

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

STANDARD MOTOR PRODUCTS INC  
Form 10-Q  
May 10, 2007

=====

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

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

COMMISSION FILE NUMBER: 1-4743

STANDARD MOTOR PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

NEW YORK ----- (State or other jurisdiction of incorporation or organization)	11-1362020 ----- (I.R.S. Employer Identification No.)
--	--

37-18 NORTHERN BLVD., LONG ISLAND CITY, N.Y. 11101  
-----  
(Address of principal executive offices) (Zip Code)

(718) 392-0200 (Registrant's  
telephone number, including area code)

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of the close of business on April 30, 2007 there were 18,878,231 outstanding  
shares of the registrant's Common Stock, par value \$2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

INDEX

PART I - FINANCIAL INFORMATION

	PAGE NO.
Item 1. Consolidated Financial Statements:	
Consolidated Statements of Operations and Retained Earnings (Unaudited) for the Three Months Ended March 31, 2007 and 2006.....	3
Consolidated Balance Sheets as of March 31, 2007 (Unaudited) and December 31, 2006.....	4
Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2007 and 2006.....	5
Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the Three Months Ended March 31, 2007 and 2006.....	6
Notes to Consolidated Financial Statements (Unaudited).....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	19
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	26
Item 4. Controls and Procedures.....	27
 PART II - OTHER INFORMATION  	
Item 1. Legal Proceedings.....	28
Item 6. Exhibits.....	28
Signatures.....	29

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

# Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (In thousands, except share and per share data)

	Three Months Ended March 31,	
	2007 ----	2006 ----
	(Unaudited)	
Net sales .....	\$ 199,815	\$ 210,076
Cost of sales .....	147,940	156,845
	-----	-----
Gross profit .....	51,875	53,231
Selling, general and administrative expenses .....	42,731	43,788
Restructuring expenses .....	678	87
	-----	-----
Operating income .....	8,466	9,356
Other income, net .....	267	350
Interest expense .....	4,541	4,453
	-----	-----
Earnings from continuing operations before taxes .....	4,192	5,253
Provision for income tax .....	1,256	2,655
	-----	-----
Earnings from continuing operations .....	2,936	2,598
Loss from discontinued operation, net of income taxes	(349)	(764)
	-----	-----
Net earnings .....	\$ 2,587	\$ 1,834
	=====	=====
 PER SHARE DATA:		
Net earnings per common share - Basic:		
Earnings from continuing operations .....	\$ 0.16	\$ 0.14
Discontinued operation .....	(0.02)	(0.04)
	-----	-----
Net earnings per common share - Basic .....	\$ 0.14	\$ 0.10
	=====	=====
 Net earnings per common share - Diluted:		
Earnings from continuing operations .....	\$ 0.16	\$ 0.14
Discontinued operation .....	(0.02)	(0.04)
	-----	-----
Net earnings per common share - Diluted .....	\$ 0.14	\$ 0.10
	=====	=====
 Average number of common shares .....	 18,451,695	 18,192,774
	=====	=====
Average number of common shares and dilutive common shares .....	 18,600,884	 18,195,888
	=====	=====

See accompanying notes to consolidated financial statements.

# Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2007	Decem
	-----	-----
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 18,318	\$ 2
Accounts receivable, less allowance for discounts and doubtful accounts of \$9,962 and \$9,465 for 2007 and 2006, respectively ....	227,701	18
Inventories .....	242,421	23
Deferred income taxes .....	13,874	1
Prepaid expenses and other current assets .....	11,953	
	-----	-----
<b>Total current assets</b> .....	<b>514,267</b>	<b>46</b>
Property, plant and equipment, net .....	79,268	8
Goodwill and other intangibles, net .....	55,715	5
Other assets .....	39,458	4
	-----	-----
<b>Total assets</b> .....	<b>\$ 688,708</b>	<b>\$ 64</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable .....	\$ 173,368	\$ 13
Current portion of long-term debt .....	454	
Accounts payable .....	73,448	5
Sundry payables and accrued expenses .....	19,088	2
Accrued customer returns .....	21,493	2
Restructuring accrual .....	684	
Accrued rebates .....	22,706	2
Payroll and commissions .....	12,662	1
	-----	-----
<b>Total current liabilities</b> .....	<b>323,903</b>	<b>27</b>
	-----	-----
Long-term debt .....	97,832	9
Post-retirement medical benefits and other accrued liabilities .....	52,145	5
Restructuring accrual .....	226	
Accrued asbestos liabilities .....	20,748	2
	-----	-----
<b>Total liabilities</b> .....	<b>494,854</b>	<b>44</b>
	-----	-----
Commitments and contingencies		
<b>Stockholders' equity:</b>		
Common stock - par value \$2.00 per share:		
Authorized - 30,000,000 shares; issued 20,486,036 shares .....	40,972	4
Capital in excess of par value .....	58,460	5
Retained earnings .....	111,484	11
Accumulated other comprehensive income .....	3,689	
Treasury stock - at cost 1,845,452 and 2,109,816 shares in 2007 and 2006, respectively .....	(20,751)	(2)
	-----	-----
<b>Total stockholders' equity</b> .....	<b>193,854</b>	<b>19</b>

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

	-----	-----
Total liabilities and stockholders' equity .....	\$ 688,708	\$ 64
	=====	=====

See accompanying notes to consolidated financial statements.

-4-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Three Months Ended March 31,	
	2007	2006
	----- (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings .....	\$ 2,587	\$ 1,834
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization .....	3,780	3,921
(Decrease) increase in allowance for doubtful accounts .....	(37)	461
Increase in inventory reserves .....	1,128	1,161
Loss on disposal of property, plant and equipment .....	99	7
Equity income from joint ventures .....	(173)	(77)
Employee stock ownership plan allocation .....	467	297
Stock-based compensation .....	148	283
Decrease in deferred income taxes .....	458	1,944
Loss from discontinued operation, net of income tax .....	349	764
Change in assets and liabilities:		
Increase in accounts receivable .....	(44,000)	(56,598)
Increase in inventories .....	(9,579)	(7,490)
Increase in prepaid expenses and other current assets .....	(2,708)	(146)
Decrease in other assets .....	342	999
Increase in accounts payable .....	17,184	10,310
Decrease in sundry payables and accrued expenses .....	(3,485)	(4,176)
Decrease in restructuring accrual .....	(176)	(842)
Decrease in other liabilities .....	(4,226)	(26)
	(37,842)	(47,374)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of property, plant and equipment .....	6	8
Capital expenditures .....	(2,482)	(1,935)
	(2,476)	(1,927)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings under line-of-credit agreements .....	33,569	43,319
Principal payments and retirement of long-term debt .....	(235)	(142)
Increase in overdraft balances .....	2,481	1,727
Proceeds from exercise of employee stock options .....	1,782	--
Excess tax benefits related to the exercise of employee stock options	207	--

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

Dividends paid .....	(1,658)	(1,635)
	-----	-----
Net cash provided by financing activities .....	36,146	43,269
	-----	-----
Effect of exchange rate changes on cash .....	142	79
	-----	-----
Net decrease in cash and cash equivalents .....	(4,030)	(5,953)
CASH AND CASH EQUIVALENTS at beginning of the period .....	22,348	14,046
	-----	-----
CASH AND CASH EQUIVALENTS at end of the period .....	\$ 18,318	\$ 8,093
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest .....	\$ 5,976	\$ 5,722
	=====	=====
Income taxes .....	\$ 1,125	\$ 1,398
	=====	=====
Non-cash financing activity:		
Reduction of restructuring accrual applied against goodwill .....	\$ --	\$ 10,221
	=====	=====

See accompanying notes to consolidated financial statements.

-5-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
THREE MONTHS ENDED MARCH 31, 2007  
(Unaudited)

(In thousands)	COMMON STOCK -----	CAPITAL IN EXCESS OF PAR VALUE -----	RETAINED EARNINGS -----	ACCUMULATED OTHER COMPREHENSIVE INCOME -----
Balance at December 31, 2006 .....	\$ 40,972	\$ 57,429	\$ 112,481	\$ 3,541
Impact of adopting new accounting pronouncement (a) .....			(1,926)	
Comprehensive income:				
Net earnings .....			2,587	
Foreign currency translation adjustment .....				149
Minimum pension liability adjustment .....				(1)
Total comprehensive income .....				
Cash dividends paid .....			(1,658)	
Exercise of employee stock options .....		147		
Stock-based compensation .....		148		
Tax benefits applicable to the exercise of employee stock options .....		207		

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

Employee Stock Ownership Plan .....		529			
	-----	-----	-----	-----	-----
Balance at March 31, 2007 .....	\$ 40,972	\$ 58,460	\$ 111,484	\$ 3,689	\$
	=====	=====	=====	=====	=====

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

See accompanying notes to consolidated financial statements.

-6-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

Standard Motor Products, Inc. (referred to hereinafter in these notes to consolidated financial statements as the "Company," "we," "us," or "our") is engaged in the manufacture and distribution of replacement parts for motor vehicles in the automotive aftermarket industry.

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method. All significant inter-company items have been eliminated.

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

NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR UNCERTAIN TAX POSITIONS

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of this Interpretation. FIN 48 also provides guidance on accounting for derecognition, interest and penalties, and classification and disclosure of

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

matters related to uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006 and, as a result, is effective for our Company beginning January 1, 2007.

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

The Company continues the practice of recognizing interest and penalties associated with income tax matters as components of the "Provision for income taxes". The Company's accrual for interest and penalties was \$ 0.4 million upon adoption of FIN 48 and as at March 31, 2007.

The Company is subject to taxation in the US and various state, local and foreign jurisdictions. The Company remains subject to examination by US Federal, state, local and foreign tax authorities for tax year 2001 as well as 2003 through 2006. With a few exceptions, the Company is no longer subject to US Federal, state, local or foreign examinations by tax authorities for the tax year 2002 and for tax years prior to 2001. The Company does not presently anticipate that its unrecognized tax benefits will significantly increase or decrease prior to March 31, 2008; however, actual developments in this area could differ from those currently expected.

-7-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

##### FAIR VALUE MEASUREMENTS

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

##### NOTE 3. RESTRUCTURING AND INTEGRATION COSTS

###### RESTRUCTURING COSTS

In connection with our acquisition of substantially all of the assets and the assumption of substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("DEM") in June 2003, we have a restructuring accrual of \$0.9 million remaining as of March 31, 2007, most of this amount we expect to pay in 2007 and 2008. The restructuring accrual related to work force reductions and represented employee termination benefits. During the year ended December 31, 2006 and the three months ended March 31, 2007, termination benefits of \$0.2 million and \$0.2 million, respectively, have been charged to the restructuring accrual. As of March 31, 2007, the reserve balance for workforce reductions was at \$0.3 million. The restructuring accrual also includes costs associated with exiting certain activities, primarily related to



## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

lease and contract termination costs, which will not have future benefits. As of March 31, 2007, we have an exit reserve balance for other exit costs at \$0.6 million.

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

	Workforce Reduction	Other Exit Costs	Total
Restructuring liability at December 31, 2006 .....	\$ 472	\$ 614	\$ 1,086
Cash payments during first three months of 2007 .....	(176)	--	(176)
Restructuring liability as of March 31, 2007 .....	\$ 296	\$ 614	\$ 910

### INTEGRATION EXPENSES

During the first quarter of 2007 and 2006, we incurred integration expenses of approximately \$0.7 million and \$0.1 million, respectively. The 2007 amount primarily relates to the cost of moving and closing our Puerto Rico production operations, while the 2006 amount relates to the cost of moving our European production operations.

On October 10, 2006, the Company announced plans to close its Puerto Rico manufacturing facility related to the Engine Management Segment following the expiration of the Internal Revenue Code Section 936 benefit and to further our efforts in streamlining costs. These operations will be moved to other manufacturing sites of the Company. The facility move and closure is planned to occur in a phased manner over the next 18-24 months. In connection with this closing, the Company will incur one-time termination benefits to be paid to certain employees at the end of a specified requisite service period. The Company estimates these termination benefits will amount to approximately \$2 million which will be recognized as expense ratably over the requisite service period. The Company also expects to incur approximately \$2.4 million of various expenses to move the production assets, close the Puerto Rico facility, and relocate some employees. These expenses will be recognized as incurred. During the first quarter of 2007, we incurred expenses of \$0.4 million for one-time termination benefits and \$0.3 million of other exit costs.

-8-

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Selected information relating to this exit activity is as follows (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2006 .....	\$ 387	\$ 35	\$ 422
Amounts provided during first three months of 2007 .....	378	277	655

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

Cash payments during first three months of 2007 .....	(36)	(312)	(348)
	-----	-----	-----
Exit activity liability at March 31, 2007 .....	\$ 729	\$--	\$ 729
	=====	=====	=====

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

#### NOTE 4. INVENTORIES

	March 31, 2007	December 31, 2006
	-----	-----
	(in thousands)	
Finished goods, net.....	\$168,404	\$169,183
Work in process, net.....	5,614	4,654
Raw materials, net.....	68,403	60,133
	-----	-----
Total inventories, net.....	\$242,421	\$233,970
	=====	=====

-9-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

#### NOTE 5. CREDIT FACILITIES AND LONG-TERM DEBT

Total debt consists of (in thousands):

	March 31, 2007	December 31, 2006
	-----	-----
<b>CURRENT</b>		
Revolving credit facilities (1) .....	\$173,368	\$139,799
Current portion of mortgage loan .....	454	542
	-----	-----
	173,822	140,341
	-----	-----
<b>LONG-TERM DEBT</b>		
6.75% convertible subordinated debentures .....	90,000	90,000
Mortgage loan .....	8,286	8,416
Other .....	--	105
Less: current portion of long-term debt .....	454	542

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

	-----	-----
	97,832	97,979
	-----	-----
Total debt .....	\$271,654	\$238,320
	=====	=====

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

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

The Company had deferred financing costs of \$2.9 million and \$3.5 million as of December 31, 2006 and March 31, 2007, respectively. These costs related to the Company's revolving credit facility, the convertible subordinated debentures and a mortgage loan agreement, and these costs are being amortized in the amount of \$1 million in 2007, \$0.8 million in 2008, \$0.6 million in 2009, \$0.4 million in 2010 and \$0.7 million for the period 2011-2018.

### REVOLVING CREDIT FACILITY

On March 20, 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation, which prior credit facility provided for a \$305 million credit facility and which was to expire in 2008. The restated credit agreement provides for a line of credit of up to \$275 million (inclusive of the Canadian term loan described below) and expires in 2012. The restated credit agreement also provides a \$50 million accordion feature, which would allow us to expand the facility. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option, and the interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by our same subsidiaries and secured by our same assets as the prior \$305 million credit facility.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional \$93 million available for us to borrow pursuant to the formula at March 31, 2007. At December 31, 2006, the interest rate on the Company's prior credit facility was 7.8%, and at March 31, 2007, the interest rate on our restated credit agreement was 6.7%. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian term loan described below), which are classified as current liabilities, were \$133.3 million and \$166.9 million at December 31, 2006 and March 31, 2007, respectively.

-10-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. In addition, the restated credit agreement provides that, beginning on January 15, 2008 and on a quarterly basis thereafter, an increasing amount of the Company's borrowing availability shall be reserved for the repayment, repurchase or redemption, as the case may be, of the aggregate outstanding amount of the convertible debentures. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

### CANADIAN TERM LOAN

On March 20, 2007, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. This credit agreement amends our existing \$7 million credit agreement which was to expire in 2008. The amended credit agreement provides for a line of credit of up to \$12 million, of which \$7 million is currently outstanding and which amount is part of the \$275 million available for borrowing under our restated credit agreement with General Electric Capital Corporation (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in 2012. Direct borrowings under the amended credit agreement bear interest at the Canadian Bankers Acceptance rate plus the US revolver applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option.

### REVOLVING CREDIT FACILITY--EUROPE

Our European subsidiary has a revolving credit facility which, at the March 31, 2007, provides for a line of credit up to \$7.3 million. The amount of short-term bank borrowings outstanding under this facility was \$6.5 million on each of December 31, 2006 and March 31, 2007. The weighted average interest rate on these borrowings on each of December 31, 2006 and March 31, 2007 was 6.3%. At March 31, 2007, there was an additional \$0.8 million available for our European subsidiary to borrow.

### SUBORDINATED DEBENTURES

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

-11-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

### MORTGAGE LOAN AGREEMENT

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

### NOTE 6. COMPREHENSIVE INCOME

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

	Three Months Ended	
	March 31,	
	2007	2006
	----	----
Net earnings as reported.....	\$ 2,587	\$ 1,834
Foreign currency translation adjustment.....	149	163
Minimum pension liability adjustment.....	(1)	7
Unrealized loss on interest rate swap agreements, net of income tax.....	--	(72)
	-----	-----
Total comprehensive income.....	\$ 2,735	\$ 1,932
	=====	=====

### NOTE 7. STOCK-BASED COMPENSATION PLANS

We have five stock-based compensation plans. Under the 1994 Omnibus Stock Option Plan, as amended, which terminated as of May 25, 2004, we were authorized to issue options to purchase 1,500,000 shares. The options become exercisable over a three to five year period and expire at the end of five years following the date they become exercisable. Under the 2004 Omnibus Stock Plan, which terminates as of May 20, 2014, we were authorized to issue options to purchase 500,000 shares. The options become exercisable over a three to five year period and expire at the end of ten years following the date of grant. Under the 1996 Independent Directors' Stock Option Plan and the 2004 Independent Directors' Stock Option Plan, we were authorized to issue options to purchase 50,000 shares under each plan. The options become exercisable one year after the date of grant and expire at the end of ten years following the date of grant. Under the 2006 Omnibus Incentive Plan, we are authorized to issue equity awards of up to 700,000 shares. Equity awards forfeited under the previous stock option plans and incentive plan are eligible to be granted again under the 2006 Omnibus Incentive Plan with respect to the equity awards so forfeited.

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("Statement") No. 123 (revised 2004), Share-Based Payment ("FAS 123R"), which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award.

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

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

granted on or after January 1, 2006.

-12-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

#### STOCK OPTION GRANTS

There were no stock options granted in the three months ended March 31, 2007 and 2006. We have recognized compensation expense for prior years' grants which vest after January 1, 2006 based on the grant-date fair value, estimated in accordance with SFAS 123 which was used in our prior pro forma disclosure. The expense for the three months ended March 31, 2007 and 2006 reflects our estimate of expected forfeitures which we determine to be immaterial, based on history and remaining time until vesting of the remaining options.

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

The following is a summary of the changes in outstanding stock options for the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
	-----	-----	-----
Outstanding at beginning			
of year.....	990,898	\$ 13.61	5.1
Exercised.....	145,364	\$ 12.26	--
Forfeited.....	5,668	\$ 13.34	5.7
	-----	-----	-----
Outstanding at end of			
Quarter.....	839,866	\$ 13.85	5.1
	-----	-----	-----
Options exercisable at end			
of quarter.....	711,241	\$ 14.25	4.5
	-----	-----	-----

At March 31, 2007, the aggregate intrinsic value of outstanding stock options was \$3.1 million, of which \$2.4 million relates to options that are exercisable. At December 31, 2006, the aggregate intrinsic value of outstanding stock options was \$1.9 million, of which \$1.4 million relates to options that were exercisable.

The following is a summary of the changes in non-vested stock options for the three months ended March 31, 2007:

SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
--------	--

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

	-----	-----
Non-vested shares at January 1, 2007.....	129,750	\$ 2.72
Forfeitures.....	1,125	\$ 2.72
Vested.....	--	--
	-----	
Non-vested shares at March 31, 2007.....	128,625	\$ 2.72
	=====	

-13-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Stock option-based compensation expense was \$0.1 million and \$0.3 million for the three months ended March 31, 2007 and 2006, respectively. As of March 31, 2007, we have no unrecognized compensation cost related to stock options. Stock options to purchase 145,364 shares and 0 shares of common stock were exercised during the three months ended March 31, 2007 and 2006, respectively.

#### RESTRICTED AND PERFORMANCE STOCK GRANTS

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

All shares and rights are subject to forfeiture if certain employment conditions are not met. Under the plan, 700,000 shares are authorized to be issued. For the three months ended March 31, 2007 and 2006, no restricted and performance-based shares were granted. The Company recorded compensation expense related to restricted shares and performance-based shares of \$62,600 (\$39,000 net of tax) and \$0 for the three months ended March 31, 2007 and 2006, respectively. The unamortized compensation expense related to the Company's restricted and performance-based shares was \$445,600 at March 31, 2007 and is expected to be recognized as they vest over a weighted average period of 2.1 and 0.1 years for employees and directors, respectively. In determining the grant date fair value, we refer to the stock price on the date of grant, as quoted on the New York Stock Exchange, reduced by the present value of dividends expected to be paid on shares issued and outstanding during the requisite service period, discounted at a risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the restriction or vesting period at the grant date. The fair value of the shares at the date of grant is amortized to expense ratably over the restriction period. For the quarter ended March 31, 2007, forfeitures are estimated at 2% for employees and 0% for executives and directors, respectively, based on

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

evaluations of historical and expected future turnover.

-14-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The Company's restricted and performance-based share activity was as follows for the three months ended March 31, 2007:

	Shares	Weighted Average Grant Date Fair Value Per Share
	-----	-----
Balance at January 1, 2007 .....	93,775	\$ 7.21
Granted .....	--	--
Vested .....	--	--
Forfeited .....	600	\$ 6.90
	-----	
Balance at March 31, 2007 .....	93,175	\$ 7.22
	=====	

NOTE 8. EARNINGS PER SHARE

The following are reconciliations of the earnings available to common stockholders and the shares used in calculating basic and dilutive net earnings per common share (in thousands, except share amounts):

	Three Months Ended March 31,	
	-----	-----
	2007	2006
	----	----
Earnings from continuing operations .....	\$ 2,936	\$ 2,598
Loss from discontinued operation .....	(349)	(764)
	-----	-----
Net earnings available to common stockholders .....	\$ 2,587	\$ 1,834
	=====	=====
Weighted average common shares outstanding - basic .....	18,451,695	18,192,774
Dilutive effect of restricted stock .....	66,064	--
Dilutive effect of stock options .....	83,125	3,114
	-----	-----
Weighted average common shares outstanding - diluted .....	18,600,884	18,195,888
	=====	=====

-15-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES



## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

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

The shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

	Three Months Ended March 31,	
	2007	2006
	----	----
Stock options.....	45,999	1,148,261
Convertible debentures.....	2,796,120	2,796,120

#### NOTE 9. EMPLOYEE BENEFITS

In 2000, we created an employee benefits trust to which we contributed 750,000 shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under employee benefit plans. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During the first quarter of 2007, we committed 119,000 shares to be released leaving 63,000 shares remaining in the trust.

In August 1994, we established an unfunded Supplemental Executive Retirement Plan (SERP) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2007 and 2006, contributions of \$83,000 and \$69,000 were made related to calendar years 2006 and 2005, respectively.

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

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

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

-16-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Medicare Reform Act") was signed into law. The Medicare Reform Act expanded Medicare to include, for the first time, coverage for prescription drugs. In connection with the Medicare Reform Act, the FASB issued FASB Staff Position ("FSP") No. FAS 106-2, which provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D and are therefore entitled to receive subsidies from the federal government beginning in 2006. On January 21, 2005, the Centers for Medicare and Medicaid Services released final regulations implementing major provisions of the Medicare Reform Act. The regulations address key concepts, such as defining a plan, as well as the actuarial equivalence test for purposes of obtaining a government subsidy. Pursuant to the guidance in FSP No. FAS 106-2, we have assessed the financial impact of the regulations and concluded that our post-retirement benefit plan will be qualified for the direct subsidies and, consequently, our accumulated post-retirement benefit obligation decreased by \$6.8 million.

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

The components of net periodic benefit cost for the three months ended March 31 of our North America and UK defined benefit plans are as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Service cost .....	\$ 98	\$ 99	\$ 203	\$ 202
Interest cost .....	114	100	541	478
Amortization of prior service cost (credit)	28	28	(713)	(713)
Amortization of unrecognized loss .....	--	--	1	1
Actuarial net (gain) loss .....	(28)	(16)	288	309
	-----	-----	-----	-----
Net periodic benefit cost .....	\$ 212	\$ 211	\$ 320	\$ 277
	=====	=====	=====	=====

-17-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

##### NOTE 10. INDUSTRY SEGMENTS

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

	Three Months Ended March 31,			
	2007		2006	
	NET SALES	OPERATING INCOME (LOSS)	NET SALES	OPERATING INCOME (LOSS)
	-----	-----	-----	-----
Engine Management .....	\$137,430	\$ 11,097	\$148,885	\$ 12,197
Temperature Control .....	50,526	1,959	49,068	1,433
Europe .....	10,493	785	9,777	40

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

All Other .....	1,366	(5,375)	2,346	(4,314)
	-----	-----	-----	-----
Consolidated .....	\$199,815	\$ 8,466	\$210,076	\$ 9,356
	=====	=====	=====	=====

### NOTE 11. COMMITMENTS AND CONTINGENCIES

ASBESTOS. In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2006 and March 31, 2007, approximately 3,270 cases and 3,324 cases, respectively, were outstanding for which we were responsible for any related liabilities. We expect the outstanding cases to increase gradually due to recent legislation in certain states mandating minimum medical criteria before a case can be heard. Since inception in September 2001 through March 31, 2007, the amounts paid for settled claims are approximately \$5.1 million. We do not have insurance coverage for the defense and indemnity costs associated with these claims.

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

-18-

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

August 31, 2006. Based upon all the information considered by the actuarial firm, the actuarial study estimated an undiscounted liability for settlement payments, excluding legal costs, ranging from \$22.1 million to \$53.9 million for the period through 2050. The change from the prior year study was a \$3.2 million decrease for the low end of the range and a \$2.6 million increase for the high end of the range. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2050 in our consolidated financial statements, in accordance with generally accepted accounting principles. Accordingly, a \$3.4 million benefit was recorded to our discontinued operation in September 2006, and we adjusted our accrued asbestos liability to approximately \$22.1 million. Legal costs, which are expensed as incurred and reported in loss from discontinued operation, are estimated to range from \$11.6

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

million to \$21.6 million during the same period.

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

ANTITRUST LITIGATION. On November 30, 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition For A Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by the Company and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court has adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend vigorously this lawsuit.

-19-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

WARRANTIES. We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of March 31, 2007 and 2006, we have accrued \$11.9 million and \$13 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Warranty expense for the three months ended March 31, 2007 and 2006 were \$12.5 million and \$13.1 million, respectively.

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

-----

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

	Three Months Ended March 31,	
	2007	2006
	----	----
Balance, beginning of period .....	\$ 11,704	\$ 12,701
Liabilities accrued for current year sales .....	12,538	13,142
Settlements of warranty claims .....	(12,338)	(12,794)
	-----	-----
Balance, end of period .....	\$ 11,904	\$ 13,049
	=====	=====

-20-

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

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS IN THIS REPORT ARE INDICATED BY WORDS SUCH AS "ANTICIPATES," "EXPECTS," "BELIEVES," "INTENDS," "PLANS," "ESTIMATES," "PROJECTS" AND SIMILAR EXPRESSIONS. THESE STATEMENTS REPRESENT OUR EXPECTATIONS BASED ON CURRENT INFORMATION AND ASSUMPTIONS AND ARE INHERENTLY SUBJECT TO RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE WHICH ARE ANTICIPATED OR PROJECTED AS A RESULT OF CERTAIN RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, ECONOMIC AND MARKET CONDITIONS; THE PERFORMANCE OF THE AFTERMARKET SECTOR; CHANGES IN BUSINESS RELATIONSHIPS WITH OUR 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; PRODUCT AND ENVIRONMENTAL LIABILITY MATTERS (INCLUDING, WITHOUT LIMITATION, THOSE RELATED TO ASBESTOS-RELATED CONTINGENT LIABILITIES OR ENVIRONMENTAL REMEDIATION LIABILITIES); AS WELL AS OTHER RISKS AND UNCERTAINTIES, SUCH AS THOSE DESCRIBED UNDER RISK FACTORS, QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK AND THOSE DETAILED HEREIN AND FROM TIME TO TIME IN THE FILINGS OF THE COMPANY WITH THE SEC. FORWARD-LOOKING STATEMENTS ARE MADE ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE OR REVISE THE FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. IN ADDITION, HISTORICAL INFORMATION SHOULD NOT BE CONSIDERED AS AN INDICATOR OF FUTURE PERFORMANCE. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS REPORT.

BUSINESS OVERVIEW

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry. We are organized into two major operating segments, each of which focuses on a specific segment of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, on-board computers, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, and other air conditioning and heating parts. We sell our products primarily in the United States, Canada and Latin America. We

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

also sell our products in Europe through our European Segment.

As part of our efforts to grow our business, as well as to achieve increased production and distribution efficiencies, in June 2003 we acquired substantially all of the assets and assumed substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("DEM") for \$130.5 million. In connection with our acquisition of DEM, we have a restructuring accrual of \$0.9 million as of March 31, 2007, most of this amount we expect to pay in 2007 and 2008.

-21-

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 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.

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

INVENTORY MANAGEMENT. We face inventory management issues as a result of warranty and overstock returns. Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship and failure to meet industry published specifications. In addition to warranty returns, we also permit our customers to return products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. The Company accrues for overstock returns as a percentage of sales, after giving consideration to recent returns history. In addition, the seasonality of our Temperature Control Segment requires that we increase our inventory during the winter season in preparation of the summer selling season and customers purchasing such inventory have the right to make returns.

In order to better control warranty and overstock return levels, we tightened the rules for authorized warranty returns, placed further restrictions on the amounts customers can return and instituted a program so that our management can better estimate potential future product returns. In addition, with respect to our air conditioning compressors, our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not provide acceptable proof that complete AC system repair was performed.

-22-

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

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

### INTERIM RESULTS OF OPERATIONS

#### COMPARISON OF THREE MONTHS ENDED MARCH 31, 2007 TO THE THREE MONTHS ENDED MARCH 31, 2006

SALES. Consolidated net sales for the three months ended March 31, 2007 were \$199.8 million, a decrease of \$10.3 million, or 4.9%, compared to \$210.1 million in the same period of 2006, mainly due to an Engine Management net sales decrease of \$11.5 million or 7.7%, partially offset by an increase in sales in Temperature Control of \$1.5 million or 3% and in Europe of \$0.7 million or 7.3%. The decrease in Engine Management sales was mainly due to substantial pre-season orders placed in 2006 and the expiration of an OE contract. Our European Segment experienced slightly lower net sales in local currency which sales were more than offset by favorable foreign currency impact due to a stronger Euro and British Pound. However, 2006 sales included \$2.4 million related to the European Temperature Control business that was divested in December 2006. Excluding the divested business, Europe sales increased 26.3% in local currency.

-23-

GROSS MARGINS. Gross margins, as a percentage of consolidated net sales, increased to 26% in the first quarter of 2007 compared to 25.3% in the first quarter of 2006 mainly due to margin improvements in our Engine Management Segment of 1.6 percentage points and in our European Segment of 3 percentage points, partially offset by a 1.4 percentage point decrease in Temperature Control margin. In the first quarter of 2007, the margins in Engine Management and Europe benefited mainly from continued improvements in procurement and manufacturing costs. The Temperature Control margin was primarily affected by selective price decreases to match offshore price competition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses (SG&A) decreased by \$1.1 million to \$42.7 million in the first quarter of 2007, as compared to \$43.8 million in the first quarter of 2006. Selling and marketing expense decreased \$1.3 million due to a reduction in the sales force, and distribution expenses decreased \$0.6 million due to lower sales. These decreases were partially offset by higher general and administrative expenses of \$0.8 million.

RESTRUCTURING EXPENSES. Restructuring expenses, which include restructuring and integration expenses, increased to \$0.7 million in the first quarter of 2007,

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

compared to \$0.1 million in the first quarter of 2006. The 2007 expenses related mostly to charges made for the upcoming closure of our Puerto Rico production operations. The restructuring expense for the first quarter of 2006 related mostly to severance costs related to the move of our European production operations.

**OPERATING INCOME.** Operating income was \$8.5 million in the first quarter of 2007, compared to \$9.4 million in the first quarter of 2006. The decrease of \$0.9 million was due to lower sales which were partially offset by an improved gross margin percentage and lower SG&A expenses.

**OTHER INCOME, NET.** Other income, net decreased \$0.1 million in the first quarter 2007 compared to the same period in 2006.

**INTEREST EXPENSE.** Interest expense increased slightly by \$0.1 million in the first quarter 2007 compared to the same period in 2006 mainly due to higher borrowing costs partially offset by lower average borrowings during the period.

**INCOME TAX PROVISION.** The income tax provision was \$1.3 million in the first quarter of 2007 compared to \$2.7 million for the same period in 2006. The decrease was primarily due to a lower effective rate for the first quarter of 2007 which was 30% compared to 50.5% in the first quarter of 2006. The 2006 rate was higher due to the adverse impact of discrete items attributable to changes in state tax rates, while the 2007 estimated tax rate is benefiting from pre-tax income in Europe where previously unrecognized losses carried forward are offsetting taxes otherwise payable.

-24-

**LOSS FROM DISCONTINUED OPERATION.** Loss from discontinued operation, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded \$0.3 million and \$0.8 million as a loss from discontinued operation for the first quarter of 2007 and 2006, respectively. The decrease of \$0.5 million is mainly due to one-time tax costs associated with the liquidation of the residual assets of the pension plan of the discontinued operation segment in 2006. As discussed more fully in note 11 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

### LIQUIDITY AND CAPITAL RESOURCES

**OPERATING ACTIVITIES.** During the first three months of 2007, cash used in operations amounted to \$37.8 million, compared to cash used in operations of \$47.4 million in the same period of 2006. The improvement of \$9.6 million is primarily attributable to lower accounts receivable. During 2006, our accounts receivable increased following the termination of our accounts receivable draft program at the end of 2005.

**INVESTING ACTIVITIES.** Cash used in investing activities was \$2.5 million in the first three months of 2007, compared to \$1.9 million in the same period of 2006. The increase of \$0.6 million was primarily due to higher capital expenditures.

**FINANCING ACTIVITIES.** Cash provided by financing activities was \$36.1 million in the first three months of 2007, compared to cash provided by financing activities of \$43.3 million in the same period of 2006. The decrease is primarily due to the reduction in borrowings under our line of credit as a result of less cash used in our operating activities.

On March 20, 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate



## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation, which prior credit facility provided for a \$305 million credit facility and which was to expire in 2008. The restated credit agreement provides for a line of credit of up to \$275 million (inclusive of the Canadian term loan described below) and expires in 2012. The restated credit agreement also provides a \$50 million accordion feature, which would allow us to expand the facility. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option, and the interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by our same subsidiaries and secured by our same assets as the prior \$305 million credit facility.

-25-

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 \$93 million available for us to borrow pursuant to the formula at March 31, 2007. At December 31, 2006, the interest rate on the Company's prior credit facility was 7.8%, and at March 31, 2007, the interest rate on our restated credit agreement was 6.7%. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian term loan described below), which are classified as current liabilities, were \$133.3 million and \$166.9 million at December 31, 2006 and March 31, 2007, respectively.

At any time our borrowing availability in the aggregate is less than \$30 million and until such time that we have maintained an average borrowing availability in the aggregate of \$30 million or greater for a continuous period of ninety (90) days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. In addition, the restated credit agreement provides that, beginning on January 15, 2008 and on a quarterly basis thereafter, an increasing amount of the Company's borrowing availability shall be reserved for the repayment, repurchase or redemption, as the case may be, of the aggregate outstanding amount of the convertible debentures. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Our profitability and working capital requirements are seasonal due to the sales mix of temperature control products. Our working capital requirements usually peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales begin to be received. These increased working capital requirements are funded by borrowings from our lines of credit. We anticipate that our present sources of funds will continue to be adequate to meet our near term needs.

On March 20, 2007, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. This credit agreement amends our existing \$7 million credit agreement which was to expire in 2008. The amended credit agreement provides for a line of credit of up to \$12 million, of which \$7 million is currently outstanding and which amount is part of the \$275 million available for borrowing under our restated credit agreement with General Electric Capital Corporation (described above). The amended credit agreement is

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in 2012. Direct borrowings under the amended credit agreement bear interest at the Canadian Bankers Acceptance rate plus the US revolver applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option.

-26-

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

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

In July 1999, we issued convertible debentures, payable semi-annually, in the aggregate principal amount of \$90 million. The debentures carry an interest rate of 6.75%, payable semi-annually. The debentures are convertible into 2,796,120 shares of our common stock, and mature on July 15, 2009. The proceeds from the sale of the debentures were used to prepay an 8.6% senior note, reduce short term bank borrowings and repurchase a portion of our common stock.

As of March 31, 2007, we have Board authorization to repurchase additional shares at a maximum cost of \$1.7 million. During 2006 and the first three months of 2007, we did not repurchase any shares of our common stock.

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

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

### 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

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

statements in our Annual Report on Form 10-K for the year ended December 31, 2006. You should be aware that preparation of our consolidated quarterly financial statements in this Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We can give no assurance that actual results will not differ from those estimates.

-27-

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

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

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

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

-28-

**SALES RETURNS AND OTHER ALLOWANCES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS.** Management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

the sales returns and other allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At March 31, 2007, the allowance for sales returns was \$21.5 million. Similarly, management must make estimates of the uncollectability of our accounts receivable. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At March 31, 2007, the allowance for doubtful accounts and for discounts was \$10 million.

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

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

Significant management judgment is required in determining the adequacy of our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At March 31, 2007, we had a valuation allowance of \$28 million, due to uncertainties related to our ability to utilize some of our deferred tax assets. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable.

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

-29-

**VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL.** We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include the following: (a) significant underperformance relative to expected historical or projected future operating results; (b) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and (c) significant negative industry or economic trends. With respect to goodwill, if necessary, we test for potential impairment in the fourth quarter of each year as part of our annual budgeting process. We review

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

the fair values of each of our reporting units using the discounted cash flows method and market multiples.

In the event our planning assumptions were modified resulting in impairment to our assets, we would be required to include an expense in our statement of operations, which could materially impact our business, financial condition and results of operations.

RETIREMENT AND POST-RETIREMENT MEDICAL BENEFITS. Each year, we calculate the costs of providing retiree benefits under the provisions of SFAS 87, Employers' Accounting for Pensions, and SFAS 106, Employers' Accounting for Post-retirement Benefits Other than Pensions. The key assumptions used in making these calculations are disclosed in notes 13 and 14 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. The most significant of these assumptions are the eligibility criteria of participants, the discount rate used to value the future obligation, expected return on plan assets and health care cost trend rates. We select discount rates commensurate with current market interest rates on high-quality, fixed-rate debt securities. The expected return on assets is based on our current review of the long-term returns on assets held by the plans, which is influenced by historical averages. The medical cost trend rate is based on our actual medical claims and future projections of medical cost trends. Under FSP No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," the Company has concluded that its post-retirement plan is actuarially equivalent to the Medicare Part D benefit and accordingly recognizes subsidies from the federal government in the measurement of the accumulated post-retirement benefit obligation under SFAS 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions".

-30-

ASBESTOS RESERVE. We are responsible for certain future liabilities relating to alleged exposure to asbestos-containing products. In accordance with our accounting policy, our most recent actuarial study estimated a liability for settlement payments, excluding legal costs, ranging from \$22.1 million to \$53.9 million. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2050 in our consolidated financial statements, in accordance with generally accepted accounting principles. Legal costs, which are expensed as incurred and reported in loss from discontinued operation, are estimated to range from \$11.6 million to \$21.6 million during the same period. We plan to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a loss or gain from discontinued operation.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

ACCOUNTING FOR UNCERTAIN TAX POSITIONS

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

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

-31-

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

The Company continues the practice of recognizing interest and penalties associated with income tax matters as components of the "Provision for income taxes". The Company's accrual for interest and penalties was \$ 0.4 million upon adoption of FIN 48 and as at March 31, 2007.

The Company is subject to taxation in the US and various state, local and foreign jurisdictions. The Company remains subject to examination by US Federal, state, local and foreign tax authorities for tax year 2001 as well as 2003 through 2006. With a few exceptions, the Company is no longer subject to US Federal, state, local or foreign examinations by tax authorities for the tax year 2002 and for tax years prior to 2001. The Company does not presently anticipate that its unrecognized tax benefits will significantly increase or decrease prior to March 31, 2008; however, actual developments in this area could differ from those currently expected.

### FAIR VALUE MEASUREMENTS

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

### ITEM 3. .QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British Pound, the Euro, the Japanese Yen and the Hong Kong dollar. As of December 31, 2006 and March 31, 2007, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in both of the exchange rates affecting both of the foreign currencies in which the indebtedness and the financial instruments described above are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt was 58.7% at December 31, 2006 and 63.8% at March 31, 2007.

Other than the aforementioned, there have been no significant changes to the information presented in Item 7A (Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2006.

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

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

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

##### (b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

During the quarter ended March 31, 2007, we have not made any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

## Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

efforts will lead to various changes in our internal control over financial reporting.

### PART II - OTHER INFORMATION

#### ITEM 1. .LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2006 and March 31, 2007 approximately 3,270 cases and 3,324 cases, respectively, were outstanding for which we were responsible for any related liabilities. We expect the outstanding cases to increase gradually due to recent legislation in certain states mandating minimum medical criteria before a case can be heard. Since inception in September 2001 through March 31, 2007, the amounts paid for settled claims are approximately \$5.1 million. We do not have insurance coverage for the defense and indemnity costs associated with these claims.

On November 30, 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition For A Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by the Company and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court has adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend vigorously this lawsuit.

-34-

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

#### ITEM 6. EXHIBITS

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



Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

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

-35-

SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.  
(Registrant)

Date: May 10, 2007

/S/ JAMES J. BURKE  
-----

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

/S/ LUC GREGOIRE  
-----

Luc Gregoire  
Corporate Controller and  
Chief Accounting Officer

-36-

STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

EXHIBIT  
NUMBER  
-----

Edgar Filing: STANDARD MOTOR PRODUCTS INC - Form 10-Q

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-37-