

STANDARD MOTOR PRODUCTS INC
Form 10-Q
August 03, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

Commission file number: 1-4743

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

New York	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 No

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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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. (Check one):

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

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

As of the close of business on July 31, 2010, there were 22,801,672 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

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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Net sales	\$ 231,048	\$ 197,498	\$ 410,399	\$ 369,720
Cost of sales	172,659	151,092	308,192	282,421
Gross profit	58,389	46,406	102,207	87,299
Selling, general and administrative expenses	41,803	36,813	78,468	72,832
Restructuring and integration expenses	1,289	1,210	2,042	2,373
Operating income	15,297	8,383	21,697	12,094
Other income, net	298	3,422	696	3,527
Interest expense	2,002	2,325	3,866	4,802
Earnings from continuing operations before taxes	13,593	9,480	18,527	10,819
Provision for income taxes	5,532	3,842	7,599	4,394
Earnings from continuing operations	8,061	5,638	10,928	6,425
Loss from discontinued operations, net of income taxes	(372)	(322)	(868)	(582)
Net earnings	\$ 7,689	\$ 5,316	\$ 10,060	\$ 5,843
Per share data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	\$ 0.36	\$ 0.30	\$ 0.49	\$ 0.34
Discontinued operations	(0.02)	(0.02)	(0.04)	(0.03)
Net earnings per common share – Basic	\$ 0.34	\$ 0.28	\$ 0.45	\$ 0.31
Net earnings per common share – Diluted:				
Earnings from continuing operations	\$ 0.35	\$ 0.30	\$ 0.48	\$ 0.34
Discontinued operations	(0.01)	(0.02)	(0.03)	(0.03)
Net earnings per common share – Diluted	\$ 0.34	\$ 0.28	\$ 0.45	\$ 0.31
Average number of common shares	22,570,886	18,814,723	22,493,031	18,705,997
Average number of common shares and dilutive common shares	23,529,898	20,014,439	22,584,666	18,720,479

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,717	\$ 10,618
Accounts receivable, less allowance for discounts and doubtful accounts of \$8,518 and \$6,962 for 2010 and 2009, respectively	173,538	124,823
Inventories	218,138	199,752
Deferred income taxes	16,862	18,129
Assets held for sale	433	1,405
Prepaid expenses and other current assets	9,966	9,487
Total current assets	433,654	364,214
Property, plant and equipment, net	61,776	61,478
Goodwill	1,437	1,437
Other intangibles, net	12,104	12,368
Deferred income taxes	27,333	29,542
Other assets	13,862	15,420
Total assets	\$ 550,166	\$ 484,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 69,795	\$ 58,430
Current portion of long-term debt	17,450	67
Accounts payable	85,364	54,381
Sundry payables and accrued expenses	26,284	24,114
Accrued customer returns	34,612	20,442
Accrued rebates	28,698	25,276
Payroll and commissions	19,038	21,913
Total current liabilities	281,241	204,623
Long-term debt	284	17,908
Post-retirement medical benefits	19,478	19,355
Other accrued liabilities	23,756	23,821
Accrued asbestos liabilities	24,135	24,874
Total liabilities	348,894	290,581
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	77,424	77,238
Retained earnings	87,897	80,083
Accumulated other comprehensive income	2,465	5,475
Treasury stock – at cost 1,338,919 and 1,562,649 shares in 2010 and 2009, respectively	(14,386)	(16,790)
Total stockholders' equity	201,272	193,878

Total liabilities and stockholders' equity	\$ 550,166	\$ 484,459
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See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended	
	June 30,	
	2010	2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 10,060	\$ 5,843
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,673	7,263
Increase in allowance for doubtful accounts	804	865
Increase in inventory reserves	2,241	2,993
Amortization of deferred gain on sale of building	(524)	(524)
Gain on disposal of property, plant and equipment	(151)	—
Gain on sale of investment	—	(2,336)
Equity loss (income) from joint ventures	19	(14)
Employee stock ownership plan allocation	817	171
Stock-based compensation	921	590
Decrease in deferred income taxes	3,475	—
Loss from discontinued operations, net of income taxes	868	582
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(49,519)	3,732
Decrease (increase) in inventories	(19,769)	36,495
Decrease (increase) in prepaid expenses and other current assets	(406)	1,351
Increase (decrease) in accounts payable	26,244	(2,317)
Increase in sundry payables and accrued expenses	16,983	21,016
Net changes in other assets and liabilities	(1,744)	(3,112)
Net cash provided by (used in) operating activities	(3,008)	72,598
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant and equipment	12	4
Net cash received from the sale of land and buildings	873	—
Divestiture of joint ventures	1,000	4,000
Proceeds from sale of preferred stock investment	—	3,896
Capital expenditures	(5,838)	(3,935)
Acquisitions of businesses and assets	(2,024)	(5,996)
Net cash used in investing activities	(5,977)	(2,031)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) under line-of-credit agreements	11,366	(58,000)
Net repayment of long-term debt	(312)	(508)
Increase (decrease) in overdraft balances	4,739	(2,476)
Adjustment to costs related to issuance of common stock	36	—
Payments of debt issuance cost	—	(3,790)
Dividends paid	(2,246)	—
Net cash provided by (used in) financing activities	13,583	(64,774)
Effect of exchange rate changes on cash	(499)	2,049
Net increase in cash and cash equivalents	4,099	7,842

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CASH AND CASH EQUIVALENTS at beginning of the period	10,618	6,608
CASH AND CASH EQUIVALENTS at end of the period	\$ 14,717	\$ 14,450

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$ 2,882	\$ 4,450
Income taxes	\$ 1,141	\$ 1,481

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Three Months Ended June 30, 2010

(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2010	\$ 47,872	\$ 77,230	\$ 81,336	\$ 4,719	\$ (14,908)	\$ 196,249
Comprehensive income:						
Net earnings			7,689			7,689
Foreign currency translation adjustment				(1,119)		(1,119)
Pension and retiree medical adjustment, net of tax				(1,135)		(1,135)
Total comprehensive income						5,435
Cash dividends paid			(1,128)			(1,128)
Stock-based compensation		194			522	716
Balance at June 30, 2010	\$ 47,872	\$ 77,424	\$ 87,897	\$ 2,465	\$ (14,386)	\$ 201,272

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2010

(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2009	\$ 47,872	\$ 77,238	\$ 80,083	\$ 5,475	\$ (16,790)	\$ 193,878
Comprehensive income:						
Net earnings			10,060			10,060
Foreign currency translation Adjustment				(723)		(723)
Pension and retiree medical adjustment, net of tax				(2,287)		(2,287)
Total comprehensive income						7,050
Cash dividends paid			(2,246)			(2,246)
Adjustment to costs related to issuance of common stock		36				36
Stock-based compensation		399			522	921
Employee Stock Ownership Plan		(249)			1,882	1,633
Balance at June 30, 2010	\$ 47,872	\$ 77,424	\$ 87,897	\$ 2,465	\$ (14,386)	\$ 201,272

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 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 and original equipment service markets.

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, 2009. 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 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.

Reclassification

Certain prior period amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2010 presentation.

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, 2009.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Recently Issued Accounting Pronouncements

Fair Value Measurements

On March 31, 2010, we adopted Accounting Standards Update (“ASU”) 2010-06, Improving Disclosures about Fair Value Measurements that requires companies to enhance the usefulness of fair value measurements by requiring both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. The adoption of this standard will impact how we disclose in the future any material transfers into and out of Level 1 (measurements based on quoted prices in active markets) and Level 2 inputs (measurements based on other observable inputs) of the fair value hierarchy. There were no such transfers in the first six months of 2010.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU 2009-13, which will update Accounting Standard Codification (“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 is January 1, 2011. We are currently evaluating the impact this new standard will have on our financial statements.

Note 3. Restructuring and Integration Costs

The aggregate liabilities relating to the restructuring and integration activities as of December 31, 2009 and June 30, 2010 and activity for the six months ended June 30, 2010 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 8,774	\$ 1,971	\$ 10,745
Restructuring and integration costs:			
Amounts provided for during 2010	1,234	808	2,042
Cash payments	(2,675)	(364)	(3,039)
Exit activity liability at June 30, 2010	\$ 7,333	\$ 2,415	\$ 9,748

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 \$2.4 million remaining as of June 30, 2010 that is expected to be paid in the amount of \$0.8 million in 2010, \$0.6 million in 2011, and \$1 million for the

period 2012-2015.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Activity, by segment, for the six months ended June 30, 2010 related to this program consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	\$ 1,395	\$ 385	\$ 1,422	\$ 3,202
Restructuring costs:				
Amounts provided for during 2010	96	—	—	96
Cash payments	(373)	(44)	(447)	(864)
Exit activity liability at June 30, 2010	\$ 1,118	\$ 341	\$ 975	\$ 2,434

Integration Expenses

Overhead Cost Reduction Program

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

Activity for the six months ended June 30, 2010 related to this program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 1,347	\$ —	\$ 1,347
Integration costs:			
Amounts provided for during 2010	1,218	727	1,945
Change in estimated expenses	(36)	—	(36)
Cash payments	(1,136)	(221)	(1,357)
Exit activity liability at June 30, 2010	\$ 1,393	\$ 506	\$ 1,899

Wire and Cable Relocation

As a result of our acquisition during 2009 of a wire and cable business and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility, integration costs were incurred related to employee severance and equipment relocation. As of June 30, 2010, all such costs have been fully paid.

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 532	\$ —	\$ 532
Integration costs:			
Amounts provided for during 2010	—	32	32
Cash payments	(532)	(32)	(564)

Exit activity liability at June 30, 2010	\$	—\$	—\$	—
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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Reynosa Integration Program

During 2006 and 2007, we announced plans for the closure of our Long Island City, New York and Puerto Rico manufacturing facilities and integration of operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City that was completed in March 2008, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of June 30, 2010, the reserve balance related to environmental clean-up at Long Island City of \$1.9 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 is payable quarterly for 20 years at \$0.3 million per year, which commenced in December 2008. As of June 30, 2010, the reserve balance related to the pension withdrawal liability of \$3.2 million is included in the workforce reduction reserve.

Activity for the six months ended June 30, 2010 related to this program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 3,693	\$ 1,971	\$ 5,664
Integration costs:			
Amounts provided for during 2010	(80)	49	(31)
Change in estimated expenses	36	—	36
Cash payments	(143)	(111)	(254)
Exit activity liability at June 30, 2010	\$ 3,506	\$ 1,909	\$ 5,415

Integration activity, by segment, for the six months ended June 30, 2010 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	\$ 7,017	\$ 364	\$ 162	\$ 7,543
Integration costs:				
Amounts provided for during 2010	1,200	746	—	1,946
Cash payments	(1,842)	(259)	(74)	(2,175)
Exit activity liability at June 30, 2010	\$ 6,375	\$ 851	\$ 88	\$ 7,314

Assets Held for Sale

As of June 30, 2010, we have reported \$0.4 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. and the closed facility in Reno, Nevada. Following plant closures resulting from integration activities, these facilities have been vacant and therefore a decision to solicit bids has been made. We are hopeful that a negotiated sale to a third-party will occur within the next twelve months, and we will record any resulting gain or loss in other income, net as appropriate. In January 2010, we sold our Wilson,

North Carolina property and in February 2010 we sold vacant land at one of our locations in the U.K.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 4. Sale of Receivables

We sell 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 \$112 million and \$194.2 million of receivables during the three months and six months ended June 30, 2010, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of \$1.7 million and \$2.9 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 six months ended June 30, 2010, respectively, and \$0.6 million and \$1 million for the comparable periods in 2009.

Note 5. Inventories

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):

	June 30, 2010	December 31, 2009
	(In thousands)	
Finished goods, net	\$ 142,170	\$ 130,054
Work in process, net	5,633	4,472
Raw materials, net	70,335	65,226
Total inventories, net	\$ 218,138	\$ 199,752

Note 6. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	June 30, 2010	December 31, 2009
	(In thousands)	
Revolving credit facilities	\$ 69,795	\$ 58,430
15% convertible subordinated debentures	12,300	12,300
15% unsecured promissory notes (1)	5,067	5,339
Other	367	336
Total debt	\$ 87,529	\$ 76,405
Current maturities of debt	\$ 87,245	\$ 58,497
Long-term debt	284	17,908
Total debt	\$ 87,529	\$ 76,405

(1) The 15% unsecured promissory notes were repaid in full in July 2010 with funds from our revolving credit facility.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Deferred Financing Costs

We had deferred financing costs of \$4.7 million and \$5.6 million as of June 30, 2010 and December 31, 2009, respectively. These costs relate to our revolving credit facility and the 15% convertible subordinated debentures. Deferred financing costs as of June 30, 2010 are being amortized, assuming no further prepayments of principal, in the amount of \$1 million in 2010, \$1.7 million in 2011, \$1.6 million in 2012 and \$0.4 million in 2013.

Revolving Credit Facility

In March 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended) provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2013. 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.

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 \$117.4 million available for us to borrow pursuant to the formula at June 30, 2010. At June 30, 2010 and December 31, 2009, the interest rate on our restated credit agreement was 4.5% and 4.1%, respectively. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$69.8 million and \$58.4 million at June 30, 2010 and December 31, 2009, respectively.

At any time that our average borrowing availability over the previous thirty days is less than \$30 million or if our borrowing availability is \$20 million or less, and until such time that we have maintained an average borrowing availability of \$30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of June 30, 2010, 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. Based upon amounts outstanding as of June 30, 2010, beginning October 15, 2010 and on a monthly basis thereafter, our borrowing availability will be reduced by approximately \$2.9 million for the repayment, repurchase or redemption of the aggregate outstanding amount of our 15% convertible subordinated debentures and our 15% unsecured promissory notes due April 15, 2011. In July 2010, we prepaid the remaining outstanding principal amount of our 15% unsecured promissory notes due April 15, 2011. As a result of the prepayment, the reduction of our borrowing availability beginning October 15, 2010 has been reduced on a monthly basis from \$2.9 million to \$2 million. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Canadian Revolving Credit Facility

In May 2010, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provides for the conversion of the then existing \$10 million line of credit into a revolving credit facility. The amendment also modifies certain provisions of the amended Canadian Credit Agreement to parallel the revolving credit provisions of our restated credit agreement with General Electric Capital Corporation (described above). As of June 30, 2010, \$7 million of the \$10 million available line of credit is outstanding and is part of the \$200 million available for borrowing under our restated credit agreement with General Electric Capital Corporation. The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in March 2013. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation.

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 15% convertible subordinated debentures carry an interest rate of 15% payable semi-annually, and will mature on April 15, 2011. As of June 30, 2010, the \$12.3 million principal amount of the 15% convertible subordinated debentures is convertible into 820,000 shares of our common stock; each at the option of the holder. The convertible subordinated debentures are subordinated in right of payment to all of our existing and future senior indebtedness. In addition, if a change in control, as defined in the agreement, occurs at the Company, we will be required to make an offer to purchase the convertible subordinated debentures at a purchase price equal to 101% of their aggregate principal amount, plus accrued interest.

Unsecured Promissory Notes to Related Parties

In July 2009, we issued \$5.4 million aggregate principal amount of 15% unsecured promissory notes to certain directors and executive officers and to the trustees of our Supplemental Executive Retirement Plan on behalf of the plan participants. In July 2010, we prepaid the remaining outstanding principal amount with funds from our revolving credit facility. The 15% unsecured promissory notes would have matured on April 15, 2011, carried an interest rate of 15%, payable semi-annually, were not convertible into common stock and may have been prepaid prior to maturity. The 15% unsecured promissory notes were subordinated in right of payment to all of our existing and future senior indebtedness. Prepayments of the principal amount had been made to fund annual or quarterly unfunded Supplemental Executive Retirement Plan distributions to participants, as required.

Capital Leases

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of \$0.1 million and \$0.4 million, respectively. As of June 30, 2010, our remaining capital lease obligations totaled \$0.4 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.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 7. Stock-Based Compensation Plans

We account for our five 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 six months ended June 30, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2009	378,095	\$ 13.26	3.7
Expired	(52,671)	\$ 14.33	—
Exercised	—	—	—
Forfeited, other	(8,900)	\$ 12.75	5.5
Outstanding at June 30, 2010	316,524	\$ 13.10	3.2
Options exercisable at June 30, 2010	316,524	\$ 13.10	3.2

There was no aggregate intrinsic value of all outstanding stock options as of June 30, 2010. All outstanding stock options as of June 30, 2010 are fully vested and exercisable. There were no stock options granted in the six months ended June 30, 2010 and 2009, and for the period ended June 30, 2010, we had no unrecognized compensation cost related to stock options and non-vested stock options. There were no options exercised during the first six months of 2010.

Restricted and Performance Stock Grants

As part of the 2006 Omnibus Incentive Plan, we currently grant shares of restricted and/or 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 become fully vested upon the third and first anniversary of the date of grant for employees and directors, respectively. 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.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Our restricted and performance-based share activity was as follows for the six months ended June 30, 2010:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2009	288,425	\$ 9.40
Granted	6,000	\$ 7.94
Vested	(6,000)	\$ 4.70
Forfeited	(925)	\$ 11.04
Balance at June 30, 2010	287,500	\$ 9.30

We recorded compensation expense related to restricted shares and performance-based shares of \$551,000 (\$320,100 net of tax) and \$207,200 (\$123,050 net of tax) for the six months ended June 30, 2010 and 2009, respectively. The unamortized compensation expense related to our restricted and performance-based shares was \$1.5 million at June 30, 2010, and is expected to be recognized as they vest over a weighted average period of 1.3 and 0.8 years for employees and directors, respectively.

Note 8. Employee Benefits

The components of net periodic benefit cost for our defined benefit plans and post retirement benefit plans for the three months and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Pension Benefits (1)				
Service cost	\$ 22	\$ 22	\$ 45	\$ 43
Interest cost	36	72	73	144
Amortization of prior service cost	40	28	80	55
Actuarial net (gain) loss	—	(33)	—	(65)
Net periodic benefit cost	\$ 98	\$ 89	\$ 198	\$ 177
Postretirement Benefits				
Service cost	\$ 41	\$ 74	\$ 96	\$ 149
Interest cost	330	273	613	547
Amortization of prior service cost	(2,257)	(2,317)	(4,515)	(4,634)
Amortization of transition obligation	1	1	2	2
Actuarial net loss	368	383	687	767
Net periodic benefit cost	\$ (1,517)	\$ (1,586)	\$ (3,117)	\$ (3,169)

(1) The components of net periodic benefit costs for the three and six months ended June 30, 2009 include the cost related to the U.K. pension plan which was disposed of in November 2009 in connection with the sale of our European distribution business.

For the six months ended June 30, 2010, we made employee benefit contributions of \$0.6 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 2010.

In August 1994, we established an unfunded Supplemental Executive Retirement Plan (SERP) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In August 2009, contributions of \$73,500 were made related to calendar year 2008. In March 2010, contributions of \$67,000 were made related to calendar year 2009.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In 2000, we created an employee benefits trust to which we contributed 750,000 shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under employee benefit plans. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During 2010, we contributed to the trust an additional 170,000 shares from our treasury and released 175,075 shares from the trust leaving 6,930 shares remaining in the trust as of June 30, 2010.

Note 9. 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.

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 June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 14,717	\$ 14,717	\$ 10,618	\$ 10,618
Deferred compensation	5,409	5,409	5,319	5,319
Short term borrowings	87,245	87,245	58,497	58,497
Long-term debt	284	284	17,908	17,908

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 and based upon the quoted market price of our publicly traded 15% convertible subordinated debentures which is used as a proxy for funds invested in the 15% unsecured promissory notes, 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 long-term debt is based upon the quoted market price of our publicly traded 15% convertible subordinated debentures which was also used as a proxy for our 15% unsecured promissory notes, and which is considered a Level 1 input.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 10. 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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Basic Net Earnings per Common Shares:				
Earnings from continuing operations	\$ 8,061	\$ 5,638	\$ 10,928	\$ 6,425
Loss from discontinued operations	(372)	(322)	(868)	(582)
Net earnings available to common stockholders	\$ 7,689	\$ 5,316	\$ 10,060	\$ 5,843
Weighted average common shares outstanding	22,571	18,815	22,493	18,706
Net earnings from continuing operations per common share	\$ 0.36	\$ 0.30	\$ 0.49	\$ 0.34
Loss from discontinued operations per common share	(0.02)	(0.02)	(0.04)	(0.03)
Basic net earnings per common share	\$ 0.34	\$ 0.28	\$ 0.45	\$ 0.31
Diluted Net Earnings per Common Share:				
Earnings from continuing operations	\$ 8,061	\$ 5,638	\$ 10,928	\$ 6,425
Interest income on debenture conversions (net of income tax expense)	277	280	–	–
Earnings from continuing operations plus assumed conversions	8,338	5,918	10,928	6,425
Loss from discontinued operations	(372)	(322)	(868)	(582)
Net earnings available to common stockholders plus assumed conversions	\$ 7,966	\$ 5,596	\$ 10,060	\$ 5,843
Weighted average common shares outstanding	22,571	18,815	22,493	18,706
Plus incremental shares from assumed conversions:				
Dilutive effect of restricted stock	139	52	92	14
Dilutive effect of convertible debentures	820	1,147	–	–
Weighted average common shares outstanding – Diluted	23,530	20,014	22,585	18,720
Net earnings from continuing operations per common share	\$ 0.35	\$ 0.30	\$ 0.48	\$ 0.34
Loss from discontinued operations per common share	(0.01)	(0.02)	(0.03)	(0.03)
Diluted net earnings per common share	\$ 0.34	\$ 0.28	\$ 0.45	\$ 0.31

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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Stock options	317	430	317	430
Restricted shares	61	110	108	162
6.75% convertible subordinated debentures	–	–	–	1,270
15% convertible subordinated debentures	–	505	820	254

Note 11. Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net earnings as reported	\$ 7,689	\$ 5,316	\$ 10,060	\$ 5,843
Foreign currency translation adjustment	(1,119)	3,229	(723)	2,049
Postretirement benefit plans:				
Reclassification adjustment for recognition of prior period amounts	(1,356)	(1,624)	(2,699)	(2,937)
Unrecognized amounts	221	210	412	420
Total comprehensive income	\$ 5,435	\$ 7,131	\$ 7,050	\$ 5,375

Note 12. Industry Segments

In November 2009, we sold our European distribution business to the managers of the business for £1.8 million (\$3 million) in cash and a promissory note and approximately £1.4 million (\$2.3 million) in assumed debt. In connection with the sale, we retained our manufacturing operation in Poland, certain land available for sale in the United Kingdom, and a small investment is a joint venture. The third-party owned European operations will continue to buy manufactured product from our facility in Poland and from our domestic operations through two separate supply agreements. As such, we are expected to receive significant continuing cash flows as a result of a continuation of activities between us and the disposed business (the European operations), and therefore the European operation's results of operations have not been presented as a discontinued operation.

Effective January 1, 2010, as a result of the sale of our European distribution business, we realigned our business segments to more clearly reflect our evolving business model. The realignment consisted of moving the results of our Poland manufacturing facility within the Engine Management Segment to reflect the change in responsibility for the operating activities, financial results, forecasts, and strategic plans for the facility to the management of this segment. Results for the three months and six months ended June 30, 2009 have been reclassified to reflect this realignment.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net Sales				
Engine Management	\$ 152,815	\$ 122,986	\$ 289,912	\$ 247,299
Temperature Control	73,926	65,661	113,941	105,921
Europe	–	7,325	–	14,046
All Other	4,307	1,526	6,546	2,454
Consolidated	\$ 231,048	\$ 197,498	\$ 410,399	\$ 369,720
Intersegment Revenue				
Engine Management	\$ 4,576	\$ 3,946	\$ 9,008	\$ 11,206
Temperature Control	1,004	1,122	1,923	1,820
Europe	–	71	–	92
All Other	(5,580)	(5,139)	(10,931)	(13,118)
Consolidated	\$ –	\$ –	\$ –	\$ –
Operating Profit				
Engine Management	\$ 10,339	\$ 8,804	\$ 19,889	\$ 16,378
Temperature Control	7,282	2,967	7,304	1,638
Europe	–	(868)	–	(647)
All Other	(2,324)	(2,520)	(5,496)	(5,275)
Consolidated	\$ 15,297	\$ 8,383	\$ 21,697	\$ 12,094

Note 13. Commitments and Contingencies

Asbestos. In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At June 30, 2010, approximately 1,534 cases were outstanding for which we were responsible for any related liabilities. Since inception in September 2001 through June 30, 2010, the amounts paid for settled claims are approximately \$9.7 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 have submitted various asbestos-related claims for coverage under this agreement, and received approximately \$2.3 million in reimbursement for settlement claims and defense costs. We have submitted additional asbestos-related claims to such insurance carrier for coverage. 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 will submit claims to this carrier after we have exhausted our coverage under the agreement with the primary insurance carrier discussed above.

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

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The most recent actuarial study was performed as of August 31, 2009. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$26.6 million to \$66.3 million for the period through 2059. The change from the prior year study was a \$1.3 million increase for the low end of the range and a \$2.9 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 \$2.2 million provision in our discontinued operation was added to the asbestos accrual in September 2009 increasing the reserve to approximately \$26.6 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 \$21.4 million to \$42 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. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend this lawsuit vigorously.

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.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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 June 30, 2010 and 2009, we have accrued \$13.8 million and \$12 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.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 10,565	\$ 10,523	\$ 10,476	\$ 10,162
Liabilities accrued for current year sales	14,077	12,168	24,604	22,444
Settlements of warranty claims	(10,819)	(10,686)	(21,257)	(20,601)
Balance, end of period	\$ 13,823	\$ 12,005	\$ 13,823	\$ 12,005

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

This Report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects” and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, our substantial leverage; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket sector; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; successful integration of acquired businesses; 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 and original equipment service markets. 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.

In 2010, as a result of the sale of our European distribution business, we realigned our business segments to more clearly reflect our evolving business model. The realignment consisted of moving the results of our Poland manufacturing facility within the Engine Management Segment to reflect the change in responsibility for the operating activities, financial results, forecasts, and strategic plans for the facility to the management of this segment.

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/CSK Auto, 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 focusing on company-wide overhead and operating expense cost reduction programs, such as closing excess facilities and consolidating redundant functions.

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

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

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

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

Interim Results of Operations:

Comparison of Three Months Ended June 30, 2010 to Three Months Ended June 30, 2009

Sales. Consolidated net sales for the three months ended June 30, 2010 were \$231 million, an increase of \$33.5 million, or 17%, compared to \$197.5 million in the same period of 2009. The increase in net sales is due to higher sales in our Engine Management and Temperature Control segments, offset by a \$7.3 million decrease related to the sale of our European distribution business.

The following table summarizes net sales and gross margins by segment for the quarters ended June 30, 2010 and 2009, respectively:

Three Months Ended June 30,	Engine Management	Temperature Control	Europe	Other	Total
2010					
Net sales	\$ 152,815	\$ 73,926	\$ —	\$ 4,307	\$ 231,048
Gross margins	37,488	17,707	—	3,194	58,389
Gross margin percentage	24.5%	24%	—	—	25.3%
2009					
Net sales	\$ 122,986	\$ 65,661	\$ 7,325	\$ 1,526	\$ 197,498
Gross margins	31,077	11,462	1,871	1,996	46,406
Gross margin percentage	25.3%	17.5%	25.5%	—	23.5%

Engine Management's net sales increased \$29.8 million, or 24.3%, to \$152.8 million for the second quarter of 2010. The sales growth was driven by continued stronger sales across all markets including a rebound in the OE/OES markets, which were down significantly in 2009, and inventory increases on the part of several customers as they return to more normalized stocking levels. In addition, incremental sales from our acquisition of Federal Mogul's wire and cable business, which began shipping in September 2009, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased \$8.3 million, or 12.6%, to \$73.9 million for the second quarter of 2010. The increase in sales primarily reflects incremental new business in our retail market and an increase in demand in both the retail and traditional markets as customer built up inventories in response to warmer temperatures.

Gross margins. Gross margins, as a percentage of consolidated net sales, increased to 25.3% in the second quarter of 2010, compared to 23.5% in the second quarter of 2009. The increase resulted from improvements in Temperature Control margins of 6.5 percentage points, partially offset by a 0.8 percentage point decrease to Engine Management margins. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of increased production improving fixed overhead absorption while the Engine Management gross margin percentage was negatively impacted by higher mix of OE/OES sales volumes and mix of lower margin products, offset, in part, by improving fixed overhead absorption resulting from increased production.

Selling, general and administrative expenses. Selling, general and administrative expenses (SG&A) increased by \$5 million to \$41.8 million or 18.1% of consolidated net sales, in the second quarter of 2010, as compared to \$36.8 million, or 18.6% of consolidated net sales in the second quarter of 2009. The increase in SG&A expenses is due primarily to an incremental increase in selling, marketing and distribution expenses as a result of higher sales volumes, partially offset by a reduction in administration expenses. Expenses related to the sale of receivables, which are included in SG&A, were \$1.7 million in the second quarter of 2010 compared to \$0.6 million in the same period

of last year.

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Restructuring and integration expenses. Restructuring and integration expenses increased slightly to \$1.3 million in the second quarter of 2010, compared to \$1.2 million in the second quarter of 2009. The 2010 expense related primarily to severance 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. The 2009 expense related primarily to demolition costs incurred at our European properties held for sale and other exit costs incurred in connection with the closure of our Edwardsville, Kansas manufacturing operations and Wilson, North Carolina facility.

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

	Engine Management	Temperature Control	Other	Total
Exit activity liability at March 31, 2010	\$ 7,407	\$ 859	\$ 1,299	\$ 9,565
Restructuring and integration costs:				
Amounts provided for during 2010	866	423	—	1,289
Cash payments	(780)	(90)	(236)	(1,106)
Exit activity liability at June 30, 2010	\$ 7,493	\$ 1,192	\$ 1,063	\$ 9,748

Operating income. Operating income was \$15.3 million in the second quarter of 2010, compared to \$8.4 million in the second quarter of 2009. The increase of \$6.9 million was primarily due to the higher net sales and an increase in Temperature Control gross margins, partially offset by increased SG&A expenses.

Other income, net. Other income, net decreased to \$0.3 million in the second quarter of 2010 compared to \$3.4 million in the same period in 2009. In the second quarter of 2009, we redeemed our investment in the preferred stock of a third party issuer resulting in a pretax gain of \$2.3 million.

Interest expense. Interest expense decreased by \$0.3 million in the second quarter of 2010 compared to the same period in 2009 due to lower average borrowings partially offset by higher average interest rates.

Income tax provision. The income tax provision in the second quarter of 2010 was \$5.5 million at an effective tax rate of 40.7% compared to \$3.8 million and an effective tax rate of 40.5% for the same period in 2009. The effective tax rate was essentially flat year over year.

Loss from discontinued operation. Loss from discontinued operation, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded \$0.4 million and \$0.3 million as a loss from discontinued operation for the second quarter of 2010 and 2009, respectively. As discussed more fully in Note 13 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

Comparison of Six Months Ended June 30, 2010 to Six Months Ended June 30, 2009

Sales. Consolidated net sales for the six months ended June 30, 2010 were \$410.4 million, an increase of \$40.7 million, or 11%, compared to \$369.7 million in the same period of 2009. The increase in net sales is due to higher sales in our Engine Management and Temperature Control Segments offset by a \$14 million decrease related to the sale of our European distribution business.

The following table summarizes net sales and gross margins by segment for the six months ended June 30, 2010 and 2009, respectively:

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Six Months Ended June 30,	Engine Management	Temperature Control	Europe	Other	Total
2010					
Net sales	\$ 289,912	\$ 113,941	\$ —	6,546	\$ 410,399
Gross margins	70,622	25,960	—	5,625	102,207
Gross margin percentage	24.4%	22.8%	—	—	24.9%

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Six Months Ended June 30,	Engine Management	Temperature Control	Europe	Other	Total
2009					
Net sales	\$ 247,299	\$ 105,921	\$ 14,046	\$ 2,454	\$ 369,720
Gross margins	61,603	17,708	3,698	4,290	87,299
Gross margin percentage	24.9%	16.7%	26.3%	—	23.6%

Engine Management's net sales increased \$42.6 million, or 17.2%, to \$289.9 million for the first six months of 2010. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels including inventory increases on the part of several customers as they return to more normalized stocking levels. In addition, incremental sales from our acquisition of Federal Mogul's wire and cable business, which began shipping in September 2009, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased \$8 million, or 7.6%, to \$113.9 million for the first six months of 2010. The increase in sales primarily reflects incremental new business in our retail market and continued strong demand in our traditional business.

Gross margins. Gross margins, as a percentage of consolidated net sales, for the six months ended June 30, 2010 increased to 24.9% compared to 23.6% the same period of 2009. The increase resulted from a 6.1 percentage point increase in Temperature Control margins offset, in part, by a decrease in Engine Management margins of 0.5 percentage points. Temperature Control's gross margin increase resulted primarily from favorable manufacturing and price variances as sales volumes increased due to stronger demand and incremental new sales. The decrease in the Engine Management margins was the result of a higher mix of OE/OES sales volumes and mix of lower margin products, offset, in part, by improving fixed overhead absorption resulting from increased production.

Selling, general and administrative expenses. Selling, general and administrative expenses (SG&A) increased by \$5.7 million to \$78.5 million or 19.1% of consolidated net sales, in the six months ended June 30, 2010, as compared to \$72.8 million, or 19.7% of consolidated net sales in like period of 2009. The increase in SG&A expenses is due primarily to higher selling, marketing and distribution expenses as a result of the increase in sales. Expenses related to the sale of receivables, which are included in SG&A, were \$2.9 million in the six months ended June 30, 2010 compared to \$1 million in the same period last year.

Restructuring and integration expenses. Restructuring and integration expenses decreased to \$2 million for the six months ended June 30, 2010, compared to \$2.4 million in the same period of 2009. The 2010 expense related primarily to severance 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. The 2009 expense related primarily to severance and other exit costs incurred in connection with the closure of our Edwardsville, Kansas manufacturing operations and Wilson, North Carolina facility and building demolition costs incurred at our European properties held for sale.

Operating income. Operating income was \$21.7 million in the first six months of 2010, compared to \$12.1 million in 2009. The increase of \$9.6 million was due primarily to stronger sales across all markets of our Engine Management Segment including a rebound in the OE/OES markets and higher sales volumes and favorable manufacturing variances in our Temperature Control Segment, offset, in part, by an increase in SG&A expenses.

Other income, net. Other income, net decreased to \$0.7 million for the six months ended June 30, 2010 compared to \$3.5 million in the same period in 2009. In 2010, other income, net included a \$0.2 million gain on the sale of vacant land at one of our locations in the U.K. In the second quarter of 2009, we redeemed our investment in the preferred stock of a third party issuer resulting in a pretax gain of \$2.3 million.

Interest expense. Interest expense decreased by \$0.9 million to \$3.9 million in the six months ended June 30, 2010, compared to \$4.8 million in the same period in 2009. The decline is due primarily to lower average borrowings partially offset by higher average interest rates.

Income tax provision. The income tax provision in the six months ended June 30, 2010 was \$7.6 million at an effective tax rate of 41%, compared to \$4.4 million and an effective tax rate of 40.6% for the same period in 2009. The effective tax rate was essentially flat year over year.

Loss from discontinued operation. Loss from discontinued operation, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded \$0.9 million and \$0.6 million as a loss from discontinued operation for the six months ended June 30, 2010 and 2009, respectively. As discussed more fully in Note 13 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

Restructuring and Integration Costs

The aggregated liabilities relating to the restructuring and integration activities as of December 31, 2009 and June 30, 2010 and activity for the six months ended June 30, 2010, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 8,774	\$ 1,971	\$ 10,745
Restructuring and integration costs:			
Amounts provided for during 2010	1,234	808	2,042
Cash payments	(2,675)	(364)	(3,039)
Exit activity liability at June 30, 2010	\$ 7,333	\$ 2,415	\$ 9,748

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 \$2.4 million remaining as of June 30, 2010 that is expected to be paid in the amount of \$0.8 million in 2010, \$0.6 million in 2011, and \$1 million for the period 2012-2015.

Activity for the six months ended June 30, 2010 related to this program, by segment, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	\$ 1,395	\$ 385	\$ 1,422	\$ 3,202
Restructuring costs:				
Amounts provided for during 2010	96	—	—	96
Cash payments	(373)	(44)	(447)	(864)
Exit activity liability at June 30, 2010	\$ 1,118	\$ 341	\$ 975	\$ 2,434

Integration Expenses

Overhead Cost Reduction Program

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

Activity for the six months ended June 30, 2010 related to this program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 1,347	\$ —	\$ 1,347
Integration costs:			
Amounts provided for during 2010	1,218	727	1,945
Change in estimated expenses	(36)	—	(36)
Cash payments	(1,136)	(221)	(1,357)
Exit activity liability at June 30, 2010	\$ 1,393	\$ 506	\$ 1,899

Wire and Cable Relocation

As a result of our acquisition during 2009 of a wire and cable business and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility, integration costs were incurred related to employee severance and equipment relocation. As of June 30, 2010, all such costs have been fully paid.

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 532	\$ —	\$ 532
Integration costs:			
Amounts provided for during 2010	—	32	32
Cash payments	(532)	(32)	(564)
Exit activity liability at June 30, 2010	\$ —	\$ —	\$ —

Reynosa Integration Program

During 2006 and 2007, we announced plans for the closure of our Long Island City, New York and Puerto Rico manufacturing facilities and integration of operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City that was completed in March of 2008, we incurred severance costs and costs associated with equipment removal, capital expenditures, and environmental clean-up. As of June 30, 2010, the reserve balance related to environmental clean-up at Long Island City of \$1.9 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 is payable quarterly for 20 years at \$0.3 million per year, which

commenced in December 2008. As of June 30, 2010, the reserve balance related to the pension withdrawal liability of \$3.2 million is included in the workforce reduction reserve.

Activity for the six months ended June 30, 2010 related to this program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2009	\$ 3,693	\$ 1,971	\$ 5,664
Integration costs:			
Amounts provided for during 2010	(80)	49	(31)
Change in estimated expenses	36	—	36
Cash payments	(143)	(111)	(254)
Exit activity liability at June 30, 2010	\$ 3,506	\$ 1,909	\$ 5,415

Integration activity for the six months ended June 30, 2010 related to our aggregate integration programs, by segment, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2009	\$ 7,017	\$ 364	\$ 162	\$ 7,543
Integration costs:				
Amounts provided for during 2010	1,200	746	—	1,946
Cash payments	(1,842)	(259)	(74)	(2,175)
Exit activity liability at June 30, 2010	\$ 6,375	\$ 851	\$ 88	\$ 7,314

Liquidity and Capital Resources

Operating Activities. During the first six months of 2010, cash used in operations amounted to \$3 million compared to cash provided by operations of \$72.6 million in the same period of 2009. The year-over-year decrease is primarily the result of higher accounts receivables due to an increase in sales volumes and the build-up of inventory levels in response to increased demand, partially offset by higher payables and accrued expenses.

Investing Activities. Cash used in investing activities was \$6 million in the first six months of 2010, compared to \$2 million in the first six months of 2009. During 2010, we received a \$1 million payment related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships and received proceeds of \$0.9 million from the sale of our Wilson, North Carolina 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.

Investing activities in 2009 included a \$6 million payment to complete our core sensor asset purchase transaction entered in 2008 offset, in part, by a \$4 million cash receipt in connection with our joint venture divestiture and \$3.9 million in proceeds received in connection with the redemption of preferred stock of a third-party issuer. Capital expenditures in the first six months of 2010 were \$5.8 million compared to \$3.9 million in the comparable period last year.

Financing Activities. Cash provided by financing activities was \$13.6 million in the first six months of 2010, compared to cash used in financing activities of \$64.8 million in the same period of 2009. The increase is primarily due to higher borrowings and an increase in cash overdrafts compared to the same period of 2009. During 2010 increased borrowings were used to finance the increase in working capital resulting from the increase in sales volumes and inventory build-up and to finance cash used in investing activities while during 2009, we reduced our borrowings under our revolving credit facilities by \$58 million reflecting the impact of the accounts receivable factoring programs and improved working capital management. Dividends of \$2.2 million were paid in the first six months of 2010. No

dividends were paid in 2009.

In March 2007, we entered into a Second Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended) provides for a line of credit of up to \$200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2013. 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.

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 \$117.4 million available for us to borrow pursuant to the formula at June 30, 2010. At June 30, 2010 and December 31, 2009, the interest rate on our restated credit agreement was 4.5% and 4.1%, respectively. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were \$69.8 million and \$58.4 million at June 30, 2010 and December 31, 2009, respectively.

At any time that our average borrowing availability over the previous thirty days is less than \$30 million or if our borrowing availability is \$20 million or less, and until such time that we have maintained an average borrowing availability of \$30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of June 30, 2010, 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. Based upon amounts outstanding as of June 30, 2010, beginning October 15, 2010 and on a monthly basis thereafter, our borrowing availability will be reduced by approximately \$2.9 million for the repayment, repurchase or redemption of the aggregate outstanding amount of our 15% convertible subordinated debentures and our 15% unsecured promissory notes due April 15, 2011. In July 2010, we prepaid the remaining outstanding principal amount of our 15% unsecured promissory notes due April 15, 2011. As a result of the prepayment, the reduction of our borrowing availability beginning October 15, 2010 has been reduced on a monthly basis from \$2.9 million to \$2 million. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

In May 2010, we amended our credit agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provides for the conversion of the then existing \$10 million line of credit into a revolving credit facility. The amendment also modifies certain provisions of the amended Canadian Credit Agreement to parallel the revolving credit provisions of our restated credit agreement with General Electric Capital Corporation (described above). As of June 30, 2010, \$7 million of the \$10 million available line of credit is outstanding and is part of the \$200 million available for borrowing under our restated credit agreement with General Electric Capital Corporation. The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries and expires in March 2013. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation.

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 15% convertible subordinated debentures carry an interest rate of 15% payable semi-annually, and will mature on April 15, 2011. As of June 30, 2010, the \$12.3 million principal amount of the 15% convertible subordinated debentures is convertible into 820,000 shares of our common stock; each at the option of the holder. The convertible subordinated debentures are subordinated in right of payment to all of our existing and

future senior indebtedness. In addition, if a change in control, as defined in the agreement, occurs at the Company, we will be required to make an offer to purchase the convertible subordinated debentures at a purchase price equal to 101% of their aggregate principal amount, plus accrued interest.

In July 2009, we issued \$5.4 million aggregate principal amount of 15% unsecured promissory notes to certain directors and executive officers and to the trustees of our Supplemental Executive Retirement Plan on behalf of the plan participants. In July 2010, we prepaid the remaining outstanding principal amount with funds from our revolving credit facility. The 15% unsecured promissory notes would have matured on April 15, 2011, carried an interest rate of 15%, payable semi-annually, were not convertible into common stock and may have been prepaid prior to maturity. The 15% unsecured promissory notes were subordinated in right of payment to all of our existing and future senior indebtedness. Prepayments of the principal amount had been made to fund annual or quarterly unfunded Supplemental Executive Retirement Plan distributions to participants, as required.

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of \$0.1 million and \$0.4 million, respectively. As of June 30, 2010, our remaining capital lease obligations totaled \$0.4 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In order to reduce our accounts receivable balances and improve our cash flow, we sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold \$112 million and \$194.2 million of receivables during the three months and six months ended June 30, 2010, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of \$1.7 million and \$2.9 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 six months ended June 30, 2010, respectively, and \$0.6 million and \$1 million for the comparable periods in 2009.

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 significant 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 substantial 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, 2009.

The following table summarizes our contractual commitments as of December 31, 2009 and expiration dates of commitments through 2028:

(in thousands)	2010	2011	2012	2013	2014	2015- 2028	Total
Principal payments of long term debt (1)	\$ -	\$ 17,639	\$ -	\$ -	\$ -	\$ -	\$ 17,639
Lease obligations	8,928	7,685	5,979	5,905	5,187	9,879	43,563
Postretirement benefits	1,080	1,104	1,135	1,182	1,238	11,645	17,384
Severance payments related to restructuring and integration	4,097	920	751	652	530	3,876	10,826
Total commitments	\$ 14,105	\$ 27,348	\$ 7,865	\$ 7,739	\$ 6,955	\$ 25,400	\$ 89,412

- (1) The \$5.1 million principal amount of the 15% unsecured promissory notes due April 2011 was repaid in full in July 2010 with funds from our revolving credit facility.

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, 2009. 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.

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 June 30, 2010, the allowance for sales returns was \$34.6 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 June 30, 2010, the allowance for doubtful accounts and for discounts was \$8.5 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 June 30, 2010, we had a valuation allowance of \$29.8 million, due to uncertainties related to our ability to utilize some of our deferred tax assets. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable.

In the event that actual results differ from these estimates, or we adjust these estimates in future periods for current trends or expected changes in our estimating assumptions, we may need to modify the level of valuation allowance

which could materially impact our business, financial condition and results of operations.

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 consists 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 Post-Retirement 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, the discount rate used to value the future obligation, and expected return on plan assets. The discount rate reflects the yields available on high-quality, fixed-rate debt securities. The expected return on assets is based on our current review of the long-term returns on assets held by the plans, which is influenced by historical averages.

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, 2009 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$26.6 million to \$66.3 million for the period through 2059. As a result, in September 2009 an incremental \$2.2 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately \$26.6 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 \$21.4 million to \$42 million during the same period. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a loss or gain from discontinued operation. The aforementioned estimated settlement payments and legal costs do not reflect any limited coverage that we may obtain pursuant to an agreement with an insurance carrier 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.

Recently Issued Accounting Pronouncements

Fair Value Measurements

On March 31, 2010, we adopted Accounting Standards Update (“ASU”) 2010-06, Improving Disclosures about Fair Value Measurements that requires companies to enhance the usefulness of fair value measurements by requiring both the disaggregation of information in certain existing disclosures, as well as the inclusion of more robust disclosures about valuation techniques and inputs to recurring and nonrecurring fair value measurements. The adoption of this standard will impact how we disclose in the future any material transfers into and out of Level 1 (measurements based on quoted prices in active markets) and Level 2 (measurements based on other observable inputs) inputs of the fair value hierarchy. There were no such transfers in the first six months of 2010.

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 is January 1, 2011. We are currently evaluating the impact this new standard will have on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British Pound, the Euro, the Polish zloty and the Hong Kong dollar. As of June 30, 2010 and December 31, 2009, 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 79.7% at June 30, 2010 and 76.5% at December 31, 2009.

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, 2009.

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 June 30, 2010, 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.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At June 30, 2010, approximately 1,534 cases were outstanding for which we were responsible for any related liabilities. Since inception in September 2001 through June 30, 2010, the amounts paid for settled claims are approximately \$9.7 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 have submitted various asbestos-related claims for coverage under this agreement, and received approximately \$2.3 million in reimbursement for settlement claims and defense costs. We have submitted additional asbestos-related claims to such insurance carrier for coverage. 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 will submit claims to this carrier after we have exhausted our coverage under the agreement with the primary insurance carrier discussed above.

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

The most recent actuarial study was performed as of August 31, 2009. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$26.6 million to \$66.3 million for the period through 2059. The change from the prior year study was a \$1.3 million increase for the low end of the range and a \$2.9 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 \$2.2 million provision in our discontinued operation was added to the asbestos accrual in September 2009 increasing the reserve to approximately \$26.6 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 \$21.4 million to \$42 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.

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. Although we cannot predict the ultimate outcome of this case or estimate the range of any potential loss that may be incurred in the litigation, we believe that the lawsuit is without merit, deny all of the plaintiff's allegations of wrongdoing and believe we have meritorious defenses to the plaintiff's claims. We intend to defend this lawsuit vigorously.

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

ITEM 6.

EXHIBITS

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 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: August 2, 2010

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

STANDARD MOTOR PRODUCTS, INC.

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