STANDARD MOTOR PRODUCTS INC
Form 10-Q
November 03, 2011

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2011

or

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

Commission file number: 1-4743

Standard Motor Products, Inc.
(Exact name of registrant as specified in its charter)

New York	11-1362020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
37-18 Northern Blvd., Long Island City, N.Y.	11101
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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

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

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

As of the close of business on October 31, 2011, there were 22,633,956 outstanding shares of the registrant's Common Stock, par value $2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited)		(Unaudited)	
Net sales	$236,220	$227,540	$700,455	$637,939
Cost of sales	171,732	167,526	519,642	475,718
Gross profit	64,488	60,014	180,813	162,221
Selling, general and administrative expenses	41,680	41,991	122,336	120,459
Restructuring and integration expenses	275	1,388	743	3,430
Other income, net	258	1,436	789	1,952
Operating income	22,791	18,071	58,523	40,284
Other non-operating income, net	230	300	673	480
Interest expense	757	1,844	3,159	5,710
Earnings from continuing operations before taxes	22,264	16,527	56,037	35,054
Provision for income taxes	8,164	5,430	21,233	13,029
Earnings from continuing operations	14,100	11,097	34,804	22,025
Loss from discontinued operations, net of income taxes	(1,055)	(1,441)	(1,714)	(2,309)
Net earnings	$13,045	$9,656	$33,090	$19,716
Per share data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	$0.62	$0.49	$1.53	$0.98
Discontinued operations	(0.05)	(0.06)	(0.08)	(0.10)
Net earnings per common share – Basic	$0.57	$0.43	$1.45	$0.88
Net earnings per common share – Diluted:				
Earnings from continuing operations	$0.61	$0.48	$1.51	$0.97
Discontinued operations	(0.04)	(0.06)	(0.08)	(0.10)
Net earnings per common share – Diluted	$0.57	$0.42	$1.43	$0.87
Dividends declared per share	$0.07	$0.05	$0.21	$0.15
Average number of common shares	22,863,048	22,597,117	22,812,851	22,528,108
Average number of common shares and dilutive common shares	23,042,981	23,472,411	23,299,363	22,604,344

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,898	$ 12,135
Accounts receivable, less allowance for discounts and doubtful accounts of $7,036 and $6,779 for 2011 and 2010, respectively	137,521	104,986
Inventories, net	233,995	241,158
Deferred income taxes	15,184	18,135
Assets held for sale	216	216
Prepaid expenses and other current assets	7,085	8,076
Total current assets	408,899	384,706
Property, plant and equipment, net	60,114	60,666
Goodwill	14,304	1,437
Other intangibles, net	16,474	11,050
Deferred income taxes	11,956	21,347
Other assets	11,996	13,595
Total assets	$ 523,743	$ 492,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 41,790	$ 52,887
Current portion of long-term debt	107	12,402
Accounts payable	68,060	49,919
Sundry payables and accrued expenses	35,583	29,280
Accrued customer returns	32,626	23,207
Accrued rebates	29,344	23,668
Payroll and commissions	24,074	23,468
Total current liabilities	231,584	214,831
Long-term debt	221	307
Accrued postretirement benefits	5,918	21,044
Other accrued liabilities	16,779	21,944
Accrued asbestos liabilities	26,248	24,792
Total liabilities	280,750	282,918
Commitments and contingencies		
Stockholders' equity:		
Common stock – par value $2.00 per share: Authorized – 30,000,000 shares; issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	78,723	77,471
Retained earnings	125,837	97,535
Accumulated other comprehensive income	4,396	716
Treasury stock – at cost 1,239,204 and 1,276,044 shares in 2011 and 2010, respectively	(13,835)	(13,711)

Total stockholders' equity	242,993	209,883
Total liabilities and stockholders' equity	$ 523,743	$ 492,801

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$33,090	$19,716
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	10,429	10,030
Increase (decrease) to allowance for doubtful accounts	(8)	778
Increase to inventory reserves	2,375	4,801
Amortization of deferred gain on sale of building	(786)	(786)
Gain on disposal of property, plant and equipment	(31)	(1,615)
Equity income from joint ventures	(327)	(116)
Employee stock ownership plan allocation	1,885	1,225
Stock-based compensation	1,541	1,256
Decrease in deferred income taxes	12,457	5,585
Decrease in unrecognized tax benefit	(454)	(1,084)
Loss on discontinued operations, net of tax	1,714	2,309
Change in assets and liabilities:		
Increase in accounts receivable	(30,583)	(47,166)
Decrease (increase) in inventories	8,615	(35,769)
Decrease in prepaid expenses and other current assets	349	481
Increase in accounts payable	8,507	20,683
Increase in sundry payables and accrued expenses	21,374	26,932
Net changes in other assets and liabilities	(12,859)	(2,324)
Net cash provided by operating activities	57,288	4,936
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant and equipment	35	11
Net cash received from the sale of land and buildings	—	2,559
Divestiture of joint ventures	1,273	1,000
European distribution business	1,317	—
Capital expenditures	(6,682)	(9,112)
Acquisitions of businesses and assets	(26,984)	(2,024)
Net cash used in investing activities	(31,041)	(7,566)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments of) borrowings under line-of-credit agreements	(11,097)	3,228
Principal payments of long-term debt and capital lease obligations	(12,381)	(5,399)
Increase in overdraft balances	9,441	10,625
Purchase of treasury stock	(3,285)	—
Proceeds from exercise of employee stock options	204	—
Excess tax benefits related to the exercise of employee stock grants	154	—
Adjustment to costs related to issuance of common stock	—	36
Payments of debt issuance cost	(400)	(56)

Dividends paid	(4,788)	(3,376)
Net cash (used in) provided by financing activities	(22,152)	5,058
Effect of exchange rate changes on cash	(1,332)	361
Net increase in cash and cash equivalents	2,763	2,789
CASH AND CASH EQUIVALENTS at beginning of period	12,135	10,618
CASH AND CASH EQUIVALENTS at end of period	$14,898	$13,407
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$2,340	$3,919
Income taxes	$10,354	$1,529

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Nine Months Ended September 30, 2011
(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2010	$47,872	$77,471	$97,535	$ 716	$(13,711)	$209,883
Comprehensive income:						
Net income			33,090			33,090
Foreign currency translation adjustment				(1,500)		(1,500)
Pension and retiree medical adjustment, net of tax				5,180		5,180
Total comprehensive income						36,770
Cash dividends paid			(4,788)			(4,788)
Purchase of treasury stock					(3,285)	(3,285)
Stock-based compensation and related tax benefits		683			1,012	1,695
Stock options and related tax benefits		21			183	204
Employee Stock Ownership Plan		548			1,966	2,514
Balance at September 30, 2011	$47,872	$78,723	$125,837	$ 4,396	$(13,835)	$242,993

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

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

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest. All significant inter-company items have been eliminated.

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

Immaterial Correction Related to Prior Periods

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

Note 2. Summary of Significant Accounting Policies

The preparation of consolidated annual and quarterly financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We have made a number of estimates and assumptions in the preparation of these consolidated financial statements. We can give no assurance that actual results will not differ from those estimates. Some of the more significant estimates include allowances for doubtful accounts, realizability of inventory, goodwill and other intangible assets, depreciation and amortization of long-lived assets, product liability, pensions and other postretirement benefits, asbestos, environmental and litigation matters, the valuation of deferred tax assets and sales return allowances.

The impact and any associated risks related to significant accounting policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

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

Goodwill Impairment Testing

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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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 3. Engine Controls Acquisition

In April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc., for $27 million in cash funded by our revolving line of credit. As part of the acquisition, we acquired certain assets and assumed certain liabilities of BLD's Engine Controls business in Holland, Michigan, and acquired 100% of the equity of Novo Products Inc. located in Ocala, Florida. The acquired business is a manufacturer of a range of products including fuel pressure regulators, air by-pass valves, idle air control valves, and PCV valves. Revenues generated from the acquired business were approximately $18 million for the year-ended December 31, 2010, of which approximately 40% of the volume was sold to us.

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

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

Note 4. Restructuring and Integration Costs

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2010 and 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

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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.

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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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.

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

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

Assets Held for Sale

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

Note 5. Sale of Receivables

From time to time, we sell undivided interests in certain of our receivables to financial institutions. We enter these agreements at our discretion when we determine that the cost of factoring is less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $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.

Note 6. Inventories, net

Inventories, which are stated at the lower of cost (determined by means of the first-in, first-out method) or market, consist of (in thousands):

	September 30, 2011	December 31, 2010
	(In thousands)	
Finished goods, net	$ 148,383	$ 162,885

Work in process, net	5,852	5,672
Raw materials, net	79,760	72,601
Total inventories, net	$233,995	$ 241,158

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 7. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Revolving credit facilities	$41,790	$ 52,887
15% convertible subordinated debentures (1)	--	12,300
Other	328	409
Total debt	$42,118	$ 65,596
Current maturities of debt	$41,897	$ 65,289
Long-term debt	221	307
Total debt	$42,118	$ 65,596

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

Deferred Financing Costs

We had deferred financing cost of $4.1 million and $4.9 million as of September 30, 2011 and December 31, 2010, respectively. Deferred financing costs are related to our revolving credit facility and 15% convertible subordinated debentures. Deferred financing costs as of September 30, 2011 are being amortized in the amount of $0.3 million in 2011, $1.2 million in 2012, $1.2 million in 2013, $1.1 million in 2014 and $0.3 million in 2015.

Revolving Credit Facility

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

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

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $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.

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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.

Canadian Revolving Credit Facility

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

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.

Subordinated Debentures

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

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Capital Leases

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of $0.2 million and $0.4 million, respectively. As of 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.

Note 8. Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of Accounting Standards Codification 718, "Stock Compensation," which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award.

Stock Option Grants

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2010	312,024	$13.12	3.2
Expired	(49,324)	$15.74	—
Exercised	(17,000)	$11.91	—
Forfeited, other	(1,500)	$14.23	3.0
Outstanding and exercisable at September 30, 2011	244,200	$12.67	3.1

The aggregate intrinsic value of all outstanding stock options as of September 30, 2011 was $0.2 million. All outstanding stock options as of September 30, 2011 are fully vested and exercisable. The total intrinsic value of options exercised was $42,489 for the nine months ended September 30, 2011. There were no options granted in the nine months ended September 30, 2011.

Restricted and Performance Stock Grants

As part of the 2006 Omnibus Incentive Plan, we currently grant shares of restricted and performance-based stock to eligible employees and directors. Selected executives and other key personnel are granted performance awards whose vesting is contingent upon meeting various performance measures with a retention feature. Performance-based shares are subject to a three year measuring period and the achievement of performance targets and, depending upon the achievement of such performance targets, they may become vested on the third anniversary of the date of grant. Each period we evaluate the probability of achieving the applicable targets, and we adjust our accrual accordingly. Restricted shares granted to employees become fully vested upon the third anniversary of the date of grant; and for selected key executives certain restricted share grants vest 25% upon the attainment of age 60, 25% upon the attainment of age 63 and become fully vested upon the attainment of age 65. Restricted shares granted to directors become fully vested upon the first anniversary of the date of grant. Forfeitures on restricted stock grants are estimated at 5% for employees and 0% for executives and directors, respectively, based on our evaluation of historical and expected future turnover.

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Our restricted and performance-based share activity was as follows for the nine months ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair Value Per Share
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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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 September 30,		Nine Months Ended September 30,	
Pension Benefits	2011	2010	2011	2010
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
Postretirement Benefits				
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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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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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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic Net Earnings Per Common Shares:				
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
Diluted Net Earnings Per Common Share:				
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
Plus incremental shares from assumed conversions:				
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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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