of outstanding indebtedness and approximately $83 million of availability under this revolving credit facility. Our significant indebtedness could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing or borrow additional funds;
- limit our ability to pay future dividends;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- require that a significant portion of our cash flow from operations be used for the payment of interest on our indebtedness instead of funding working capital, capital expenditures, acquisitions or other general corporate purposes; and
- increase the amount of interest expense that we must pay because some of our borrowings are at variable interest rates, which, as interest rates increase, would result in a higher interest expense.

In addition, we have granted the lenders under our revolving credit facility a first priority security interest in substantially all of our currently owned and future acquired personal property, real property and other assets. We have also pledged shares of stock in our subsidiaries to those lenders. If we default on any of our indebtedness, or if we are unable to obtain necessary liquidity, our business could be adversely affected.

We may not be able to generate the significant amount of cash needed to service our indebtedness and fund our future operations.

Our ability either to make payments on or to refinance our indebtedness, or to fund planned capital expenditures and research and development efforts, will depend on our ability to generate cash in the future. Our ability to generate cash is in part subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. For example, current conditions in the credit markets generally, and those related to the automotive sector specifically, including the ability of vendors to factor receivables from customers, could result in reduced cash flow, or increased challenges in obtaining additional financing or refinancing. Also, in operating our business we depend on the ability of our customers to pay timely the amounts we have billed and any disruption in our customers' ability to pay us because of financial difficulty, or otherwise, would have a negative impact on our cash flow.

Index

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our revolving credit facility will be adequate to meet our future liquidity needs for at least the next twelve months. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as:

- deferring, reducing or eliminating future cash dividends;
- reducing or delaying capital expenditures or restructuring activities;
- reducing or delaying research and development efforts;
- selling assets;
- deferring or refraining from pursuing certain strategic initiatives and acquisitions;
- refinancing our indebtedness; and
- seeking additional funding.

We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our revolving credit facility in amounts sufficient to enable us to pay the principal and interest on our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We are exposed to risks related to our receivables factoring arrangements.

We have entered in to factoring arrangements with financial institutions to sell certain of our customers' trade accounts receivable without recourse. If we do not enter into these factoring arrangements, our financial condition, results of operations and cash flows could be materially and adversely affected by delays or failures in collecting trade accounts receivables. In addition, if any of the financial institutions with which we have factoring arrangements experience financial difficulties or otherwise terminate our factoring arrangements, we may experience material and adverse economic losses due to the loss of such factoring arrangements and the impact of such loss on our liquidity, which could have a material and adverse effect upon our financial condition, results of operations and cash flows. The utility of our factoring arrangements also depends upon the LIBOR rate, as it is a component of the discount rate applicable to each arrangement. If the LIBOR rate increases such that the cost of factoring becomes more than the cost of servicing our receivables with existing debt, we may not be able to rely on such factoring arrangements, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

Risks Related to External Factors

Our results of operations and financial condition may be adversely affected by global economic and financial market conditions.

Current global economic and financial markets conditions, including severe disruptions in the credit markets, the potential for a significant and prolonged global economic recession, and a global increase in commodity prices, may materially and adversely affect our results of operations and financial condition. These conditions may also materially impact our customers, suppliers and other parties with whom we do business. For example, end users may put off discretionary repairs or, as a result of increases in average fuel prices, drive less miles thereby resulting in less need for our products. Economic and financial market conditions that adversely affect our customers may cause them to terminate existing purchase orders or to reduce the volume of products they purchase from us in the future. In connection with the sale of products, we normally do not require collateral as security for customer receivables and do not purchase credit insurance. We may have significant balances owing from customers that operate in cyclical industries and under leveraged conditions that may impair the collectability of those receivables. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition. Adverse economic and financial market conditions may also cause our suppliers to be unable to meet their commitments to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing the maximum amount of trade credit available to us. Changes of this type could significantly affect our liquidity and could have a material adverse effect on our results of operations and financial condition. If we are unable to successfully anticipate changing economic and financial markets conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

We conduct our manufacturing and distribution operations on a worldwide basis and are subject to risks associated with doing business outside the United States.

We have manufacturing and distribution facilities in many countries, including Canada, Poland and Mexico, and increasing our manufacturing footprint in low cost countries is an important element of our strategy. There are a number of risks associated with doing business internationally, including: (a) exposure to local economic and political conditions; (b) social unrest such as risks of terrorism or other hostilities; (c) currency exchange rate fluctuations and currency controls; (d) export and import restrictions; and (e) the potential for shortages of trained labor. In particular, there has been social unrest in Mexico and any increased violence in or around our manufacturing facilities in Mexico could impact our business by disrupting our supply chain, the delivery of products to customers and the reluctance of our customers to visit our Mexican facilities. In addition, the increased violence in or around our manufacturing facilities in Mexico could present several risks to our employees who may be directly affected by the violence and may result in a decision by them to relocate from the area, or make it difficult for us to recruit or retain talented employees at our Mexican facilities. The likelihood of such occurrences and their potential effect on us is unpredictable and vary from country to country. Any such occurrences could be harmful to our business and our financial results.

We may incur liabilities under government regulations and environmental laws, which may have a material adverse effect on our business, financial condition and results of operations.

Domestic and foreign political developments and government regulations and policies directly affect automotive consumer products in the United States and abroad. Regulations and policies relating to over-the-highway vehicles include standards established by the United States Department of Transportation for motor vehicle safety and emissions. The modification of existing laws, regulations or policies, or the adoption of new laws, regulations or policies, such as legislation offering incentives to remove older vehicles from the road, could have a material adverse effect on our business, financial condition and results of operations.

Our operations and properties are subject to a wide variety of increasingly complex and stringent federal, state, local and international laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of materials, substances and wastes, the remediation of contaminated soil and groundwater and the health and safety of employees. Such environmental laws, including but not limited to those under the Comprehensive Environmental Response Compensation & Liability Act, may impose joint and several liability and may apply to conditions at properties presently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors have been sent or otherwise come to be located.

The nature of our operations exposes us to the risk of claims with respect to such matters, and we can give no assurance that violations of such laws have not occurred or will not occur or that material costs or liabilities will not be incurred in connection with such claims. One of our facilities is currently undergoing testing for potential environmental remediation, and our reserve balance related to the environmental clean-up at this facility is $1.7 million at December 31, 2011. The testing and any environmental remediation costs at such facility may be covered by several insurance policies, although we can give no assurance that our insurance will cover any environmental remediation claims. We also maintain insurance to cover our existing U.S. and Canadian facilities. We can give no assurance that the future cost of compliance with existing environmental laws and the liability for known environmental claims pursuant to such environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. In addition, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

19

Index

Our future performance may be materially adversely affected by changes in technologies and improvements in the quality of new vehicle parts.

Changes in automotive technologies, such as vehicles powered by fuel cells or electricity, could negatively affect sales to our aftermarket customers. These factors could result in less demand for our products thereby causing a decline in our results of operations or deterioration in our business and financial condition and may have a material adverse effect on our long-term performance.

In addition, the size of the automobile replacement parts market depends, in part, upon the growth in number of vehicles on the road, increase in average vehicle age, change in total miles driven per year, new and modified environmental regulations, increase in pricing of new cars and new car quality and related warranties. The automobile replacement parts market has been negatively impacted by the fact that the quality of more recent automotive vehicles and their component parts (and related warranties) has improved, thereby lengthening the repair cycle. Generally, if parts last longer, there will be less demand for our products and the average useful life of automobile parts has been steadily increasing in recent years due to innovations in products and technology. In addition, the introduction by original equipment manufacturers of increased warranty and maintenance initiatives has the potential to decrease the demand for our products. These factors could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

Index

ITEM 2. PROPERTIES

We maintain our executive offices in Long Island City, New York. The table below describes our principal facilities as of December 31, 2011.

Location	State or Country	Principal Business Activity	Approx. Square Feet	Owned or Expiration Date of Lease
		Engine Management		
Ocala	FL	Manufacturing (Ignition)	20,000	Owned
Orlando	FL	Manufacturing (Ignition)	50,640	2017
Ft. Lauderdale	FL	Distribution	23,256	Owned
Ft. Lauderdale	FL	Distribution	30,000	Owned
Mishawaka	IN	Manufacturing	153,070	Owned
Edwardsville	KS	Distribution (Wire)	363,450	Owned
Independence	KS	Manufacturing	337,400	Owned
Long Island City	NY	Administration	74,755	2018
Greenville	SC	Manufacturing (Ignition)	184,500	Owned
Disputanta	VA	Distribution (Ignition)	411,000	Owned
Reynosa	Mexico	Manufacturing (Wire)	100,000	2014
Reynosa	Mexico	Manufacturing (Ignition)	153,000	2013
		Temperature Control		
Lewisville	TX	Administration and Distribution	415,000	2016
Grapevine	TX	Manufacturing	180,000	Owned
St. Thomas	Canada	Manufacturing	40,000	Owned
Reynosa	Mexico	Remanufacturing (Compressors)	81,967	2013
Reynosa	Mexico	Manufacturing	45,000	2014
		Europe		
Bialystok	Poland	Manufacturing (Ignition)	31,000	2012
		Other		
Mississauga	Canada	Administration and Distribution (Ignition, Wire, Temperature Control)	128,400	2016
Irving	TX	Training Center	13,400	2013
		Available For Sale		
Nottingham	England	Vacant Land		Owned

The real property that we own in Indiana, Kansas, South Carolina, Virginia and Texas and in St. Thomas, Canada is encumbered by a mortgage or deed of trust, as applicable, in favor of General Electric Capital Corporation or its affiliated company, as agent for our revolving credit facility.

Index

ITEM 3. 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 in the accompanying consolidated financial statements. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2011, approximately 2,080 cases were outstanding for which we may be held responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through December 31, 2011, the amounts paid for settled claims are approximately $12.2 million. We acquired limited insurance coverage up to a fixed amount for defense and indemnity costs associated with certain asbestos-related claims. Under the policy currently in effect, we have submitted claims to our insurance carrier and have received $0.9 million in reimbursement for settlement claims and defense costs. See Note 19 of the notes to consolidated financial statements for further discussion.

In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. Various motions, including motions to dismiss, counter motions and amended pleadings, were filed over the years by the parties. On September 29, 2011, the court dismissed the complaint with prejudice, and on October 27, 2011 the plaintiff filed an appeal, which is pending. We believe that we have meritorious defenses to the plaintiff's claims and will continue to vigorously oppose 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.

Index

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades publicly on the New York Stock Exchange ("NYSE") under the trading symbol "SMP." The following table shows the high and low sales prices per share of our common stock as reported by the NYSE and the dividends declared per share for the periods indicated:

	High	Low	Dividend
Fiscal Year ended December 31, 2011			
First Quarter	$14.39	$10.87	$0.07
Second Quarter	15.56	12.34	0.07
Third Quarter	16.34	10.25	0.07
Fourth Quarter	20.87	12.06	0.07
Fiscal Year ended December 31, 2010			
First Quarter	$11.26	$7.00	$0.05
Second Quarter	11.70	7.03	0.05
Third Quarter	10.73	7.38	0.05
Fourth Quarter	14.25	10.06	0.05

The last reported sale price of our common stock on the NYSE on February 29, 2012 was $22.72 per share. As of February 29, 2012, there were 488 holders of record of our common stock.

Dividends are declared and paid on the common stock at the discretion of our Board of Directors (the "Board") and depend on our profitability, financial condition, capital needs, future prospects, and other factors deemed relevant by our Board. Our current practice is to pay dividends on a quarterly basis. In January 2012, our Board voted to increase our quarterly dividend to a rate of $0.09 per share per quarter. Our revolving credit facility permits dividends and distributions by us provided specific conditions are met. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for a further discussion of our revolving credit facility.

There have been no unregistered offerings of our common stock during the fourth quarter of 2011.

Index

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

For a discussion of our stock repurchases, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The following table provides information relating to the Company’s purchases of its common stock for the fourth quarter of 2011:

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 (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (2)
October 1-31, 2011	65,751	$12.96	65,751	$ 863,556
November 1-30, 2011	—	—	—	863,556
December 1-31, 2011	—	—	—	863,556
Totals	65,751	$12.96	65,751	$ 863,556

(1) In August 2011, we announced that our Board of Directors authorized the purchase of up to $5 million of our common stock under a stock repurchase program. All shares were purchased through the publicly announced stock repurchase program in open-market transactions.

(2) At December 31, 2011, approximately $0.9 million remained available for future stock repurchases under the program.

Index

The following graph compares the five year cumulative total return on the Company's Common Stock to the total returns on the Standard & Poor's 500 Stock Index and the S&P 1500 Auto Parts & Equipment Index, which is a combination of automotive parts and equipment companies within the S&P 400, the S&P 500 and the S&P 600. The graph shows the change in value of a $100 investment in the Company's Common Stock and each of the above indices on December 31, 2006 and the reinvestment of all dividends. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's Common Stock or the referenced indices.

	SMP	S&P 500	S&P 1500 Auto Parts & Equipment Index
2006	100	100	100
2007	56	105	121
2008	26	66	57
2009	63	84	89
2010	104	97	139
2011	155	99	121

* Source: Standard & Poor's

Index

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the five years ended December 31, 2011. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes thereto included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Statement of Operations Data:					
Net sales	$874,625	$810,910	$735,424	$775,241	$790,185
Gross profit	229,147	207,606	177,224	184,156	202,275
Goodwill and intangible asset impairment charges (1) (2)	—	—	—	(39,387)	—
Operating income (loss)	64,899	46,793	17,631	(16,837)	24,208
Earnings (loss) from continuing operations	64,327	24,700	5,906	(21,098)	5,431
Loss from discontinued operations, net of tax	(1,926)	(2,740)	(2,423)	(1,796)	(3,156)
Net earnings (loss) (3) (4)	62,401	21,960	3,483	(22,894)	2,275
Per Share Data:					
Earnings (loss) from continuing operations:					
Basic	$2.82	$1.10	$0.31	$(1.14)	$0.29
Diluted	2.78	1.09	0.31	(1.14)	0.29
Earnings (loss) per common share:					
Basic	2.74	0.97	0.18	(1.24)	0.12
Diluted	2.70	0.97	0.18	(1.24)	0.12
Cash dividends per common share	0.28	0.20	—	0.36	0.36
Other Data:					
Depreciation and amortization	$14,145	$13,574	$14,354	$14,700	$15,181
Capital expenditures	11,037	10,806	7,174	10,500	13,995
Dividends	6,381	4,508	—	6,653	6,683
Balance Sheet Data (at period end):					
Cash and cash equivalents	$10,871	$12,135	$10,618	$6,608	$13,261
Working capital	172,106	169,875	159,591	104,599	183,074
Total assets	550,722	492,801	484,459	575,027	678,092
Total debt	73,299	65,596	76,405	194,157	255,311
Long-term debt (excluding current portion)	190	307	17,908	273	90,534
Stockholders' equity	271,953	209,883	193,878	163,545	188,364

(1) Goodwill is tested for impairment at the reporting unit level at least annually, and whenever events or changes in circumstances indicate that goodwill might be impaired. Our annual impairment test of goodwill as of December 31, 2008 indicated that the carrying amounts of certain of our reporting units exceeded the corresponding fair

values. As a result, we recorded a non-cash goodwill impairment charge to operations of $38.5 million during the fourth quarter of 2008 related to the Engine Management Segment for goodwill acquired with our Dana acquisition.

Index

(2) During 2008, we implemented a plan to transition products sold under a previously used trademark to our BWD® trade name. In connection therewith, we recognized an impairment charge in the amount of $0.9 million.

(3) We recorded an after tax gain (charge) of $(1.9) million, $(2.7) million, $(2.4) million, $(1.8) million, and $(3.2) million as loss from discontinued operations to account for legal expenses and potential costs associated with our asbestos-related liability for the years ended December 31, 2011, 2010, 2009, 2008, and 2007, respectively. Such costs were also separately disclosed in the Operating Activity section of the Consolidated Statements of Cash Flows for those same years.

(4) In December 2011, we realized a non-recurring non-cash benefit of $21.5 million in our tax provision related to a reduction of a significant portion of our deferred tax valuation allowance on net U.S. deferred tax assets. The remaining valuation allowance of $7.8 million as of December 31, 2011 is intended to provide for uncertainty regarding the ultimate realization of our state tax credit carryovers, U.S. capital loss carryforwards, U.S. foreign tax credit carryovers, and foreign net operating loss carryforwards.

Index

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto. This discussion summarizes the significant factors affecting our results of operations and the financial condition of our business during each of the fiscal years in the three year period ended December 31, 2011.

Overview

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with an increasing focus on the original equipment service market. We are organized into two major operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories, and windshield washer system parts.

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

Business Strategy

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. The key elements of our strategy are as follows:

- Maintain Our Strong Competitive Position in the Engine Management and Temperature Control Businesses. We are one of the leading independent manufacturers serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. We believe that our success is attributable to our emphasis on product quality, the breadth and depth of our product lines for both domestic and import vehicles, and our reputation for outstanding customer service.

To maintain our strong competitive position in our markets, we remain committed to the following:

- providing our customers with broad lines of high quality engine management and temperature control products, supported by the highest level of customer service and reliability;
- continuing to maximize our production and distribution efficiencies;
- continuing to improve our cost position through increased global sourcing and increased manufacturing in low cost countries; and
- focusing further on our engineering development efforts including a renewed focus on bringing more product manufacturing in house.

28

Index

- Provide Superior Customer Service, Product Availability and Technical Support. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability, providing insightful customer category management, and providing technical support in a cost-effective manner. In addition, our category management and technically skilled sales force professionals provide product selection and application support to our customers.

- Expand Our Product Lines. We intend to increase our sales by continuing to develop internally, or through potential acquisitions, the range of Engine Management and Temperature Control products that we offer to our customers. We are committed to investing the resources necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies.

- Broaden Our Customer Base. Our goal is to increase our customer base by: (a) continuing to leverage our manufacturing capabilities to secure additional original equipment business with automotive, industrial, marine, military and heavy duty vehicle and equipment manufacturers and their service part operations as well as our existing customer base including traditional warehouse distributors, large retailers, other manufacturers and export customers; and (b) supporting the service part operations of vehicle and equipment manufacturers with value added services and product support for the life of the part.

- Improve Operating Efficiency and Cost Position. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to continue to improve our operating efficiency and cost position by:

  - increasing cost-effective vertical integration in key product lines through internal development;
  - focusing on integrated supply chain management;
  - relocating manufacturing to our low-cost off-shore plants;
  - maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost countries such as those in Asia;
  - enhancing company-wide programs geared toward manufacturing and distribution efficiency; and
  - focusing on company-wide overhead and operating expense cost reduction programs, such as closing excess facilities and consolidating redundant functions.

- Cash Utilization. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, repurchase shares of our common stock and expand our product lines through potential acquisitions.

The Automotive Aftermarket

The automotive aftermarket industry is comprised of a large number of diverse manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of vehicles on the road. The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of original equipment manufacturers ("OEMs").

During periods of economic decline or weakness, more automobile owners may choose to repair their current automobiles using replacement parts rather than purchasing a new automobile, which benefits the automotive aftermarket industry, including suppliers like us. Current global economic and financial market conditions have adversely affected, and may continue to adversely affect, the volume of new cars and truck sales, which could also benefit the automotive aftermarket.

Index

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 typically peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowing from our revolving credit facility.

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

In order to better control warranty and overstock return levels, we 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, which are our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not provide acceptable proof that complete air conditioning system repair was performed.

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

Index

Comparison of Fiscal Years 2011 and 2010

Sales. Consolidated net sales for 2011 were $874.6 million, an increase of $63.7 million, or 7.9%, compared to $810.9 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in both our Engine Management and Temperature Control segments. Revenues remained strong as our customers have increased purchases to meet demand as consumers have continued to maintain their existing vehicles for a longer period of time.

The following table summarizes net sales and gross margins by segment for the years ended December 31, 2011 and 2010, respectively:

Year Ended December 31,	Engine Management	Temperature Control	Other	Total
2011				
Net sales	$ 628,673	$ 233,723	$ 12,229	$ 874,625
Gross margins	160,930	54,848	13,369	229,147
Gross margin percentage	25.6 %	23.5 %	— %	26.2 %
2010				
Net sales	$ 577,333	$ 222,086	$ 11,491	$ 810,910
Gross margins	144,090	51,293	12,223	207,606
Gross margin percentage	25.0 %	23.1 %	— %	25.6 %

Engine Management's net sales increased $51.3 million, or 8.9%, to $628.7 million for 2011. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels including inventory increases on the part of several customers as they returned to more normalized stocking levels, particularly in the retail channel. In addition, incremental sales from our acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation, which began shipping in May 2011 and November 2011, respectively, contributed $11.8 million in incremental sales in our traditional market.

Temperature Control's net sales increased $11.6 million, or 5.2%, to $233.7 million for 2011. The increase in sales was primarily from traditional and retail channels due to warm weather trends.

Gross Margins. Gross margins, as a percentage of consolidated net sales, increased by 0.6 percentage points to 26.2% in 2011 from 25.6% in 2010. The increase resulted from a 0.6 percentage point increase in Engine Management margins and a 0.4 percentage point increase in Temperature Control margins. The increase in the Engine Management margins was the result of higher sales volumes and improving fixed overhead absorption resulting from increased production. Temperature Control's gross margin increase resulted primarily from incremental new sales, a higher mix of compressor production volumes at our low cost manufacturing facility in Reynosa, Mexico and lower procurement costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses ("SG&A") increased by $4.4 million to $163.8 million or 18.7% of consolidated net sales in 2011, as compared to $159.4 million or 19.7% of consolidated net sales in 2010. The increase in SG&A expenses is due primarily to sales volume related increases to selling, marketing and distribution expenses and a $2 million increase in expenses related to the sale of receivables, partially offset by a $3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans.

Restructuring and Integration Expenses. Restructuring and integration expenses decreased to $1.3 million in 2011 compared to $3.5 million in 2010. The 2011 expense related primarily to employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. and integration expenses related to our continued movement of operations to our facilities in Mexico. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities and a charge related to the closure of our Long Island City, New York manufacturing facility.

Index

Other Income (Expense), Net. Other income, net was $0.9 million in 2011 compared to $2.1 million for the year ended December 31, 2010. During 2011 and 2010, we recognized $1 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, during 2010, other income, net included a $1.5 million gain on the sale of our Reno, Nevada distribution property, a $0.1 million gain on the sale of vacant land at one of our locations in the U.K. and a $0.5 million loss on the disposal of equipment.

Operating Income. Operating income was $64.9 million in 2011, compared to $46.8 million in 2010. The increase of $18.1 million was due primarily to stronger traditional and retail market sales within our Engine Management and Temperature Control segments, the increase in gross margins as a percentage of net sales, lower restructuring and integration expenses, and the $3.6 million curtailment gain recorded as a result of our postretirement plan amendments offset, in part, by sales volume related increases to selling, marketing, and distribution expenses.

Other Non-Operating Income, Net. Other non-operating income, net was $3.4 million in 2011 compared to $0.4 million for the year ended December 31, 2010. During 2011, we sold our 50% equity ownership investment in a joint venture located in Europe, resulting in a pre-tax gain of $2.5 million.

Interest Expense. Interest expense decreased by $3.3 million to $3.8 million in 2011 compared to interest expense of $7.1 million in 2010 as average borrowings and interest rates declined year over year. This decrease includes the impact of the April 2011 maturity of the $12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining $5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income Tax Provision. The income tax provision for 2011 was $0.1 million compared to $15.4 million in 2010. In December 2011, we realized a one-time non-cash benefit of $21.5 million in our tax provision related to a reduction of a significant portion of our deferred tax valuation allowance on net U.S. deferred tax assets. In assessing the ability to recognize our deferred tax assets, we reviewed all positive and negative evidence and considered historical book and taxable income, the scheduled reversal of deferred tax assets and liabilities, and projected future book and taxable income. Based upon this detailed assessment, we determined that it is more likely than not that a significant portion of our net U.S. deferred tax assets, for which a valuation allowance had been previously recorded, will be realized and, as such, reversed $21.5 million of the valuation allowance on net U.S. deferred tax assets. The remaining valuation allowance of $7.8 million as of December 31, 2011 is intended to provide for uncertainty regarding the ultimate realization of our state tax credit carryovers, U.S. capital loss carryforwards, U.S. foreign tax credit carryovers, and foreign net operating loss carryforwards.

In addition, the income tax provision in 2011 and 2010 was favorably impacted by the reversal of previously established reserves of $0.5 million and $1.1 million, respectively, related to certain business combinations and foreign transfer pricing as a result of the expiration of the statue of limitations for the 2007 and prior tax years. For further information, see Note 16 of the notes to our consolidated financial statements.

Loss from Discontinued Operations, Net of Income Tax Benefit. Loss from discontinued operations, net of tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2011 and 2010 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. We recorded a loss of $1.9 million and $2.7 million, both net of tax, from discontinued operation for 2011 and 2010, respectively. The loss for 2011 and 2010 reflects a $1.3 million and $1.8 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2011 and 2010 actuarial studies, as well as legal fees incurred. As discussed more fully in Note 19 of the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

32

Index

Comparison of Fiscal Years 2010 and 2009

Sales. Consolidated net sales for 2010 were $810.9 million, an increase of $75.5 million, or 10.3%, compared to $735.4 million in the same period of 2009. The increase in net sales is due to higher sales in our Engine Management and Temperature Control Segments supported by ongoing positive demographic trends such as an ageing car population and the closure of car dealers offset by a $26.7 million decrease related to the sale of our European distribution business.

The following table summarizes net sales and gross margins by segment for the years ended December 31, 2010 and 2009, respectively:

Year Ended December 31,	Engine Management	Temperature Control	Europe	Other	Total
2010					
Net sales	$ 577,333	$ 222,086	$—	$ 11,491	$ 810,910
Gross margins	144,090	51,293	—	12,223	207,606
Gross margin percentage	25.0 %	23.1 %	—	—	25.6 %
2009					
Net sales	$ 506,435	$ 196,729	$ 26,746	$ 5,514	$ 735,424
Gross margins	122,838	38,677	6,997	8,712	177,224
Gross margin percentage	24.3 %	19.7 %	26.2 %	—	24.1 %

Engine Management's net sales increased $70.9 million, or 14%, to $577.3 million for 2010. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels including inventory increases on the part of several customers as they returned to more normalized stocking levels, particularly in the retail channel. In addition, incremental sales from our acquisition of Federal Mogul's wire and cable business, which began shipping in September 2009, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased $25.4 million, or 12.9%, to $222.1 million for 2010. The increase in sales primarily reflects incremental new business in our retail market and increased demand across all markets due to the warm summer weather.

Gross Margins. Gross margins, as a percentage of consolidated net sales, increased by 1.5 percentage points to 25.6% in 2010 from 24.1% in 2009. The increase resulted from a 3.4 percentage point increase in Temperature Control margins and a 0.7 percentage point increase in Engine Management margins. Temperature Control's gross margin increase resulted primarily from favorable manufacturing and purchase price variances as sales volumes increased due to stronger demand, incremental new sales and increased production at our low cost Mexico facility. The increase in the Engine Management margins was the result of improving fixed overhead absorption resulting from increased production and the benefit of operational integration initiatives, offset in part, by a higher mix of OE/OES sales volumes and mix of lower margin products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") increased by $12.8 million to $159.4 million or 19.7% of consolidated net sales in 2010, as compared to $146.6 million or 19.9% of consolidated net sales in 2009. The increase in SG&A expenses is due primarily to higher selling, marketing and distribution expenses as a result of the increase in sales. Expenses related to the sale of receivables, which are included in SG&A, were $6.4 million in 2010 compared to $3 million in the same period last year.

Restructuring and Integration Expenses. Restructuring and integration expenses decreased to $3.5 million in 2010 compared to $7.4 million in 2009. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the closures of our Corona, California and Hong Kong, China manufacturing facilities. The 2009 expense related primarily to severance and other exit costs incurred in connection with the closure of our Edwardsville, Kansas, Wilson, North Carolina and Corona, California manufacturing operations, building demolition costs incurred at our European properties held for sale, and charges related to severance and other relocation costs incurred in connection with our wire and cable business acquisition.

Index

Other Income (Expense), Net. Other income, net was $2.1 million in 2010 compared to other expense, net of $5.6 million for the year ended December 31, 2009. In 2010, other income, net included a $1.5 million gain on the sale of our Reno, Nevada distribution property, a $0.1 million gain on the sale of vacant land at one of our locations in the U.K. and $1 million of deferred gain related to the sale-leaseback of our Long Island City, New York property offset, in part, by losses of $0.5 million related to equipment sales. During 2009, we sold our European distribution business and recorded a loss of $6.6 million, which was offset, in part, by the recognition of $1 million of deferred gain related to the sale-leaseback of our Long Island City, New York property.

Operating Income (Loss). Operating income was $46.8 million in 2010, compared to $17.6 million in 2009. The increase of $29.2 million was due primarily to stronger sales across all markets of our Engine Management Segment including a rebound in the OE/OES markets and higher sales volumes and favorable manufacturing variances in our Temperature Control Segment offset, in part, by an increase in SG&A expenses.

Other Non-Operating Income, Net. Other non-operating income, net was $0.4 million in 2010 compared to $3.6 million for the year ended December 31, 2009. During 2009, we redeemed our investment in the preferred stock of a third party issuer resulting in a pretax gain of $2.3 million.

Interest Expense. Interest expense decreased by $2.1 million to $7.1 million in 2010 compared to interest expense of $9.2 million in 2009. The decline is due to lower outstanding borrowings and our increased utilization of accounts receivable factoring programs with some of our larger customers.

Income Tax Provision. The income tax provision for 2010 was $15.4 million at an effective tax rate of 38.4% compared to $6.1 million at an effective tax rate of 50.8% for 2009. The 2010 effective tax rate reflects the reversal of previously established reserves related to certain business combinations and foreign transfer pricing as a result of the expiration of the statue of limitations for the 2006 and prior tax years. The 2009 effective tax rate of 50.8% was impacted by the valuation allowance recorded related to the capital loss recognized in connection with the sale of our European distribution business which resulted in a higher effective tax rate.

Loss from Discontinued Operations, Net of Income Tax Benefit. Loss from discontinued operations, net of tax, reflects legal expenses associated with our asbestos related liability and adjustments thereto based on the information contained in the August 2010 and 2009 actuarial studies and all other available information considered by us. We recorded $2.7 million and $2.4 million as a loss, both net of tax, from discontinued operation for 2010 and 2009, respectively. The loss for 2010 and 2009 reflects a $1.8 million and $2.2 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2010 and 2009 actuarial studies, as well as legal fees incurred. As discussed more fully in Note 19 of the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

Index

Restructuring and Integration Costs

The aggregated liabilities included in “sundry payables and accrued expenses” and “other accrued liabilities” in the consolidated balance sheet relating to the restructuring and integration activities as of and activity for years ended December 31, 2011 and 2010, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	$8,774	$1,971	$10,745
Restructuring and integration costs:			
Amounts provided for during 2010	1,824	1,678	3,502
Non-cash usage, including asset write-downs	—	(181)	(181)
Cash payments	(4,378)	(1,033)	(5,411)
Exit activity liability at December 31, 2010	$6,220	$2,435	$8,655
Amounts provided for during 2011	430	914	1,344
Non-cash usage, including asset write-downs	—	(736)	(736)
Cash payments	(4,743)	(959)	(5,702)
Exit activity liability at December 31, 2011	$1,907	$1,654	$3,561

Restructuring Costs

Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to be paid through 2016. Of the original restructuring charge of $8 million, we have $1.5 million remaining as of December 31, 2011 that is expected to be paid in the amounts of $0.8 million in 2012, $0.4 million in 2013 and $0.3 million for the period 2014-2016.

Activity, by segment, for the years ended December 31, 2010 and 2011 related to the voluntary separation program, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	$ 1,395	$ 385	$1,422	$3,202
Restructuring costs:				
Amounts provided for during 2010	—	—	—	—
Cash payments	(425)	(64)	(507)	(996)
Exit activity liability at December 31, 2010	$ 970	$ 321	$915	$2,206
Restructuring costs:				
Amounts provided for during 2011	—	—	—	—
Cash payments	(209)	(69)	(402)	(680)
Exit activity liability at December 31, 2011	$ 761	$ 252	$513	$1,526

Integration Expenses

Overhead Cost Reduction Program

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

Index

Activity for the years ended December 31, 2010 and 2011 related to our overhead cost reduction program consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	$1,347	$—	$1,347
Integration costs:			
Amounts provided for during 2010	1,815	1,509	3,324
Non-cash usage, including asset write-downs	—	(181)	(181)
Cash payments	(2,309)	(642)	(2,951)
Exit activity liability at December 31, 2010	$853	$686	$1,539
Integration costs:			
Amounts provided for during 2011	293	719	1,012
Non-cash usage, including asset write-downs	—	(736)	(736)
Cash payments	(892)	(669)	(1,561)
Exit activity liability at December 31, 2011	$254	$—	$254

Reynosa Integration Program

During 2008, we closed our Long Island City, New York and Puerto Rico manufacturing facilities and integrated these operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of December 31, 2011, the reserve balance related to environmental clean-up at Long Island City of $1.7 million is included in other exit costs.

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

Activity for the years ended December 31, 2010 and 2011 related to the Reynosa integration program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	$3,693	$1,971	$5,664
Integration costs:			
Amounts provided for during 2010	9	38	47
Cash payments	(541)	(260)	(801)
Exit activity liability at December 31, 2010	$3,161	$1,749	$4,910
Integration costs:			
Amounts provided for during 2011	(196)	70	(126)
Cash payments	(2,906)	(165)	(3,071)
Exit activity liability at December 31, 2011	$59	$1,654	$1,713

Index

Engine Controls Relocation

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

Activity for the year ended December 31, 2011 related to the engine controls relocation program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$—	$—	$—
Integration costs:			
Amounts provided for during 2011	333	125	458
Cash payments	(265)	(125)	(390)
Exit activity liability at December 31, 2011	$68	$—	$68

Wire and Cable Relocation

As a result of our acquisition during 2009 of a wire and cable business and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility, integration costs were incurred related to employee severance and equipment relocation. As of December 31, 2010, all such costs have been fully paid.

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	$532	$—	$532
Integration costs:			
Amounts provided for during 2010	—	131	131
Cash payments	(532)	(131)	(663)
Exit activity liability at December 31, 2010	$—	$—	$—

Integration activity, by segment, for the years ended December 31, 2010 and 2011 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	$ 7,017	$ 364	$162	$7,543
Integration costs:				
Amounts provided for during 2010	1,931	1,571	—	3,502
Non-cash usage, including asset write-downs	(99)	(82)	—	(181)
Cash payments	(3,269)	(984)	(162)	(4,415)
Exit activity liability at December 31, 2010	$ 5,580	$ 869	$—	$6,449
Integration costs:				
Amounts provided for during 2011	1,102	242	—	1,344
Non-cash usage, including asset write-downs	(736)	—	—	(736)
Cash payments	(4,078)	(944)	—	(5,022)
Exit activity liability at December 31, 2011	$ 1,868	$ 167	$—	$2,035

Index

Liquidity and Capital Resources

Operating Activities. During 2011, cash provided by operations was $75.3 million, compared to cash provided by operations of $28.1 million in 2010. The $47.2 million increase in operating cash flow is primarily the result of the increase in net earnings reflecting higher sales volumes, the year over year change in inventory levels and the increased impact of our factoring program on our accounts receivable.

During 2010, cash provided by operations was $28.1 million, compared to cash provided by operations of $102.3 million in 2009. The $74.2 million decrease in operating cash flow is primarily the result of the build-up of inventory levels in 2010 in response to increased demand and customer requirements.

Investing Activities. Cash used in investing activities was $75.9 million in 2011, compared to cash used in investing activities of $7.9 million in 2010. Investing activities in 2011 included cash payments of $27 million and $44 million related to the acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation, respectively, cash receipts of $1.3 million related to the note issued in connection with the sale of our European distribution business in 2009, and cash receipts of $3 million and $1.3 million related to the sale of our 50% equity ownership investment in a joint venture in Europe and the note issued in connection with the divestiture in 2008 of certain of our joint venture equity ownerships, respectively.

Cash used in investing activities in 2010 included cash receipts of $2.4 million related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships and cash proceeds of $2.6 million from the sale of our Wilson, North Carolina building, our Reno, Nevada building, and the sale of vacant land at one of our locations in the U.K. In addition, investing activities in 2010 included a $2 million payment related to the acquisition of certain product lines by our Temperature Control Segment. Capital expenditures in 2011 were $11 million compared to $10.8 million in the comparable period last year.

Cash used in investing activities was $7.9 million in 2010, compared to cash used in investing activities of $11.2 million in 2009. Cash used in investing activities in 2009 included a $6 million payment to complete our core sensor asset purchase transaction entered into in 2008, a $6.8 million payment in connection with our acquisition of a wire and cable business offset by a $4 million cash receipt in connection with our December 2008 divestiture of certain of our joint venture equity ownerships, $0.8 million in proceeds from the sale of our European distribution business and $3.9 million in proceeds received in connection with the redemption of preferred stock of a third-party issuer. Capital expenditures in 2010 were $10.8 million compared to $7.2 million in the comparable period of the last year.

Financing Activities. Cash provided by financing activities was $0.6 million in 2011, compared to cash used in financing activities of $19.4 million in 2010 and $91.5 million in 2009. During 2011, cash provided by additional borrowings along with cash provided by operating activities was used to finance our acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation, finance our capital expenditures, repurchase $12.3 million principal amount of our 15% convertible subordinated debentures and purchase $4.1 million of our common stock pursuant to our $5 million stock repurchase program. In addition, during 2011 we received $2.6 million of proceeds from the exercise of stock options.

Cash used in financing activities was $19.4 million in 2010. Despite an increase in working capital resulting from the increase in sales volumes and inventory build-up, total debt was reduced in 2010 by $10.8 million from $76.4 million in 2009 to $65.6 million at December 31, 2010.

Cash used in financing activities was $91.5 million in 2009. During 2009, we completed an underwritten public offering of 3,000,000 shares of our common stock and sold an additional 450,000 shares to the underwriters at the offering price of $8.50 per share, less a 5% underwriting discount and received cash proceeds of $27.5 million, net of expenses of $0.4 million. The proceeds from the stock issuance along with the impact of the accounts receivable factoring programs and improved working capital management reduced our borrowings under our revolving credit facilities by $88.5 million and we retired $32.6 million of long-term debt, including the remaining $32.1 million balance of our 6.75% convertible subordinated debentures. The debt reduction was partially offset by the issuance of $5.4 million of 15% unsecured promissory notes.

Dividends of $6.4 million and $4.5 million were paid in 2011 and 2010, respectively.

Liquidity

Our primary cash requirements include working capital, capital expenditures, regular quarterly dividends and principal and interest payments on indebtedness. Our primary sources of funds are ongoing net cash flows from operating activities and availability under our secured revolving credit facility (as detailed below).

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended in September 2011) provides for a line of credit of up to $200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2015. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

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

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $83 million available for us to borrow pursuant to the formula at December 31, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $73 million and $52.9 million at December 31, 2011 and December 31, 2010, respectively. At December 31, 2011, the weighted average interest rate on our restated credit agreement was 2%, which consisted of $73 million in direct borrowings. There were no index loans outstanding at December 31, 2011. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of $52 million in direct borrowings at 3.1% and an index loan of $0.9 million at 4.5%. During 2011 and 2010, our average daily index loan balance was $5.7 million and $7.1 million, respectively.

At any time that our average borrowing availability over the previous thirty days is less than $30 million or if our borrowing availability is $20 million or less, and until such time that we have maintained an average borrowing availability of $30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of December 31, 2011, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

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

Index

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of December 31, 2011, we have no outstanding borrowings under the Canadian line of credit.

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

As of December 31, 2011, our capital lease obligations related to certain equipment for use in our operations totaled $0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In order to reduce our accounts receivable balances and improve our cash flow, we sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $566.2 million and $430.1 million of receivables for the years ended December 31, 2011 and 2010, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of $8.4 million, $6.4 million and $3 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, respectively.

In August 2011, our Board of Directors authorized the purchase of up to $5 million of our common stock under a stock repurchase program. During 2011, we repurchased 322,250 shares of our common stock under the program at a total cost of $4.1 million, leaving approximately $0.9 million available for future stock repurchases under the program.

In November 2009, we completed a public offering of 3,000,000 shares of our common stock and sold an additional 450,000 shares to the underwriters at the offering price of $8.50 per share, less a 5% underwriting discount. Net cash proceeds received were $27.5 million, net of expenses of $0.4 million. The net proceeds from the offering were used to repay a portion of our outstanding indebtedness under our revolving credit facility.

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

Index

The following table summarizes our contractual commitments as of December 31, 2011 and expiration dates of commitments through 2021:

(In thousands)	2012	2013	2014	2015	2016	2017-2021	Total
Lease obligations	$7,643	$7,614	$5,467	$4,958	$4,313	$2,128	$32,123
Postretirement and pension benefits	1,158	1,190	1,220	6,936	1,303	348	12,155
Severance payments related to restructuring and integration	1,177	439	234	55	2	—	1,907
Total commitments	$9,978	$9,243	$6,921	$11,949	$5,618	$2,476	$46,185

Indebtedness under our revolving credit facilities of $73 million as of December 31, 2011 is not included in the table above as it is reported as a current liability in our consolidated balance sheets.

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. You should be aware that preparation of our consolidated annual and quarterly financial statements 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 actually returned to us. We estimate and record provisions for cash discounts, quantity rebates, sales returns and warranties in the period the sale is recorded, based upon our prior experience and current trends. As described below, significant management judgments and estimates must be made and used in estimating sales returns and allowances relating to revenue recognized in any accounting period.

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

We also evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve on the full value of the inventory. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates our estimate of future demand.

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.

Index

Sales Returns and Other Allowances and Allowance for Doubtful Accounts. We must make estimates of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At December 31, 2011, the allowance for sales returns was $25.1 million. Similarly, we must make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At December 31, 2011, the allowance for doubtful accounts and for discounts was $6.7 million.

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

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

We maintain valuation allowances when it is more likely than not that all or a portion of a deferred asset will not be realized. In determining whether a valuation allowance is warranted, we evaluate factors such as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies. We consider all positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the deferred tax asset. We also consider cumulative losses in recent years as well as the impact of one-time events in assessing our pre-tax earnings. Assumptions regarding future taxable income require significant judgment. Our assumptions are consistent with estimates and plans used to manage our business. In the event that actual results differ from these estimates, or we adjust these estimates in future periods for current trends or expected changes in our estimating assumptions, we may need to modify the level of valuation allowance which could materially impact our business, financial condition and results of operations.

In December 2011, we realized a non-recurring non-cash benefit of $21.5 million in our tax provision related to a reduction of a significant portion of our deferred tax valuation allowance on net U.S. deferred tax assets. In assessing the ability to recognize our deferred tax assets, we reviewed all positive and negative evidence and considered historical book and taxable income, the scheduled reversal of deferred tax assets and liabilities, and projected future book and taxable income. Based upon this detailed assessment, we determined that it is more likely than not that a significant portion of our net U.S. deferred tax assets, for which a valuation allowance had been previously recorded, will be realized and, as such, reversed $21.5 million of the valuation allowance on net U.S. deferred tax assets. The remaining valuation allowance of $7.8 million as of December 31, 2011 is intended to provide for uncertainty regarding the ultimate realization of our state tax credit carryovers, U.S. capital loss carryforwards, U.S. foreign tax credit carryovers, and foreign net operating loss carryforwards. Based on these considerations, we believe it is more likely than not that we will realize the benefit of the net deferred tax asset of $49.1 million as of December 31, 2011, which is net of the remaining valuation allowance.

Index

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

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

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

To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

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

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

Retirement and Postretirement Medical Benefits. Each year, we calculate the costs of providing retiree benefits under the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 712, Nonretirement Postemployment Benefits, and FASB ASC 715, Retirement Benefits. The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan benefits the employees will be entitled to. The key assumptions used in making these calculations are the eligibility criteria of participants, the discount rate used to value the future obligation, and expected return on plan assets. The discount rate reflects the yields available 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.

Index

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

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

Asbestos Litigation. 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, 2011 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.5 million to $66.5 million for the period through 2059. As a result, in September 2011 an incremental $1.3 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately $27.5 million as of that date. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements. In addition, according to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation, are estimated to range from $26.2 million to $63 million during the same period. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a loss or gain from discontinued operation. The aforementioned estimated settlement payments and legal costs do not reflect any limited coverage that we may obtain pursuant to agreements with insurance carriers for certain asbestos-related claims.

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

Index

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the FASB issued Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, which amended the provisions of FASB ASC 220, Comprehensive Income. The amendment eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us is January 1, 2012 with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income, as it is currently presented as part of our consolidated statements of changes in stockholders' equity.

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

Goodwill Impairment Testing

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

In December 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, which amended the provisions of ASC 350. Pursuant to FASB ASC 350, goodwill was tested for impairment using a two-step approach. Initially, the fair value of a reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; a second step of comparing the carrying amount to its implied fair value is required, as this is an indication that the reporting unit goodwill may be impaired. The new standard sets forth a requirement that the second step test must be performed in circumstances where a reporting unit has a zero or negative carrying amount and there are qualitative factors which indicate that it is more likely than not that an impairment exists. The new standard is effective for annual reporting periods beginning after December 15, 2010, which for us was January 1, 2011. Currently, none of our reporting units have a zero or negative carrying amount. As a result, the adoption of this standard did not have an immediate impact on the manner in which we conduct our impairment testing.

45

Index

Balance Sheet Disclosures about Offsetting Assets and Liabilities

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

Revenue Arrangements with Multiple Deliverables

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

Index

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Exchange Rate Risk

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

Interest Rate Risk

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements.

At December 31, 2011, we had approximately $73.3 million in loans and financing outstanding, of which approximately $0.3 million bear interest at fixed interest rates and approximately $73 million bear interest at variable rates of interest. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt was 99.6% and 80.6% at December 31, 2011 and 2010, respectively. Depending upon the level of borrowings under our revolving credit facility and our excess cash, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate may have an approximate $0.8 million negative impact on our earnings or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Index

MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

To the Stockholders of
Standard Motor Products, Inc. and Subsidiaries:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on our assessment using those criteria, we concluded that, as of December 31, 2011, our internal control over financial reporting is effective.

Our independent registered public accounting firm, KPMG LLP, has audited our consolidated financial statements as of and for the year ended December 31, 2011 and has also audited the effectiveness of our internal control over financial reporting as of December 31, 2011. KPMG's report appears on the following pages of this "Item 8. Financial Statements and Supplementary Data."

Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM— INTERNAL CONTROL OVER REPORTING

The Board of Directors and Stockholders of
Standard Motor Products, Inc. and Subsidiaries

We have audited Standard Motor Products, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Standard Motor Products, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2011, and our report dated March 9, 2012 expressed an unqualified opinion on those consolidated financial statements and the related consolidated financial statement schedule.

/s/ KPMG LLP
New York, New York
March 9, 2012

Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM— CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders of
Standard Motor Products, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement Schedule II, Valuation and Qualifying Accounts for each of the years in the two-year period ended December 31, 2011. These consolidated financial statements and the accompanying consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Standard Motor Products, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule for each of the years in the two-year period ended December 31, 2011, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 9, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
New York, New York
March 9, 2012

Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM—
CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Stockholders of
Standard Motor Products, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity and comprehensive income and cash flows of Standard Motor Products, Inc. (a New York corporation) and subsidiaries (the "Company") for the year ended December 31, 2009. Our audit of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Standard Motor Products, Inc. and subsidiaries for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP
New York, New York
March 11, 2010 (except for Notes 5, 15 and 17, as to which the date is March 9, 2011)

Index

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2011	2010	2009
	(Dollars in thousands, except share and per share data)		
Net sales	$874,625	$810,910	$ 735,424
Cost of sales	645,478	603,304	558,200
Gross profit	229,147	207,606	177,224
Selling, general and administrative expenses	163,845	159,433	146,642
Restructuring and integration expenses	1,344	3,502	7,386
Other income (expense), net	941	2,122	(5,565)
Operating income	64,899	46,793	17,631
Other non-operating income, net	3,370	425	3,584
Interest expense	3,821	7,127	9,215
Earnings from continuing operations before taxes	64,448	40,091	12,000
Provision for income taxes	121	15,391	6,094
Earnings from continuing operations	64,327	24,700	5,906
Loss from discontinued operations, net of income tax benefit of $1,284, $1,826 and $1,615	(1,926)	(2,740)	(2,423)
Net earnings	$62,401	$21,960	$ 3,483
Net earnings per common share – Basic:			
Earnings from continuing operations	$2.82	$1.10	$ 0.31
Discontinued operation	(0.08)	(0.13)	(0.13)
Net earnings per common share – Basic	$2.74	$0.97	$ 0.18
Net earnings per common share – Diluted:			
Earnings from continuing operations	$2.78	$1.09	$ 0.31
Discontinued operation	(0.08)	(0.12)	(0.13)
Net earnings per common share – Diluted	$2.70	$0.97	$ 0.18
Dividends declared per share	$0.28	$0.20	$
Average number of common shares	22,794,606	22,556,858	19,340,672
Average number of common shares and dilutive common shares	23,228,345	22,634,062	19,388,771

See accompanying notes to consolidated financial statements.

Index

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(Dollars in thousands, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$10,871	$12,135
Accounts receivable, less allowances for discounts and doubtful accounts of $6,709 and $6,779 in 2011 and 2010, respectively	104,115	104,986
Inventories, net	248,097	241,158
Deferred income taxes	32,199	18,135
Assets held for sale	216	216
Prepaid expenses and other current assets	5,489	8,076
Total current assets	400,987	384,706
Property, plant and equipment, net	64,039	60,666
Goodwill	26,124	1,437
Other intangibles, net	31,718	11,050
Deferred incomes taxes	16,937	21,347
Other assets	10,917	13,595