

HMN FINANCIAL INC  
Form SC 13G/A  
February 08, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 13G/A  
Under the Securities Exchange Act of 1934  
(Amendment No. 17)\*  
HMN FINANCIAL, INC.  
(Name of Issuer)  
COMMON STOCK  
(Title of Class of Securities)  
40424G108  
(CUSIP Number)  
DECEMBER 31, 2010  
(Date of Event Which Requires Filing of this Statement)**

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ( Act ) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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Item 1.

Item 2.

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

Item 4. Ownership.

Item 5. Ownership of Five Percent or Less of a Class.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

Item 8. Identification and Classification of Members of the Group.

Item 9. Notice of Dissolution of Group.

Item 10. Certification.

SIGNATURE

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CUSIP No. 40424G108

NAMES OF REPORTING PERSONS.

I.R.S. Identification Nos. of above persons (entities only).

1.

HMN FINANCIAL, INC. EMPLOYEE STOCK OWNERSHIP PLAN  
IRS ID NO. 37-1327748

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

2.

(a)

(b)

SEC USE ONLY

3.

CITIZENSHIP OR PLACE OF ORGANIZATION

4.

MINNESOTA

SOLE VOTING POWER

5.

NUMBER OF 425,769 (1)

SHARED VOTING POWER

6.

SHARES BENEFICIALLY OWNED BY 335,453 (2)

SOLE DISPOSITIVE POWER

7.

EACH REPORTING PERSON 425,769 (1)

SHARED DISPOSITIVE POWER

8.

WITH 335,453 (2)

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9.

761,222

CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

10.

o

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11.

17.7%

TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

12.

EP

(1) Includes 425,769 shares held in unallocated accounts of the HMN Financial, Inc. Employee Stock Ownership Plan.

(2) Includes 335,453 shares held in allocated accounts of the HMN Financial, Inc. Employee Stock Ownership Plan.

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CUSIP No. 40424G108

**NAMES OF REPORTING PERSONS.**

I.R.S. Identification Nos. of above persons (entities only).

1. FIRST BANKERS TRUST SERVICES, INC.  
IRS ID NO. 37-1327748

**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)**

2. (a)   
(b)

**SEC USE ONLY**

3.

**CITIZENSHIP OR PLACE OF ORGANIZATION**

4.

UNITED STATES

**SOLE VOTING POWER**

5.

NUMBER OF 425,769 (1)

**SHARED VOTING POWER**

6.

SHARES BENEFICIALLY OWNED BY 335,453 (2)

**SOLE DISPOSITIVE POWER**

7.

EACH REPORTING PERSON 425,769 (1)

**SHARED DISPOSITIVE POWER**

8.

335,453 (2)

**AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

9.

761,222

**10.** CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

o

**11.** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

17.7%

**12.** TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

BK

(1) Includes 425,769 shares held in unallocated accounts of the HMN Financial, Inc. Employee Stock Ownership Plan.

(2) Includes 335,453 shares held in allocated accounts of the HMN Financial, Inc. Employee Stock Ownership Plan.

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**Item 1.**

(a) Name of Issuer:

HMN FINANCIAL, INC. (the Corporation )

(b) Address of Issuer's Principal Executive Offices:

1016 Civic Center Drive NW, Rochester, MN 55901

**Item 2.**

(a) Name of Person Filing:

HMN Financial, Inc. Employee Stock Ownership Plan (the ESOP )

Pursuant to applicable regulations, First Bankers Trust Services, Inc. (the Trustee ), the Trustee of the ESOP may also be deemed to be a beneficial owner of the shares held by the ESOP as described below.

The Trustee also may be deemed a beneficial owner of unvested shares held in the HMN Financial, Inc. Recognition and Retention Plan. Refer to Item 4. for more details.

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(b) Address of Principal Business Office or, if none, Residence:

The business address of the ESOP is: 1016 Civic Center Drive NW, Rochester, MN 55901 The business address of the Trustee is: 2321 Kochs Lane, Quincy, IL 62305-3566

(c) Citizenship:

The ESOP trust was established under the laws of the state of Minnesota.

The Trustee is a state chartered trust company incorporated under the laws of the state of Illinois.

(d) Title of Class of Securities:

Common stock, par value \$.01 per share

(e) CUSIP Number:

40424G108

**Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:**

- (a)  Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
  - (b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
  - (c)  Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
  - (d)  Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).
  - (e)  An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
  - (f)  An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
  - (g)  A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
  - (h)  A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
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- (i) o A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) o Group, in accordance with §240.13d-1(b)(1)(ii)(J).

**Item 4. Ownership.**

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned: The ESOP holds an aggregate of 761,222 shares (17.7% of the outstanding shares of the class) of the Corporation and has the voting rights as described below.
- (b) Percent of class: 17.7%.
- (c) Number of shares as to which the person has:
  - (i) Sole power to vote or to direct the vote 425,769.
  - (ii) Shared power to vote or to direct the vote 335,453.
  - (iii) Sole power to dispose or to direct the disposition of 425,769.

The ESOP has sole dispositive power for all such shares subject to the terms of the Employee Stock Ownership Plan, which requires that participant accounts be primarily invested in common stock of the Corporation.

First Bankers Trust Services, Inc., the Trustee of the ESOP, may be deemed under applicable regulations to beneficially own the shares held by the ESOP. However, the Trustee expressly disclaims beneficial ownership of the shares held by the ESOP.

Pursuant to the terms of the ESOP, participants in the ESOP are entitled to instruct the Trustee of the ESOP as to the voting of the shares allocated to their accounts. The provisions of the ESOP require the Trustee to vote the shares held by the ESOP which have not been allocated to specific accounts (or with respect to allocated accounts for which no instructions are timely received) on each issue with respect to which shareholders are entitled to vote in the proportion that the participant had voted the shares allocated to their accounts with respect to such issue. As of December 31, 2010 a total of 335,453 shares of Corporation common stock have been allocated to participants accounts.

The Trustee has the right to sell allocated shares held by the ESOP, the proceeds from which are allocated to the accounts of individual participants. The Trustee also may sell unallocated shares, to the extent such shares are not pledged to secure borrowed

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funds.

(iv) Shared power to dispose or to direct the disposition of 335,453.

*Instruction.* For computations regarding securities which represent a right to acquire an underlying security *see* §240.13d3(d)(1).

**Item 5. Ownership of Five Percent or Less of a Class.**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o.

*Instruction:* Dissolution of a group requires a response to this item.

Not applicable.

**Item 6. Ownership of More than Five Percent on Behalf of Another Person.**

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than five percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

The ESOP shares are held on behalf of the ESOP participants pursuant to the terms of the HMN Financial, Inc. Employee Stock Ownership Plan and Trust Agreement. See Item 4. above for details.

Pursuant to the terms of the ESOP, dividends paid with respect to shares are allocated to participants accounts in the ESOP as of the record date for the dividend payment and may be paid in cash to the participants, pursuant to the directions of the Board of Directors of the Corporation. Absent such direction by the Board of Directors, cash from the payment of dividends is retained in the accounts of participants or, to the extent permitted by law, may be used to repay the ESOP loan. With respect to unallocated shares, cash received from the sale of shares or payment of dividends is retained in the ESOP trust and may be used to purchase additional shares or to repay the ESOP loan.

**Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.**

If a parent holding company has filed this schedule, pursuant to Rule 13d-1(b)(1)(ii)(G), so indicate under Item 3(g) and attach an exhibit stating the identity and the Item 3 classification of the relevant subsidiary. If a parent holding company or control person has filed this schedule

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pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identification of the relevant subsidiary.  
Not applicable.

**Item 8. Identification and Classification of Members of the Group.**

If a group has filed this schedule pursuant to §240.13d-1(b)(1)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to §240.13d-1(c) or §240.13d-1(d), attach an exhibit stating the identity of each member of the group.

Not applicable.

**Item 9. Notice of Dissolution of Group.**

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity. See Item 5.

Not applicable.

**Item 10. Certification.**

(a) The following certification shall be included if the statement is filed pursuant to §240.13d-1(b):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

HMN Financial, Inc.  
Employee Stock Ownership Plan  
First Bankers Trust Services, Inc., Trustee

Date: February 8, 2011

Signature: /s/ Linda Shultz  
Name/Title: Linda Shultz/Trust  
Officer

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

*NOTE:* Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties for whom copies are to be sent.

**Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations  
(See 18 U.S.C. 1001)**

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Balance at December 31, 2010		
	364,800	\$10.68
Granted	203,750	12.21
Vested		
(68,575)	6.69	
Forfeited		
	(35,575)	7.34
Balance at September 30, 2011		
	464,400	\$12.19

We recorded compensation expense related to restricted shares and performance-based shares of \$1,162,000 (\$722,000 net of tax) and \$874,000 (\$550,000 net of tax) for the nine months ended September 30, 2011 and 2010, respectively. The unamortized compensation expense related to our restricted and performance-based shares was \$4.1 million at September 30, 2011, and is expected to be recognized as they vest over a weighted average period of 5.2 and 0.6 years for employees and directors, respectively.

Note 9. Employee Benefits

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

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

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The components of net periodic benefit cost for our defined benefit plans and postretirement benefit plans for the three months and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<b>Pension Benefits</b>				
Service cost	\$36	\$22	\$110	\$67
Interest cost	59	36	179	109
Amortization of prior service cost	30	40	84	120
Actuarial net (gain) loss	91	—	275	—
Net periodic benefit cost	\$216	\$98	\$648	\$296
<b>Postretirement Benefits</b>				
Service cost	\$1	\$47	\$75	\$143
Interest cost	35	290	516	903
Amortization of prior service cost	(1,642 )	(2,257 )	(4,873 )	(6,772 )
Amortization of transition obligation	—	1	2	3
Actuarial net loss	728	315	1,473	1,001
Curtailment gain	—	—	(3,647 )	—
Net periodic benefit cost	\$(878 )	\$(1,604 )	\$(6,454 )	\$(4,722 )

For the nine months ended September 30, 2011, we made employee benefit contributions of \$0.9 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately \$1.1 million in contributions for 2011.

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

We maintain an employee benefits trust to which we contributed 750,000 shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under employee benefit plans. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During 2011, we contributed to the trust an additional 180,000 shares from our treasury and released 183,000 shares from the trust leaving 3,930 shares remaining in the trust as of September 30, 2011.

## Note 10. Fair Value Measurements

We follow a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of “observable inputs” and minimize the use of “unobservable inputs.” The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.



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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Level 3: Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$14,898	\$14,898	\$12,135	\$12,135
Deferred compensation	5,603	5,603	5,978	5,978
Short term borrowings	41,897	41,897	65,289	65,289
Long-term debt	221	221	307	307

For fair value purposes the carrying value of cash and cash equivalents approximates fair value due to the short maturity of those investments. The fair value of the underlying assets held by the deferred compensation plan are based on the quoted market prices of the funds in registered investment companies, which are considered Level 1 inputs. The carrying value of our revolving credit facilities, classified as short term borrowings, equals fair market value because the interest rate reflects current market rates. The fair value of our 15% convertible subordinated debentures, classified as current borrowings, is based upon the quoted market price, which is considered a Level 1 input.

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

## Note 11. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Basic Net Earnings Per Common Shares:</b>				
Earnings from continuing operations	\$ 14,100	\$ 11,097	\$ 34,804	\$ 22,025
Loss from discontinued operations	(1,055 )	(1,441 )	(1,714 )	(2,309 )
Net earnings available to common stockholders	\$ 13,045	\$ 9,656	\$ 33,090	\$ 19,716
Weighted average common shares outstanding	22,863	22,597	22,813	22,528
Net earnings from continuing operations per common share	\$ 0.62	\$ 0.49	\$ 1.53	\$ 0.98
Loss from discontinued operations per common share	(0.05 )	(0.06 )	(0.08 )	(0.10 )
Basic net earnings per common share	\$ 0.57	\$ 0.43	\$ 1.45	\$ 0.88
<b>Diluted Net Earnings Per Common Share:</b>				
Earnings from continuing operations	\$ 14,100	\$ 11,097	\$ 34,804	\$ 22,025
Interest income on debenture conversions (net of income tax expense)	–	277	316	–
Earnings from continuing operations plus assumed conversions	14,100	11,374	35,120	22,025
Loss from discontinued operations	(1,055 )	(1,441 )	(1,714 )	(2,309 )
Net earnings available to common stockholders plus assumed conversions	\$ 13,045	\$ 9,933	\$ 33,406	\$ 19,716
Weighted average common shares outstanding	22,863	22,597	22,813	22,528
<b>Plus incremental shares from assumed conversions:</b>				
Dilutive effect of restricted stock and performance stock	163	55	168	76
Dilutive effect of stock options	17	–	6	–
Dilutive effect of convertible debentures	–	820	312	–
Weighted average common shares outstanding – Diluted	23,043	23,472	23,299	22,604
Net earnings from continuing operations per common share	\$ 0.61	\$ 0.48	\$ 1.51	\$ 0.97
Loss from discontinued operations per common share	(0.04 )	(0.06 )	(0.08 )	(0.10 )
Diluted net earnings per common share	\$ 0.57	\$ 0.42	\$ 1.43	\$ 0.87

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The shares listed below were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented or because they were excluded under the treasury method (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock options	227	317	238	317
Restricted shares	178	152	164	126
15% convertible subordinated debentures	–	–	–	820

## Note 12. Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings as reported	\$13,045	\$9,656	\$33,090	\$19,716
Foreign currency translation adjustment	(2,435 )	1,060	(1,500 )	337
Postretirement benefit plans:				
Plan amendment adjustment	–	–	8,596	–
Reclassification adjustment for recognition of prior period amounts	(1,032 )	(2,123 )	(5,169 )	(4,822 )
Unrecognized amounts	435	189	1,753	601
Total comprehensive income	\$10,013	\$8,782	\$36,770	\$15,832

## Note 13. Industry Segments

We have two major reportable operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures and distributes ignition and emission parts, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories and windshield washer system parts.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Sales				
Engine Management	\$165,182	\$153,577	\$489,305	\$443,489
Temperature Control	68,148	71,774	201,942	185,714
All Other	2,890	2,189	9,208	8,736
Consolidated	\$236,220	\$227,540	\$700,455	\$637,939

## Intersegment Revenue

Engine Management	\$5,948	\$5,016	\$16,416	\$14,024
Temperature Control	1,369	898	3,992	2,821
All Other	(7,317 )	(5,914 )	(20,408 )	(16,845 )
Consolidated	\$-	\$-	\$-	\$-

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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Profit				
Engine Management	\$18,479	\$15,049	\$46,741	\$34,758
Temperature Control	7,636	5,443	17,833	12,747
All Other	(3,324 )	(2,421 )	(6,051 )	(7,221 )
Consolidated	\$22,791	\$18,071	\$58,523	\$40,284

## Note 14. Commitments and Contingencies

Asbestos - In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At September 30, 2011, 2,095 cases were outstanding for which we may be responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through September 30, 2011, the amounts paid for settled claims are approximately \$11.9 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately \$2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received \$0.8 million in reimbursement for settlement claims and defense costs.

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

The most recent actuarial study was performed as of August 31, 2011. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$27.5 million to \$66.5 million for the period through 2059. The change from the prior year study was a \$1.8 million increase for the low end of the range and a \$0.4 million decrease for the high end of the range. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our

consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Accordingly, an incremental \$1.3 million provision in our discontinued operation was added to the asbestos accrual in September 2011 increasing the reserve to approximately \$27.5 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from \$26.2 million to \$63 million during the same period.

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

**Antitrust Litigation** - In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010. On September 29, 2011, the court dismissed the complaint with prejudice, and on October 27, 2011 the plaintiff filed an appeal. We believe that we have meritorious defenses to the plaintiff's claims and will continue to vigorously oppose this lawsuit.

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

**Warranties** - We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of September 30, 2011 and 2010, we have accrued \$14.9 million and \$14.4 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims.





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## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 15,459	\$ 13,823	\$ 12,153	\$ 10,476
Liabilities accrued for current year sales	17,085	14,757	49,422	39,361
Settlements of warranty claims	(17,635 )	(14,179 )	(46,666 )	(35,436 )
Balance, end of period	\$ 14,909	\$ 14,401	\$ 14,909	\$ 14,401

## Note 15. Subsequent Event

On October 25, 2011, we acquired all of the capital stock of Forecast Trading Corporation (“Forecast”) for approximately \$44 million in cash funded by our revolving credit facility. Forecast has distribution facilities in Ft. Lauderdale, Florida and distributes a range of engine management products including ignition coils, ignition modules, switches and sensors, and filters. Revenues generated from the acquired business were approximately \$28 million for the year ended December 31, 2010.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects” and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, our significant indebtedness; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket sector and the automotive sector generally; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under Quantitative and Qualitative Disclosures About Market Risk and those detailed herein and from time to time in the filings of the Company with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. In addition, historical information should not be considered as an indicator of future performance. The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, included elsewhere in this Report.

Business Overview

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

We sell our products primarily to warehouse distributors, large retail chains, original equipment manufacturers and original equipment service part operations in the United States, Canada and Latin America. Our customers consist of many of the leading warehouse distributors, such as CARQUEST and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, AutoZone, O’Reilly Automotive, Canadian Tire and Pep Boys. Our customers also include national program distribution groups and specialty market distributors. We distribute parts under our own brand names, such as Standard, BWD, Intermotor, Four Seasons, Factory Air, ACi, Imperial and Hayden and through private labels, such as CARQUEST, NAPA Echlin, NAPA Temp Products and NAPA Belden.

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to continue to improve our operating efficiency, customer satisfaction and cost position by increasing cost-effective vertical integration in key product lines through internal development and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost

countries such as those in Asia.

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

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

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

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

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## Interim Results of Operations:

## Comparison of Three Months Ended September 30, 2011 to Three Months Ended September 30, 2010

Sales. Consolidated net sales for the three months ended September 30, 2011 were \$236.2 million, an increase of \$8.7 million, or 3.8%, compared to \$227.5 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in our Engine Management segment. Revenues remained strong in the quarter as our customers have increased purchases to meet demand as consumers have continued to maintain their primary vehicles for a longer period of time.

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

	Three Months Ended September 30,	Engine Management	Temperature Control	Other	Total
<b>2011</b>					
Net sales		\$ 165,182	\$ 68,148	\$2,890	\$236,220
Gross margins		43,834	17,343	3,311	64,488
Gross margin percentage		26.5	% 25.4	% –	27.3 %
<b>2010</b>					
Net sales		\$ 153,577	\$ 71,774	\$2,189	\$227,540
Gross margins		39,785	17,157	3,072	60,014
Gross margin percentage		25.9	% 23.9	% –	26.4 %

Engine Management's net sales increased \$11.6 million, or 7.6%, to \$165.2 million for the third quarter of 2011. The sales growth was driven primarily by stronger sales in the traditional and retail markets compared to the prior period. In addition, incremental sales of \$2.2 million from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales decreased \$3.6 million, or 5%, to \$68.1 million for the third quarter of 2011. The decrease in net sales as compared to the prior year resulted primarily from the timing of purchases made by both our retail and traditional customers, as customers in these markets purchased significantly higher volumes in the first six months of 2011 as compared to the first six months of 2010.

Gross margins. Gross margins, as a percentage of consolidated net sales, increased to 27.3% in the third quarter of 2011, compared to 26.4% in the third quarter of 2010. The increase resulted from improvements in margins in Engine Management of 0.6 percentage points and in Temperature Control of 1.5 percentage points. The Engine Management gross margin percentage was positively impacted by higher sales volumes including \$2.2 million of incremental sales related to the acquisition of the BLD Engine Controls business which began shipping in May 2011. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of a higher mix of compressor production volumes from our low cost manufacturing facility in Reynosa, Mexico.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") decreased by \$0.3 million to \$41.7 million or 17.6% of consolidated net sales, in the third quarter of 2011, as compared to \$42 million or 18.5% of consolidated net sales in the third quarter of 2010. Lower selling, marketing and distribution expenses more than offset the \$0.5 million increase in expenses related to the sale of receivables and increases in general and administrative expenses.

Restructuring and integration expenses. Restructuring and integration expenses decreased to \$0.3 million in the third quarter of 2011, compared to \$1.4 million in the third quarter of 2010. The 2011 expense related primarily to employee severance at our Grapevine, Texas facility, and employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities.

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

	Engine Management	Temperature Control	Other	Total
Exit activity liability at June 30, 2011	\$ 3,165	\$ 305	\$702	\$4,172
Restructuring and integration costs:				
Amounts provided for during 2011	122	153	--	275
Cash payments	(232 )	(38 )	(98 )	(368 )
Exit activity liability at September 30, 2011	\$ 3,055	\$ 420	\$604	\$4,079

Other income, net. Other income, net decreased to \$0.3 million in the third quarter of 2011 compared to \$1.4 million in the same period in 2010. During 2011 and 2010, we recognized \$0.3 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, in the third quarter of 2010, we recorded a \$1.5 million gain on the sale our Reno, Nevada distribution facility and a \$0.2 million loss on the disposal of equipment.

Operating income. Operating income was \$22.8 million in the third quarter of 2011, compared to \$18.1 million in the third quarter of 2010. The increase of \$4.7 million was due to higher sales volumes, the increase in gross margins as a percentage of net sales, and lower restructuring and integration expenses and SG&A expenses.

Interest expense. Interest expense decreased by \$1.1 million in the third quarter of 2011 compared to the same period in 2010 as average borrowings declined \$34.8 million. This decrease includes the impact of the April 2011 maturity of the \$12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining \$5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the third quarter of 2011 was \$8.2 million at an effective tax rate of 36.7% compared to \$5.4 million at an effective tax rate of 32.9% for the same period in 2010. The effective tax rate in the third quarter of 2011 and 2010 was favorably impacted by the reversal of previously established reserves of \$0.5 million and \$1.1 million, respectively, related to certain business combinations and foreign transfer pricing as a result of the expiration of the statute of limitations for the 2007 and prior tax years. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2011 and 2010 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the third quarters of 2011 and 2010, we recorded a loss of \$1.1 million and \$1.4 million from discontinued operations, respectively. The loss from discontinued operations for the third quarter of 2011 and 2010 reflects a \$1.3 million and \$1.8 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2011 and 2010 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

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## Comparison of Nine Months Ended September 30, 2011 to Nine Months Ended September 30, 2010

Sales. Consolidated net sales for the nine months ended September 30, 2011 were \$700.5 million, an increase of \$62.5 million, or 9.8%, compared to \$637.9 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in both our Engine Management and Temperature Control segments. Revenues remained strong as our customers have increased purchases to meet demand as consumers have continued to maintain their primary vehicles for a longer period of time.

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

	Nine Months Ended September 30,	Engine Management	Temperature Control	Other	Total	
2011						
Net sales		\$ 489,305	\$ 201,942	\$9,208	\$700,455	
Gross margins		123,850	47,269	9,694	180,813	
Gross margin percentage		25.3	% 23.4	% –	25.8	%
2010						
Net sales		\$ 443,489	\$ 185,714	\$8,736	\$637,939	
Gross margins		110,407	43,117	8,697	162,221	
Gross margin percentage		24.9	% 23.2	% –	25.4	%

Engine Management's net sales increased \$45.8 million, or 10.3%, to \$489.3 million for the first nine months of 2011. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels. In addition, incremental sales of \$4.3 million from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased \$16.2 million, or 8.7%, to \$201.9 million for the first nine months of 2011. The increase in sales was primarily from traditional and retail channels due to warm weather trends.

Gross margins. Gross margins, as a percentage of consolidated net sales, for the nine months ended September 30, 2011 increased to 25.8% compared to 25.4% the same period of 2010. The increase resulted from a 0.4 percentage point increase in Engine Management margins and a 0.2 percentage point increase in Temperature Control margins. The increase in the Engine Management margins was the result of a higher sales volumes and improving fixed overhead absorption resulting from increased production. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of a higher mix of compressor production volumes from our low cost manufacturing facility in Reynosa, Mexico.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") increased by \$1.9 million to \$122.3 million or 17.5% of consolidated net sales, in the nine months ended September 30, 2011, as compared to \$120.5 million or 18.9% of consolidated net sales in like period of 2010. The increase in SG&A expenses is due primarily to sales volume related increases to selling, marketing and distribution expenses and a \$1.7 million increase in expenses related to the sale of receivables partially offset by a \$3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans.





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Restructuring and integration expenses. Restructuring and integration expenses decreased to \$0.7 million for the nine months ended September 30, 2011, compared to \$3.4 million in the same period of 2010. The 2011 expense related primarily to employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. and integration expenses related to the wire and cable business. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities and a charge related to the closure of our Long Island City building.

Other income, net. Other income, net decreased to \$0.8 million for the nine months ended September 30, 2011 compared to \$2.0 million for the same period in 2010. During 2011 and 2010, we recognized \$0.8 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, in the first nine months of 2010, we recorded a \$1.5 million gain on the sale our Reno, Nevada distribution facility, a \$0.2 million gain on the sale of vacant land at one of our locations in the U.K. and a \$0.4 million loss on the disposal of equipment.

Operating income. Operating income was \$58.5 million in the first nine months of 2011, compared to \$40.3 million in 2010. The increase of \$18.2 million was due primarily to stronger traditional and retail market sales within our Engine Management and Temperature Control segments, the increase in gross margins as a percentage of net sales, lower restructuring and integration expenses, and the \$3.6 million curtailment gain recorded as a result of our postretirement plan amendments offset, in part, by sales volume related increases to selling, marketing and distribution expenses.

Interest expense. Interest expense decreased by \$2.5 million to \$3.2 million in the nine months ended September 30, 2011, compared to \$5.7 million in the same period in 2010 as average borrowings declined \$25.3 million. This decrease includes the impact of the April 2011 maturity of the \$12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining \$5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the nine months ended September 30, 2011 was \$21.2 million at an effective tax rate of 37.9%, compared to \$13 million and an effective tax rate of 37.2% for the same period in 2010. The effective tax rate in the first nine months of 2011 and 2010 was favorably impacted by the reversal of previously established reserves of \$0.5 million and \$1.1 million, respectively, related to certain business combinations and foreign transfer pricing as a result of the expiration of the statute of limitations for the 2007 and prior tax years. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2011 and 2010 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the nine months ended September 30, 2011 and 2010, we recorded a loss of \$1.7 million and \$2.3 million from discontinued operations, respectively. The loss from discontinued operations for the nine months ended 2011 and 2010 reflects a \$1.3 million and \$1.8 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2011 and 2010 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

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## Restructuring and Integration Costs

The aggregated liabilities included in “sundry payables and accrued expenses” and “other accrued liabilities” in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2010 and September 30, 2011 and activity for the nine months ended September 30, 2011 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$6,220	\$2,435	\$8,655
Restructuring and integration costs:			
Amounts provided for during 2011	239	504	743
Non-cash usage, including asset write-downs	--	(343 )	(343 )
Cash payments	(4,402 )	(574 )	(4,976 )
Exit activity liability at September 30, 2011	\$2,057	\$2,022	\$4,079

## Restructuring Costs

## Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to be paid through 2015. Of the original restructuring charge of \$8 million, we have \$1.7 million remaining as of September 30, 2011 that is expected to be paid in the amounts of \$0.4 million in 2011, \$0.5 million in 2012 and \$0.8 million for the period 2013-2015.

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

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2010	\$ 970	\$ 321	\$915	\$2,206
Restructuring costs:				
Amounts provided for during 2011	--	--	--	--
Cash payments	(167 )	(54 )	(311 )	(532 )
Exit activity liability at September 30, 2011	\$ 803	\$ 267	\$604	\$1,674

## Integration Expenses

## Overhead Cost Reduction Program

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



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

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$853	\$686	\$1,539
Integration costs:			
Amounts provided for during 2011	194	309	503
Non-cash usage, including asset write-downs	--	(343 )	(343 )
Cash payments	(804 )	(284 )	(1,088 )
Exit activity liability at September 30, 2011	\$243	\$368	\$611

## Reynosa Integration Program

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

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

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

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$3,161	\$1,749	\$4,910
Integration costs:			
Amounts provided for during 2011	(225 )	70	(155 )
Cash payments	(2,877 )	(165 )	(3,042 )
Exit activity liability at September 30, 2011	\$59	\$1,654	\$1,713

## Engine Controls Relocation

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

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

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	\$--	\$--	\$--
Integration costs:			
Amounts provided for during 2011	270	125	395
Cash payments	(189 )	(125 )	(314 )
Exit activity liability at September 30, 2011	\$81	\$--	\$81

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

	Engine Management	Temperature Control	Total
Exit activity liability at December 31, 2010	\$ 5,580	\$ 869	\$ 6,449
Integration costs:			
Amounts provided for during 2011	626	117	743
Non-cash usage, including asset write-downs	(343 )	--	(343 )
Cash payments	(3,611 )	(833 )	(4,444 )
Exit activity liability at September 30, 2011	\$ 2,252	\$ 153	\$ 2,405

## Liquidity and Capital Resources

**Operating Activities.** During the first nine months of 2011, cash provided by operations amounted to \$57.3 million compared to \$4.9 million in the same period of 2010. The year-over-year increase in cash provided by operations is primarily the result of the increase in net earnings reflecting higher sales volumes, the decrease in inventory levels and the increased impact of our factoring program on our accounts receivables.

**Investing Activities.** Cash used in investing activities was \$31 million in the first nine months of 2011, compared to \$7.6 million in the first nine months of 2010. Investing activities in 2011 included a cash payment of \$27 million related to the acquisition of the Engine Controls business of BLD Products, Ltd., cash receipts of \$1.3 million related to the note issued in connection with the sale of our European distribution business in 2009, and cash receipts of \$1.3 million related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships.

Investing activities in 2010 included cash receipts of \$1 million related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships, cash receipts of \$2.6 million from the sale of our Wilson, North Carolina building, our Reno Nevada building and the sale of the vacant land at one of our locations in the U.K. In addition, investing activities in 2010 included a \$2 million payment related to the acquisition of certain products lines by our Temperature Control Segment. Capital expenditures in the first nine months of 2011 were \$6.7 million compared to \$9.1 million in the comparable period last year.

**Financing Activities.** Cash used in financing activities was \$22.2 million in the first nine months of 2011, compared to cash provided by financing activities of \$5.1 million in the same period of 2010. The excess of cash provided by operations over cash used in investing activities in the first nine months of 2011 was used to pay down borrowings under our revolving credit facility and to pay at maturity the principal balance of \$12.3 million of our 15% convertible subordinated debentures and to purchase \$3.3 million of treasury stock pursuant to our \$5 million stock repurchase program. Dividends of \$4.8 million and \$3.4 million were paid in the first nine months of 2011 and 2010,

respectively.

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

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

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional \$121 million available for us to borrow pursuant to the formula at September 30, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$41.8 million and \$52.9 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the weighted average interest rate on our restated credit agreement was 2.1%, which consisted of \$40 million in direct borrowings at 2% and an index loan of \$1.8 million at 4%. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of \$52 million at 3.1% and an index loan of \$0.9 million at 4.5%. During the nine months ended September 30, 2011 our average daily index loan balance was \$5.4 million compared to \$7.7 million for the nine months ended September 30, 2010 and \$7.1 million for the year ended December 31, 2010.

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

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

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of September 30, 2011, we have no outstanding borrowings under the Canadian Credit Agreement.

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



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During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of \$0.2 million and \$0.4 million, respectively. As of September 30, 2011, our remaining capital lease obligations totaled \$0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In August 2011, our Board of Directors authorized the purchase of up to \$5 million of our common stock under a stock repurchase program. During the three months and nine months ended September 30, 2011, we purchased 256,499 shares of our common stock under the program at a total cost of \$3.3 million. In October 2011, we purchased an additional 65,751 shares of our common stock at a total cost of \$0.8 million, leaving approximately \$0.9 million available for future stock repurchases under the program.

In order to reduce our accounts receivable balances and improve our cash flow, we sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold \$159 million and \$449.7 million of receivables during the three months and nine months ended September 30, 2011, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of \$2.3 million and \$6.4 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months and nine months ended September 30, 2011, respectively, and \$1.8 million and \$4.8 million for the comparable periods in 2010.

We anticipate that our present sources of funds, including funds from operations and additional borrowings, will continue to be adequate to meet our financing needs over the next twelve months. We continue to evaluate alternative sources to further improve the liquidity of our business. The timing, terms, size and pricing of any alternative sources of financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing. In addition, we have a substantial amount of indebtedness which could, among other things, increase our vulnerability to general adverse economic and industry conditions, make it more difficult to satisfy our obligations, limit our ability to pay future dividends, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and require that a portion of our cash flow from operations be used for the payment of interest on our indebtedness instead of for funding working capital, capital expenditures, acquisitions or for other corporate purposes. If we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected. For further information regarding the risks of our business, please refer to the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2010.

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

(in thousands)	2011	2012	2013	2014	2015	2016- 2020	Total
Lease obligations	\$1,892	\$7,404	\$6,448	\$5,333	\$4,938	\$5,738	\$31,753
Postretirement and pension benefits	351	1,161	1,196	1,228	6,869	2,426	13,231
Severance payments related to restructuring and integration	560	709	439	234	54	61	2,057
Total commitments	\$2,803	\$9,274	\$8,083	\$6,795	\$11,861	\$8,225	\$47,041

Indebtness under our revolving credit facilities of \$41.8 million as of September 30, 2011 is not included in the table above as it is reported as a current liability in our consolidated balance sheets.

#### Summary of Significant Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. You should be aware that preparation of our consolidated quarterly financial statements in this Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We can give no assurances that actual results will not differ from those estimates.

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

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

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

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

**Sales Returns and Other Allowances and Allowance for Doubtful Accounts.** We must make estimates of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At September 30, 2011, the allowance for sales returns was \$32.6 million. Similarly, we must make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At September 30, 2011, the allowance for doubtful accounts and for discounts was \$7 million.

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

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

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

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

term, perhaps as early as the fourth quarter of 2011. We would realize this non-cash benefit through a reduction in our deferred tax valuation allowance, which would primarily be reflected in the tax provision and would benefit net income in the period of such reduction.

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

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

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

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

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

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

**Retirement and Postretirement Medical Benefits.** Each year, we calculate the costs of providing retiree benefits under the provisions of Accounting Standards Codification 712, "Nonretirement Postemployment Benefits" and Accounting Standards Codification 715, "Retirement Benefits." The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan

benefits the employees will be entitled to. The key assumptions used in making these calculations are the eligibility criteria of participants and the discount rate used to value the future obligation. The discount rate reflects the yields available on high-quality, fixed-rate debt securities.

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

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

Asbestos Reserve. We are responsible for certain future liabilities relating to alleged exposure to asbestos-containing products. In accordance with our accounting policy, our most recent actuarial study as of August 31, 2011 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$27.5 million to \$66.5 million for the period through 2059. As a result, in September 2011 an incremental \$1.3 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$27.5 million as of that date. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements. In addition, according to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation, are estimated to range from \$26.2 million to \$63 million during the same period. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a gain or loss from discontinued operation. The aforementioned estimated settlement payments and legal costs do not reflect any limited coverage that we may obtain pursuant to agreements with insurance carriers for certain asbestos-related claims.

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



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### Recently Issued Accounting Pronouncements

#### Presentation of Comprehensive Income

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

#### Goodwill Impairment Testing

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

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

#### Revenue Arrangements with Multiple Deliverables

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



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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, primarily related to foreign currency exchange and interest rates. These exposures are actively monitored by management. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than one of our subsidiary's functional currency. Similarly, we are exposed to market risk as the result of changes in interest rates, which may affect the cost of our financing. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes. As of September 30, 2011, we do not have any derivative financial instruments.

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British Pound, the Euro, the Polish zloty, the Mexican Peso and the Hong Kong dollar. As of September 30, 2011 and December 31, 2010, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt was 99.2% and 80.6% at September 30, 2011 and December 31, 2010, respectively.

Other than the aforementioned, there have been no significant changes to the information presented in Item 7A (Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2010.

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

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

(b) Changes in Internal Control Over Financial Reporting.

During the quarter ended September 30, 2011, we have not made any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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## PART II – OTHER INFORMATION

## ITEM 1.

## LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At September 30, 2011, 2,095 cases were outstanding for which we may be responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through September 30, 2011, the amounts paid for settled claims are approximately \$11.9 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately \$2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received \$0.8 million in reimbursement for settlement claims and defense costs.

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

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

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

material adverse effect on our liquidity or consolidated financial position.

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In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010. On September 29, 2011, the court dismissed the complaint with prejudice, and on October 27, 2011 the plaintiff filed an appeal. We believe that we have meritorious defenses to the plaintiff's claims and will continue to vigorously oppose this lawsuit.

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

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

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

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
July 1-31, 2011	—	—	—	—
August 1-31, 2011	—	—	—	—
September 1-30, 2011	256,499	\$12.81	256,499	\$ 1,715,400 (2)
Total	256,499	\$12.81	256,499	\$ 1,715,400 (2)

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

(2) In August 2011, our Board of Directors authorized the purchase of up to \$5 million of our common stock under a stock repurchase program. At September 30, 2011, approximately \$1.7 million remained available for future stock repurchases. In October 2011, we purchased an additional 65,751 shares of our common stock at a total cost of \$0.8 million, leaving approximately \$0.9 million available for future repurchases under the program.



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ITEM 6.

EXHIBITS

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

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

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

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

SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.  
(Registrant)

Date: November 3, 2011

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

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STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

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101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

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