

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

STANDARD MOTOR PRODUCTS INC

Form 10-Q/A

November 19, 2003

=====

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

FORM 10-Q/A  
AMENDMENT NO. 1

(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, 2003

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of the close of business on July 31, 2003 there were 19,726,608 outstanding shares of the Registrant's Common Stock, par value \$2.00 per share.

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

## EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as originally filed on August 14, 2003, is being filed to amend and reflect the restatement of our Consolidated Balance Sheets as of June 30, 2003 and December 31, 2002. During the third quarter of 2003, we re-examined the provisions of our revolving credit facility. Based on the applicable accounting rules and certain provisions in the Credit Agreement, we are required to reclassify our credit facility from long-term to short-term debt, though the existing credit facility does not mature until 2008. As a result, we reclassified \$157,947 and \$76,249 (in thousands) as of June 30, 2003 and December 31, 2002, respectively, from long-term debt to notes payable which is classified as current liabilities. See Note 15 of Notes to Consolidated Financial Statements for further discussion. Each item of the Quarterly Report on Form 10-Q as filed on August 14, 2003 that was affected by the restatement has been amended and restated. No attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the original Form 10-Q except as required to reflect the effects of the restatement.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### INDEX

PART I - FINANCIAL INFORMATION		PAGE NO.
		-----
Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets (As Restated) June 30, 2003 (Unaudited) and December 31, 2002	3
	Consolidated Statements of Operations and Retained Earnings (Unaudited) for the Three Months and Six Months Ended June 30, 2003 and 2002	4
	Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2003 and 2002	5
	Notes to Consolidated Financial Statements (Unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	28
Item 4.	Controls and Procedures	28
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	29
Item 4.	Submission of Matters to a Vote of Security Holders	30
Item 6.	Exhibits and Reports on Form 8-K	31
	Signature	31

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

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (As Restated)  
(In thousands, except for shares and per share data)

	June 30, 2003	
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,404	
Marketable securities	5,700	
Accounts receivable, net of allowance for doubtful accounts and discounts of \$9,268 (2002 - \$4,882) (Note 7)	257,564	
Inventories (Notes 5 and 7)	264,311	
Deferred income taxes	12,048	
Prepaid expenses and other current assets	6,965	
Total current assets	553,992	
Property, plant and equipment, net of accumulated depreciation (Notes 6 and 7)	116,911	
Goodwill, net (Notes 3 and 4)	79,867	
Other assets	40,649	
Total assets	\$791,419	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable (Notes 7 and 15)	\$161,590	
Current portion of long-term debt (Note 7)	3,958	
Accounts payable	78,277	
Sundry payables and accrued expenses (Note 4)	73,819	
Accrued customer returns	35,607	
Payroll and commissions	13,976	
Total current liabilities	367,227	
Long-term debt (Notes 7 and 15)	114,984	
Postretirement medical benefits and other accrued liabilities	32,856	
Restructuring accrual (Note 4)	20,200	
Accrued asbestos liabilities (Note 14)	25,287	
Total liabilities	560,554	
Commitments and contingencies (Notes 4,7,8,10,12 and 14)		
Stockholders' equity (Notes 4,7,8,9,10 and 12):		
Common stock - par value \$2.00 per share:		
Authorized - 30,000,000 shares, issued 20,453,236 and 13,324,476 shares in 2003 and 2002, respectively)	40,906	
Capital in excess of par value	58,139	
Retained earnings	149,439	
Accumulated other comprehensive income (loss)	1,765	
Treasury stock - at cost (1,284,428 and 1,367,467 shares in 2003 and 2002, respectively)	(19,384)	

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

Total stockholders' equity	230,865
Total liabilities and stockholders' equity	\$791,419

See accompanying notes to consolidated financial statements.

3

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS  
(In thousands, except for shares and per share data)

	Three Months Ended June 30,	
	2003	2002
	(Unaudited)	
Net sales	\$ 166,125	\$ 180,629
Cost of sales	122,306	133,729
Gross profit	43,819	46,900
Selling, general and administrative expenses	33,279	34,519
Operating income	10,540	12,381
Other income (expense) - net	(129)	88
Interest expense	3,188	3,809
Earnings from continuing operations before taxes	7,223	8,660
Income tax expense	2,923	2,393
Earnings from continuing operations	4,300	6,267
Loss from discontinued operation, net of tax	(433)	(806)
Earnings before cumulative effect of accounting change	3,867	5,461
Cumulative effect of accounting change, net of tax (Note 3)	-	-
Net earnings (loss)	3,867	5,461
Retained earnings at beginning of period	146,655	161,878
Less: cash dividends for period	150,522 1,083	167,339 1,074
Retained earnings at end of period	\$ 149,439	\$ 166,265
Per share data:		
Net earnings (loss) per common share - basic:		
Earnings per share from continuing operations	\$ 0.34	\$ 0.53

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

Discontinued operation	(0.03)	(0.07)	
Cumulative effect of accounting change	-	-	
	-----	-----	-----
Net earnings (loss) per common share - basic	\$ 0.31	\$ 0.46	
	=====	=====	=====
Net earnings (loss) per common share - diluted:			
Earnings per share from continuing operations	\$ 0.34	\$ 0.48	
Discontinued operation	(0.03)	(0.05)	
Cumulative effect of accounting change	-	-	
	-----	-----	-----
Net earnings (loss) per common share - diluted	\$ 0.31	\$ 0.43	
	=====	=====	=====
Average number of common shares	12,493,796	11,918,439	1
	=====	=====	=====
Average number of common and dilutive shares	15,334,225	14,840,360	1
	=====	=====	=====

See accompanying notes to consolidated financial statements.

4

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	----- 2003 -----
Cash flows from operating activities:	
Net income (loss)	\$ 2,91
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	8,02
Loss (gain) on sale of property, plant & equipment	13
Equity (income) loss from joint ventures	11
Employee stock ownership plan allocation	50
Loss from discontinued operation, net of tax	78
Cumulative effect of accounting change, net of tax	
Change in assets and liabilities, net of effects from acquisitions:	
Increase in accounts receivable, net	(75,78)
(Increase) decrease in inventories	(2,21)
Decrease (increase) in prepaid expenses and other current assets	97
Decrease in other assets	2,63
Increase in accounts payable	13,91
Increase in sundry payables and accrued expenses	1,04
Increase in other liabilities	2,25
	-----

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

Net cash used in operating activities	(44,71)
<hr style="border-top: 1px dashed black;"/>	
Cash flows from investing activities:	
Proceeds from the sale of property, plant & equipment	7
Capital expenditures	(3,61)
Payments for acquisitions, net of cash acquired	(99,33)
<hr style="border-top: 1px dashed black;"/>	
Net cash used in investing activities	(102,87)
<hr style="border-top: 1px dashed black;"/>	
Cash flows from financing activities:	
Net borrowings under line-of-credit agreements	81,97
Borrowings under new long term debt	10,00
Principal payments and retirement of long-term debt	(3,48)
Proceeds from the issuance of common stock	55,73
Proceeds from exercise of employee stock options	2
Dividends paid	(2,15)
<hr style="border-top: 1px dashed black;"/>	
Net cash provided by financing activities	142,08
<hr style="border-top: 1px dashed black;"/>	
Effect of exchange rate changes on cash	3,21
Net decrease in cash and cash equivalents	(2,28)
Cash and cash equivalents at beginning of the period	9,69
<hr style="border-top: 1px dashed black;"/>	
Cash and cash equivalents at end of the period	\$ 7,40
<hr style="border-top: 3px double black;"/>	
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 6,37
<hr style="border-top: 3px double black;"/>	
Income taxes	\$ 1,99
<hr style="border-top: 3px double black;"/>	

See accompanying notes to consolidated financial statements.

### 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 "we," "us," or "our") is engaged in the manufacture and distribution of replacement parts for motor vehicles in the automotive aftermarket industry.

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

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

2002.

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

Where appropriate, certain amounts in 2002 have been reclassified to conform with the 2003 presentation.

### NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

#### ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, Accounting for Asset Retirement Obligations ("Statement No. 143"), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Statement No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, we will recognize a gain or loss on settlement. Effective January 1, 2003, we adopted Statement No. 143, which did not have a material effect on our consolidated financial statements.

#### RESCISSION OF FASB STATEMENTS

In April 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections ("Statement No. 145"). Statement No. 145 eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board ("APB") No. 30, Reporting Results of Operations ("APB No. 30"). Statement No. 145 also requires sales-leaseback accounting for lease modifications that have economic effects that are similar to sales-leaseback transactions, and makes various other technical corrections to existing pronouncements. Effective January 1, 2003, we adopted

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

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Statement No. 145, which did not have a material effect on our consolidated financial statements, however, Statement No. 145 will require prior periods to be reclassified for any loss on extinguishment of debt not meeting the criteria of APB No. 30.

#### ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT AND DISPOSAL ACTIVITIES

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("Statement No. 146"). Statement No. 146, which is effective prospectively for exit or disposal activities initiated after December 31, 2002, applies to costs associated with an exit activity, including restructurings, or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Statement No. 146 requires that exit or disposal costs are recorded as an operating expense when the liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal by itself will not meet the requirement for recognizing a liability and the related expense under Statement No. 146. The adoption of Statement No. 146 did not have a material effect on our consolidated financial statements.

#### ACCOUNTING FOR AND DISCLOSURES OF GUARANTEES

In November 2002, the FASB issued interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("Interpretation No. 45"). Interpretation No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. Interpretation No. 45 also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not have a material effect on our consolidated financial statements. See Note 14 of Notes to Consolidated Financial Statements for discussion of product warranty claims.

#### ACCOUNTING FOR STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123 ("Statement No. 148"). Statement No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. Effective January 1, 2003, we adopted Statement No. 148 and have provided the disclosures required under Statement No. 148 in Note 10 of Notes to Consolidated Financial Statements.

#### CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("Interpretation No. 46"). Interpretation No. 46 addresses the consolidation by business enterprises of variable interest entities as defined in Interpretation No. 46.



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

Interpretation No. 46 applies immediately to variable interests in variable interest entities obtained after January 31, 2003. For public enterprises with a variable interest in a variable interest entity created before February 1, 2003, Interpretation No. 46 applies to those enterprises no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. Interpretation No. 46 requires certain disclosures in financial statements issued after January 31, 2003. We currently are evaluating the impact of Interpretation No. 46 on our consolidated financial statements and related disclosures.

7

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("Statement No. 150"). Statement No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Statement No. 150 is not expected to have a material adverse effect on our consolidated financial statements.

#### NOTE 3. GOODWILL

Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). In accordance with SFAS No. 142, goodwill is no longer amortized, but instead, is subject to an annual review for potential impairment. Using the discounted cash flows method, based on our weighted average cost of capital and market multiples, we reviewed the fair values of each of our reporting units. The decline in economic and market conditions, higher integration costs than anticipated and the general softness in the automotive aftermarket caused a decrease in the fair values of certain of our reporting units. As a result, we recorded an impairment loss on goodwill as a cumulative effect of accounting change of \$18.3 million, net of tax, or \$1.55 per diluted share during the first quarter of 2002. The impairment loss relates to our European Operation and Temperature Control Segment for which we recorded a charge of \$10.9 million and \$7.4 million, respectively.

During the fourth quarter of 2002, we completed our review of goodwill for potential impairment. After consideration to 2002 losses and budgeted 2003 losses, we wrote-off the remaining goodwill associated with the Engine Management reporting unit of our European Segment. The remaining goodwill balance of our European Segment pertains to the Temperature Control reporting unit.

#### NOTE 4. ACQUISITION AND RESTRUCTURING COSTS

##### ACQUISITION

On June 30, 2003, we completed the acquisition of substantially all of the assets and assumed substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("Dana's EMG Business"). Prior to the

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

sale, Dana's EMG Business was a leading manufacturer of aftermarket parts in the automotive industry focused exclusively on engine management. Dana's EMG Business customers consist of many of the leading warehouse distributors, such as NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as CSK Auto, O'Reilly Automotive and Pep Boys. Dana's EMG Business products enjoy strong brand recognition with its many leading automotive product names, including Echlin, Borg Warner and Niehoff, as well as with private labels through NAPA Auto Parts. Dana's EMG Business currently includes nine operating facilities employing approximately 1,900 people.

Under the terms of the acquisition, we paid Dana Corporation \$91.3 million in cash, issued an unsecured promissory note of \$15.1 million, and issued 1,378,760 shares of our common stock valued at \$15.1 million using an average market price of \$10.97 per share. The average market price was based on the average closing price for a range of trading days preceding the closing date of the acquisition. We also incurred an estimated \$8.1 million in transaction costs.

8

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In connection with the acquisition of Dana's EMG Business, we completed a public equity offering of 5,750,000 shares of our common stock for net proceeds of approximately \$56.8 million. The net proceeds from this equity offering were used to repay a portion of our outstanding indebtedness under our revolving credit facility with General Electric Capital Corporation. On June 30, 2003, we also completed an amendment to our revolving credit facility, which increased the amount available under the credit facility by \$80 million, to \$305 million, as discussed more fully in Note 7 of Notes to Consolidated Financial Statements. We then financed the cash portion of the acquisition purchase price and the costs associated with the acquisition by borrowing from our amended credit facility.

We also issued to Dana Corporation an unsecured subordinated promissory note in the aggregate principal amount of approximately \$15.1 million. The promissory note bears an interest rate of 9% per annum for the first year, with such interest rate increasing by one-half of a percentage point (0.5%) on each anniversary of the date of issuance. Accrued and unpaid interest is due quarterly under the promissory note. The maturity date of the promissory note is five and a half years from the date of issuance. The promissory note may be prepaid in whole or in part at any time without penalty.

The preliminary purchase price of the acquisition is summarized as follows (in thousands):

Value of common stock issued	\$ 15,125
Unsecured promissory note	15,125
Cash consideration	91,250
	-----
Total consideration	121,500
Transaction costs	8,086
	-----
Total purchase price	\$ 129,586
	=====

The preliminary acquisition purchase price is subject to a final valuation of

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

consideration which primarily relates to a post-closing adjustment, based upon the final book value of the acquired assets of Dana's EMG Business less the book value of the assumed liabilities of Dana's EMG Business as of the close of business on the closing date, subject to a maximum purchase price of \$125 million.

The allocation of the total purchase price was as follows (in thousands):

Net tangible assets acquired		\$ 66,402
Goodwill		63,184
		-----
Total purchase price		\$ 129,586
		=====

The purchase price allocation is preliminary and is dependent on our final analysis of the net assets acquired, which is expected to be completed within the one-year period following the consummation of the acquisition, as provided by accounting rules. The acquisition was accounted for as a purchase transaction in accordance with SFAS No. 141, and accordingly, the net tangible assets acquired were recorded at their fair value at the date of the acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. Goodwill associated with this acquisition will be deductible for tax purposes. The results of Dana's EMG Business will be included in our statements of operations beginning the quarter ended September 30, 2003.

The following table summarizes the components of the net tangible assets acquired (in thousands):

Accounts receivable		\$ 64,134
Inventories		87,308
Property, plant and equipment		17,165
Other assets		512
		-----
Total assets acquired		\$ 169,119
		=====

9

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Accounts payable		\$ 28,615
Sundry payables and accrued expenses		32,271
Accrued customer returns		17,122
Payroll and commissions		4,509
Other liabilities		20,200
		-----
Total liabilities assumed		102,717
		-----
Net tangible assets acquired		\$ 66,402
		=====

The following table represents our unaudited pro forma consolidated statement of operations for the three months and six months ended June 30, 2003 and 2002, as if the acquisition of Dana's EMG Business had been completed at the beginning of each period. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results.

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

	Three Months Ended June 30,		
	2003	2002	2003
	(in thousands)		
Net sales	\$ 235,528	\$ 255,302	\$445,582
Earnings (loss) before cumulative effect of accounting change	\$ 986	\$ (2,826)	\$ 442
Net income (loss)	\$ 986	\$ (2,826)	\$ 442
Net earnings (loss) per common share:			
Net earnings (loss) - Basic	\$ 0.05	\$ (0.15)	\$ 0.02
Net earnings (loss) - Diluted	\$ 0.05	\$ (0.15)	\$ 0.02

RESTRUCTURING COSTS

In connection with the acquisition, we have reviewed our operations and implemented integration plans to restructure the operations of Dana's EMG Business. We announced in a press release on July 8, 2003 that we will close seven of the nine Dana Engine Management facilities. As part of the integration and restructuring plans, we accrued an initial restructuring liability of approximately \$35 million at June 30, 2003. Such amounts were recognized as liabilities assumed in the acquisition and included in the allocation of the cost to acquire Dana's EMG Business. Accordingly, such amounts resulted in additional goodwill being recorded in connection with the acquisition.

Of the total restructuring accrual, approximately \$18 million related to work force reductions and represented employee termination benefits. The accrual amount primarily provides for severance costs relating to the involuntary termination of approximately 1,400 employees, individually employed throughout Dana's Engine Management facilities across a broad range of functions, including managerial, professional, clerical, manufacturing and factory positions. Our anticipated date of completion is within 18 months of the closing of the acquisition.

The restructuring accrual also includes approximately \$17 million associated with exiting certain activities, primarily related to lease and contract termination costs. Specifically, our plans are to consolidate certain of Dana's EMG operations into existing Standard Motor Products plants. The restructuring accrual associated with other exiting activities specifically includes incremental costs and contractual termination obligations for items such as leasehold termination payments and other facility exit costs incurred as a direct result of these plans, which will not have future benefits.

10

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. INVENTORIES

	June 30, 2003 (unaudited)	December 31, 2002
--	---------------------------------	----------------------

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

	(in thousands)	
Finished Goods	\$ 194,305	\$ 141,487
Work in Process	9,612	2,417
Raw Materials	60,394	30,881
-----		
Total inventories	\$ 264,311	\$ 174,785
=====		

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2003 (unaudited)	Decemb 20
-----		
(in thousands)		
Land, buildings and improvements	\$ 71,806	
Machinery and equipment	131,367	
Tools, dies and auxiliary equipment	21,460	
Furniture and fixtures	26,194	
Computer software	13,149	
Leasehold improvements	7,164	
Construction in progress	7,155	
	-----	
	278,295	
Less: accumulated depreciation and amortization	161,384	
	-----	
Total property, plant and equipment - net	\$ 116,911	
=====		

NOTE 7. CREDIT FACILITIES AND LONG-TERM DEBT (AS RESTATED)

Effective April 27, 2001, we entered into an agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. The term of the credit agreement was for a period of five years and provided for a line of credit up to \$225 million.

On June 30, 2003 we completed an amendment to our revolving credit facility to provide for an additional \$80 million commitment, in connection with our acquisition of Dana's EMG Business. This additional commitment increases the total amount available for borrowing under our revolving credit facility to \$305 million from \$225 million, which expires in 2008. Availability under our revolving credit facility is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets, and includes the purchased assets of Dana's EMG Business.

Direct borrowings under our revolving credit facility bear interest at the prime rate plus the applicable margin (as defined) or the LIBOR rate plus the applicable margin (as defined), at our option. Outstanding borrowings under this revolving credit facility, classified as current liabilities, was \$157.9 million and \$76.2 million at June 30, 2003 and December 31, 2002, respectively. Borrowings are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of our domestic and Canadian subsidiaries. Our revolving credit facility prior to the acquisition provides for certain financial covenants limiting our capital expenditures and requiring us to maintain a certain tangible net worth at the end of each fiscal quarter. Following our acquisition of Dana's EMG Business, the terms of our revolving credit facility provide for, among other provisions, new financial

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

covenants requiring us, on a consolidated

11

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

basis, (1) to maintain specified levels of earnings before interest, taxes, depreciation and amortization (EBITDA) at the end of each fiscal quarter through

December 31, 2004, (2) commencing September 30, 2004, to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months) through 2007, and (3) to limit capital expenditure levels for each fiscal year through 2007.

In connection with our acquisition of Dana's EMG Business, we issued to Dana Corporation an unsecured subordinated promissory note in the aggregate principal amount of approximately \$15.1 million. The promissory note bears an interest rate of 9% per annum for the first year, with such interest rate increasing by one-half of a percentage point (0.5%) on each anniversary of the date of issuance. Accrued and unpaid interest is due quarterly under the promissory note. The maturity date of the promissory note is five and a half years from the date of issuance. The promissory note may be prepaid in whole or in part at any time without penalty.

On June 27, 2003, we borrowed \$10 million under a mortgage loan agreement. The loan is payable in monthly installments. The loan bears interest at a fixed rate of 5.50% maturing in July 2018. The mortgage loan is secured by a building and related property.

On July 26, 1999, we completed a public offering of convertible subordinated debentures amounting to \$90 million. The convertible debentures carry an interest rate of 6.75%, payable semi-annually, and will mature on July 15, 2009. The convertible debentures are convertible into 2,796,120 shares of our common stock.

	June 30, 2003 (unaudited)	December 31, 2002
	-----	-----
Long Term Debt Consists of:		
	(in thousands)	
6.75% convertible subordinated debentures	\$ 90,000	\$ 90,000
Unsecured promissory note	15,125	-
Mortgage loan	10,000	-
Other	3,817	7,299
	-----	-----
	118,942	97,299
Less: current portion	3,958	4,108
	-----	-----
Total non-current portion of long-term debt	\$ 114,984	\$ 93,191
	=====	=====

#### NOTE 8. INTEREST RATE SWAP AGREEMENTS

We do not enter into financial instruments for trading or speculative purposes.

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

The principal financial instruments used for cash flow hedging purposes are interest rate swaps.

In July 2001, we entered into interest rate swap agreements to manage our exposure to interest rate changes. The swaps effectively convert a portion of our variable rate debt under the revolving credit facility to a fixed rate, without exchanging the notional principal amounts. At December 31, 2002, we had two outstanding interest rate swap agreements (in an aggregate notional principal amount of \$75 million), one of which matured in January 2003 and one of which is scheduled to mature in January 2004. Under

12

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

these agreements, we receive a floating rate based on the LIBOR interest rate, and pay a fixed rate of 4.92% on a notional amount of \$45 million and 4.37% on a notional amount of \$30 million (matured in January 2003). If, at any time, the swaps are determined to be ineffective, in whole or in part, due to changes in the interest rate swap agreements, the fair value of the portion of the interest rate swap determined to be ineffective will be recognized as gain or loss in the statement of operations for the applicable period.

#### NOTE 9. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30,		Six
	2003	2002	2003
	-----	-----	-----
	(in thousands)		
Net income (loss) as reported	\$ 3,867	\$ 5,461	\$2,
Foreign currency translation adjustments	3,276	1,912	3,
Change in fair value of interest rate swap agreements	289	(488)	
	-----	-----	-----
Total comprehensive income (loss), net of taxes	\$ 7,432	\$ 6,885	\$7,
	=====	=====	=====

#### NOTE 10. STOCK BASED COMPENSATION PLAN

Under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("Statement No. 123"), we account for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Stock options granted during the three months and six months ended June 30, 2003 and 2002 were exercisable at prices equal to the fair market value of our common stock on the dates the options were granted; therefore, no compensation cost has been recognized for the stock options granted.

If we accounted for stock-based compensation using the fair value method of

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

Statement No. 123, as amended by Statement No. 148, the effect on net income (loss) and basic and diluted earnings (loss) per share would have been as follows:

	Three Months Ended June 30,		
	2003	2002	2003
	(in thousands, except per share)		
Net income (loss), as reported	\$ 3,867	\$ 5,461	\$ 2,
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(34)	(59)	
Pro forma net income (loss)	\$ 3,833	\$ 5,402	\$ 2,
Income (loss) per share:			
Basic - as reported	\$ 0.31	\$ 0.46	\$ 0
Basic - pro forma	\$ 0.31	\$ 0.45	\$ 0
Diluted - as reported	\$ 0.31	\$ 0.43	\$ 0
Diluted - pro forma	\$ 0.31	\$ 0.43	\$ 0

13

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At June 30, 2003, in aggregate 1,262,774 shares of authorized but unissued common stock were reserved for issuance under our stock option plans.

#### NOTE 11. EARNINGS (LOSS) PER SHARE

Following are reconciliations of the earnings (loss) available to common stockholders and the shares used in calculating basic and dilutive net earnings (loss) per common share:

	Three Months Ended June 30, (Unaudited)		Six (U
	2003	2002	2003
	(in thousands, except per share amo		
Earnings from continuing operations	\$ 4,300	\$ 6,267	\$ 3,693
Loss from discontinued operations	(433)	(806)	(781)
Cumulative effect of accounting change	--	--	--



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

Earnings available to common stockholders	3,867	5,461	2,912
Effect of convertible debentures	911	911	--
Net income (loss) available to common stockholders	\$ 4,778	\$ 6,372	\$ 2,912
Weighted average common shares outstanding - basic	12,493,796	11,918,439	12,234,764
Effect of convertible debentures	2,796,120	2,796,120	--
Dilutive effect of stock options	44,309	125,801	71,143
Weighted average common shares outstanding - diluted	15,334,225	14,840,360	12,305,907

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Stock options	885,408	566,574	878,408	56
Convertible debentures	-	-	2,796,120	2,79

NOTE 12. EMPLOYEE BENEFITS

In fiscal 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 its fiduciary duties. During March 2003, we committed 75,000 shares to be released leaving 525,000 shares remaining in the trust.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 13. INDUSTRY SEGMENTS

Our three reportable operating segments are Engine Management, Temperature Control and Europe.

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

Three Months Ended June 30,			
-----			
2003			
-----			
	NET SALES	OPERATING INCOME (LOSS)	NET SALES
	(in thousands)		
Engine Management	\$ 76,265	\$ 9,601	\$ 82,975
Temperature Control	76,216	4,217	86,099
Europe	11,413	(322)	10,164
All Other	2,231	(2,956)	1,391
	-----	-----	-----
Consolidated	\$ 166,125	\$ 10,540	\$ 180,629
	=====	=====	=====
Six Months Ended June 30,			
-----			
2003			
-----			
	NET SALES	OPERATING INCOME (LOSS)	NET SALES
	(in thousands)		
Engine Management	\$ 155,071	\$ 19,253	\$150,954
Temperature Control	121,978	2,024	135,424
Europe	21,953	(808)	18,266
All Other	2,848	(7,601)	2,306
	-----	-----	-----
Consolidated	\$ 301,850	\$ 12,868	\$306,950
	=====	=====	=====

All other consists of items pertaining to Canadian operations and the corporate headquarters function, which do not meet the criteria of a reportable operating segment.

The carrying value of goodwill for our segments as of June 30, 2003 are as follows:

	(in thousands)
Engine Management	\$ 73,674
Temperature Control	4,822
Europe	1,371
	-----
Goodwill, net	\$ 79,867
	=====

NOTE 14. COMMITMENTS AND CONTINGENCIES

On January 28, 2000, a former significant customer of ours, which is currently undergoing a Chapter 7 liquidation in U.S. Bankruptcy Court, filed claims against a number of its former suppliers, including us. The claim against us alleged \$0.5 million of preferential payments in the 90 days prior to the related Chapter 11 bankruptcy petition. The claim pertaining to the preferential payments was settled for an immaterial amount during the second quarter of 2002. In addition, this former customer seeks \$9.4 million from us for a variety of claims including antitrust, breach of contract, breach of warranty and conversion. These latter claims arise out of allegations that this customer was entitled to various discounts, rebates and credits after it filed for bankruptcy. We have purchased insurance with respect to the actions. On August

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

22, 2002, the court dismissed the antitrust claims. On July 8, 2003, the remaining claims were settled without any material financial effect on our business, financial condition or results of operations.

15

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation in the accompanying consolidated financial statements. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure to us will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2001, approximately 100 cases were outstanding for which we were responsible for any related liabilities. At December 31, 2002, the number of cases outstanding for which we were responsible for related liabilities increased to approximately 2,500, which include approximately 1,600 cases filed in December 2002 in Mississippi. We believe that these Mississippi cases filed against us in December 2002 were due in large part to potential plaintiffs accelerating the filing of their claims prior to the effective date of Mississippi's tort reform statute in January 2003, which statute eliminated the ability of plaintiffs to file consolidated cases. At June 30, 2003, approximately 2,900 cases were outstanding for which we were responsible for any related liabilities. To date, the amounts paid for settled claims have been immaterial. We do not have insurance coverage for the defense and indemnity costs associated with these claims.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by a leading actuarial firm with expertise in assessing asbestos-related liabilities, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of settlement discussions. Actuarial consultants with experience in assessing asbestos-related liabilities completed a study in September 2002 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 for the remainder of 2002 through 2052; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values. Based upon all the information considered by the actuarial firm, the actuarial study estimated an undiscounted liability for settlement payments, excluding legal costs, ranging from \$27.3 million to \$58 million for the period through 2052.

Accordingly, based on the information contained in the actuarial study and all other available information considered by us, we recorded an after tax charge of \$16.9 million as a loss from discontinued operation during the third quarter of 2002 to reflect such liability, excluding legal costs. 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 2052 in our consolidated financial statements, in accordance with generally accepted accounting principles. We plan on performing a similar annual actuarial analysis during the third quarter of each year for the foreseeable future. Given the uncertainties associated with

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

projecting such matters into the future, the short period of time that we have been responsible for defending these claims, and other factors outside our control, we can give no assurance that additional provisions will not be required. Management will continue to monitor the circumstances surrounding these potential liabilities in determining whether additional provisions may be necessary. At the present time, however, we do not believe that any additional provisions would be reasonably likely to have a material adverse effect on our liquidity or consolidated financial position.

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.

16

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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, 2003 and 2002, we have accrued \$15.5 million and \$17.6 million, respectively, for estimated product warranty claims. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Warranty claims expense for the three months ended June 30, 2003 and 2002, were \$13.5 million and \$15.1 million, respectively, and \$23.6 million and \$26.7 million for the six months ended June 30, 2003 and 2002, respectively.

The following table provides the changes in our product warranties:

	(in thousands)
Balance at January 1, 2003	\$ 10,360
Liabilities accrued for current year sales	23,639
Settlements of warranty claims	(18,454)
	-----
Balance at June 30, 2003	\$ 15,545
	=====

NOTE 15. RESTATEMENT

During the third quarter of 2003, we re-examined the provisions of our revolving credit facility. Based on the applicable accounting rules and certain provisions in the Credit Agreement, we are required to reclassify our credit facility from long-term to short-term debt, though the existing credit facility does not mature until 2008. As a result, we reclassified \$157,947 and \$76,249 (in thousands) as of June 30, 2003 and December 31, 2002, respectively, from long-term debt to notes payable which is classified as current liabilities.

A summary of the effects of the restatement on our Consolidated Balance Sheets as of June 30, 2003 and December 31, 2002 are as follows:

CONSOLIDATED BALANCE SHEETS

June 30, 2003

Decemb

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

(IN THOUSANDS)	As Previously Reported	As Restated	As Previously Reported
	-----	-----	-----
Notes payable	\$ 3,643	\$ 161,590	\$ 3,369
Total current liabilities	209,280	367,227	111,428
Long-term debt	272,931	114,984	169,440
Total non-current liabilities	\$ 351,274	\$ 193,327	\$ 225, 449

17

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

THIS REPORT ON FORM 10-Q/A CONTAINS FORWARD-LOOKING STATEMENTS. 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. FORWARD-LOOKING STATEMENTS 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 A NUMBER OF FACTORS, SUCH AS ECONOMIC AND MARKET CONDITIONS; THE PERFORMANCE OF THE AFTERMARKET SECTOR; CHANGES IN BUSINESS RELATIONSHIPS WITH OUR MAJOR CUSTOMERS AND IN THE TIMING, SIZE AND CONTINUATION OF OUR CUSTOMERS' PROGRAMS; THE ABILITY OF OUR CUSTOMERS TO ACHIEVE THEIR PROJECTED SALES; COMPETITIVE PRODUCT AND PRICING PRESSURES; INCREASES IN PRODUCTION OR MATERIAL COSTS THAT CANNOT BE RECOUPED IN PRODUCT PRICING; SUCCESSFUL INTEGRATION OF ACQUIRED BUSINESSES; PRODUCT LIABILITY (INCLUDING, WITHOUT LIMITATION, THOSE RELATED TO ESTIMATES TO ASBESTOS-RELATED CONTINGENT LIABILITIES) MATTERS; 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 OUR FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION. THOSE FORWARD-LOOKING STATEMENTS ARE MADE ONLY AS OF THE DATE HEREOF, AND WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE THE FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS FORM 10-Q/A.

#### BUSINESS OVERVIEW

Standard Motor Products, Inc. (referred to hereinafter as "we," "us," and "our") is a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry. We are organized into two major operating segments, each of which focuses on a specific segment of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, on-board computers, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, and other air conditioning and heating parts. We sell our products primarily in the United States, Canada and Latin America. We also sell our products in Europe through our European Segment. We distribute our products through a variety of distribution channels, including wholesale distributors, retail chains, service chains and original equipment dealers.

ACQUISITION. On June 30, 2003, we completed the acquisition of substantially all of the assets and assumed substantially all of the operating liabilities of Dana Corporation's Engine Management Group ("Dana's EMG Business"). Dana's EMG

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

Business was a leading manufacturer of aftermarket parts in the automotive industry focusing exclusively on engine management. Dana's EMG Business customers consist of many of the leading warehouse distributors, such as NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as CSK Auto, O'Reilly Automotive and Pep Boys. Dana's EMG Business products enjoy strong brand recognition with its many leading automotive product names, including Echlin, Borg Warner and Niehoff, as well as with private labels through NAPA Auto Parts. Dana's EMG Business currently includes nine operating facilities employing approximately 1,900 people. We intend to integrate Dana's EMG Business into our existing Engine Management Segment within 18 months of the closing of the acquisition as discussed more fully in Note 4 of Notes to Consolidated Financial Statements.

Under the terms of the acquisition, we paid Dana Corporation \$91.3 million in cash, an unsecured subordinated promissory note of \$15.1 million, and issued to Dana Corporation 1,378,760 shares of our common stock valued at \$15.1 million. We also incurred an estimated \$8.1 million in transaction costs. In aggregate, approximately \$129.6 million was incurred in connection with the acquisition.

18

In connection with the acquisition of Dana's EMG Business, we completed a public equity offering of 5,750,000 shares of our common stock for gross proceeds of approximately \$60.4 million. The net proceeds from this equity offering were used to repay a portion of our outstanding indebtedness under our revolving credit facility with General Electric Capital Corporation, as agent. On June 30, 2003, we also completed an amendment to our revolving credit facility, which increased the amount available under the credit facility by \$80 million, to \$305 million as discussed more fully in Note 7 of Notes to Consolidated Financial Statements. We then financed the cash portion of the acquisition purchase price and the costs associated with the acquisition by borrowing from our amended credit facility.

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. For example, a cool summer may lessen the demand for our Temperature Control products, while a hot summer may increase such demand. As a result of this seasonality and variability in demand of our Temperature Control products, our working capital requirements peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowing from our revolving credit facility.

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

INVENTORY MANAGEMENT. We instituted an aggressive inventory reduction campaign initiated in 2001. We targeted a minimum \$30 million inventory reduction in 2001, but exceeded our goal by reducing inventory by \$57 million that year. Importantly, while reducing inventory levels, we maintained customer service

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

fill rate levels of approximately 93%. In 2002, we further reduced inventory by additional \$8 million.

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 in the event that they have overstocked their inventories. In particular, the seasonality of our Temperature Control Segment requires that we increase our inventory during the winter season in preparation of the summer selling season and customers purchasing such inventory have the right to make returns.

In order to better control warranty and overstock return levels, beginning in 2000, we tightened the rules for authorized warranty returns, placed further restrictions on the amounts customers can return and instituted a program so that our management can better estimate potential future product returns. In addition, with respect to our air conditioning compressors, our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not follow a twelve step warranty return process.

### LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. During the first six months of 2003, cash used in operations amounted to \$44.7 million, compared to \$26.3 million in the same period of 2002. The increase is primarily attributable to increased levels of inventories, payments in accounts payable and reductions in accrued expenses and other liabilities. This increase was partially offset by lower increases in accounts receivable.

19

INVESTING ACTIVITIES. Cash used in investing activities was \$102.9 million in the first six months of 2003, compared to \$21.5 million in the same period of 2002. The increase is primarily due to the acquisition of Dana's EMG Business as discussed more fully in Note 4 of Notes to Consolidated Financial Statements.

FINANCING ACTIVITIES. Cash provided by financing activities was \$142.1 million in the first six months of 2003, compared to \$43.1 million in the same period of 2002. The increase is primarily due to increased borrowings under our revolving credit facility and issuance of our common stock, both used to finance the acquisition of Dana's EMG Business.

Effective April 27, 2001, we entered into an agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. The term of the credit agreement was for a period of five years and provided for a line of credit up to \$225 million.

On June 30, 2003 we completed an amendment to our revolving credit facility to provide for an additional \$80 million commitment, in connection with our acquisition of Dana's EMG Business. This additional commitment increases the total amount available for borrowing under our revolving credit facility to \$305 million from \$225 million, which now expires in 2008. Availability under our revolving credit facility is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets, and includes the purchased assets

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

of Dana's EMG Business. We expect such availability under the revolving credit facility, following the initial draw down at the acquisition closing, to be sufficient to meet our ongoing operating and integration costs.

Direct borrowings under our revolving credit facility bear interest at the prime rate plus the applicable margin (as defined) or the LIBOR rate plus the applicable margin (as defined), at our option. Borrowings are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of our domestic and Canadian subsidiaries. Our revolving credit facility prior to the acquisition provided for certain financial covenants limiting our capital expenditures and requiring us to maintain a certain tangible net worth at the end of each fiscal quarter. Following our acquisition of Dana's EMG Business, the terms of our revolving credit facility provide for, among other provisions, new financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of EBITDA at the end of each fiscal quarter through December 31, 2004, (2) commencing September 30, 2004, to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months) through 2007, and (3) to limit capital expenditure levels for each fiscal year through 2007.

In addition, in order to facilitate the aggregate financing of the acquisition, we completed a public equity offering of 5,750,000 shares of our common stock for net proceeds of approximately \$56.8 million and issued to Dana Corporation 1,378,760 shares of our common stock valued at approximately \$15.1 million.

In connection with our acquisition of Dana's EMG Business, we issued to Dana Corporation an unsecured subordinated promissory note in the aggregate principal amount of approximately \$15.1 million. The promissory note bears an interest rate of 9% per annum for the first year, with such interest rate increasing by one-half of a percentage point (0.5%) on each anniversary of the date of issuance. Accrued and unpaid interest is due quarterly under the promissory note. The maturity date of the promissory note is five and a half years from the date of issuance. The promissory note may be prepaid in whole or in part at any time without penalty.

On June 27, 2003, we borrowed \$10 million under a mortgage loan agreement. The loan is payable in monthly installments. The loan bears interest at a fixed rate of 5.50% maturing in July 2018. The mortgage loan is secured by a building and related property.

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

In July 2001, we entered into interest rate swap agreements to manage our exposure to interest rate changes. The swaps effectively convert a portion of our variable rate debt under the revolving credit facility to a fixed rate, without exchanging the notional principal amounts. At December 31, 2002, we had two outstanding interest rate swap agreements (in an aggregate notional principal amount of \$75 million), one of which matured in January 2003 and one of which is scheduled to mature in January 2004. Under these agreements, we



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

receive a floating rate based on the LIBOR interest rate, and pay a fixed rate of 4.92% on a notional amount of \$45 million and 4.37% on a notional amount of \$30 million (matured in January 2003). If, at any time, the swaps are determined to be ineffective, in whole or in part, due to changes in the interest rate swap agreements, the fair value of the portion of the interest rate swap determined to be ineffective will be recognized as gain or loss in the statement of operations for the applicable period.

On July 26, 1999, we issued our convertible debentures, payable semi-annually, in the aggregate principal amount of \$90 million. The debentures are convertible into 2,796,120 shares of our common stock, and mature on July 15, 2009. The proceeds from the sale of the debentures were used to prepay an 8.6% senior note, reduce short term bank borrowings and repurchase a portion of our common stock.

During the years 1998 through 2000, the Board of Directors authorized multiple repurchase programs under which we could repurchase shares of our common stock. During such years, \$26.7 million (in the aggregate) of common stock has been repurchased to meet present and future requirements of our stock option programs and to fund our ESOP. As of June 30, 2003, we have Board authorization to repurchase additional shares at a maximum cost of \$1.7 million. During the first six months of 2003 and 2002, we did not repurchase any shares of our common stock.

The following is a summary of our contractual commitments associated with our long-term debt and lease obligations, inclusive of our acquisition of Dana's EMG Business, as of June 30, 2003 (As Restated):

(IN THOUSANDS)	2003	2004	2005	2006	2007
Principal payments of long term debt	\$ 1,249	\$ 3,265	\$ 581	\$ 610	\$ 632
Operating leases	6,649	10,686	8,232	5,284	3,789
Interest rate swap agreements	--	1,086	--	--	--
	-----	-----	-----	-----	-----
Total commitments	\$ 7,898	\$ 15,037	\$ 8,813	\$ 5,894	\$ 4,421
	=====	=====	=====	=====	=====

### INTERIM RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2003 TO THE THREE MONTHS ENDED JUNE 30, 2002

SALES. Consolidated net sales in the second quarter of 2003 were \$166.1 million, a decrease of \$14.5 million, or 8.0%, compared to \$180.6 million in the second quarter of 2002. Contributing to the sales decline was Engine Management and Temperature Control, which accounted for \$6.7 million and \$9.9 million, respectively. The decrease of net sales in Temperature Control was primarily due to the loss of the AutoZone business, a retail customer, and the very cool and wet weather conditions existing in the spring and early summer. AutoZone's decision to move their Temperature Control business to other suppliers is estimated to reduce our consolidated net sales by approximately \$25 million in 2003 versus 2002. The decrease was partially offset by an increase of \$1.2 million of net sales in our European Operation.

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

GROSS MARGINS. Overall gross margins for the second quarter reflected a slight improvement to 26.4% from 26.0%. Cost cutting measures have been implemented to mitigate lower production levels due to reduced net sales.

21

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by \$1.2 million to \$33.3 million in the second quarter of 2003, compared to \$34.5 million in the second quarter of 2002. This decrease was primarily due to lower distribution expenses on reduced sales volume and cost reduction efforts in administrative expenses.

OPERATING INCOME. Operating income decreased by \$1.9 million to \$10.5 million in the second quarter of 2003, compared to \$12.4 million in the first quarter of 2002. This decrease was primarily due to the overall decrease in consolidated net sales as discussed above.

OTHER INCOME (EXPENSE), NET. Other income, net, decreased primarily due to unfavorable foreign exchange losses.

INTEREST EXPENSE. Interest expense decreased by \$0.6 million in the second quarter of 2003 compared to the same period in 2002, due to lower average borrowings and lower interest rates.

INCOME TAX PROVISION. The effective tax rate for continuing operations was 41% for the second quarter of 2003 and 28% for second quarter of 2002. The increase was primarily due to a mix of lower earnings in our domestic and foreign operations and operating losses in our European segment for which no income tax benefit has been recorded. The 41% effective tax rate reflects our anticipated effective tax rate for the balance of the year. However, significant changes in the mix of earnings in our domestic or foreign operations and changes in operating results in our European segment could have a significant impact on our effective tax rate.

LOSS FROM DISCONTINUED OPERATION. Loss from discontinued operation reflects the charges associated with asbestos, including legal expenses. We recorded \$0.4 million and \$0.8 million as a loss from discontinued operations for the quarters ended June 30, 2003 and 2002, respectively. As discussed in Note 14 of the notes to the consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products. Based on the information contained in the September 2002 actuarial study, which estimated an undiscounted liability for settlement payments ranging from \$27.3 million to \$58 million, and all other available information considered by us, and as further set forth in such Note 14, we recorded an after tax charge of \$16.9 million as a loss from discontinued operation during the third quarter of 2002 to reflect such liability, excluding legal costs. 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 2052 in our consolidated financial statements, in accordance with generally accepted accounting principles.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2003 TO THE SIX MONTHS ENDED JUNE 30, 2002

SALES. On a consolidated basis, net sales for the six months ended June 30, 2003 were \$301.9 million, a decrease of \$5.1 million, or 1.7%, compared to \$307 million in the same period of 2002. Engine Management net sales were ahead \$4.1 million in the first half of 2003 compared to the same period in 2002. The

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

Temperature Control net sales decrease of \$13.4 million was primarily due to the loss of business with AutoZone and the very cool and wet weather conditions existing in the spring and early summer.

GROSS MARGINS. Gross margins, as a percentage of consolidated net sales, increased slightly by 0.6 percentage points to 26.0% for the six months ended June 30, 2003 from 25.4% in the same period of 2002. The loss in business in Temperature Control noted above has negatively effected our overhead absorption with decreased volumes. However, cost cutting measures have been implemented to mitigate such loss, at the operating earnings level.

22

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased to \$65.5 million for the six months ended June 30, 2003, compared to \$65.6 million in the same period of 2002. The decrease is attributable to the decline in net sales offset by increases to insurance and employee benefit costs.

GOODWILL. Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). In accordance with SFAS No. 142, goodwill is no longer amortized, but instead, is subject to an annual review for potential impairment. Using the discounted cash flows method, based on our weighted average cost of capital and market multiples, we reviewed the fair values of each of our reporting units. The decline in economic and market conditions, higher integration costs than anticipated and the general softness in the automotive aftermarket caused a decrease in the fair values of certain of our reporting units. As a result, we recorded an impairment loss on goodwill as a cumulative effect of accounting change of \$18.3 million, net of tax, or \$1.55 per diluted share during the first quarter of 2002. The impairment loss relates to goodwill pertaining to certain of our reporting units within our European Operations and within our Temperature Control Segment and we recorded a charge of \$10.9 million related to our European Operation and \$7.4 million related to our Temperature Control Segment.

OPERATING INCOME. Operating income increased by \$0.4 million for the six months ended June 30, 2003, compared to the same period in 2002, primarily due to our continued cost reduction activities.

OTHER INCOME (EXPENSE), NET. Other income, net, decreased primarily due to unfavorable foreign exchange losses and lower income from joint ventures.

INTEREST EXPENSE. Interest expense decreased by \$1.1 million for the six months ended June 30, 2003 compared to the same period in 2002, due to lower average borrowings and lower interest rates.

INCOME TAX PROVISION. The effective tax rate for continuing operations was 41% for the first six months of 2003 and 27% for the first six months of 2002. The increase was primarily due to a mix of lower earnings in our domestic and foreign operations and operating losses in our European segment for which no income tax benefit has been recorded. The 41% current effective tax rate reflects our anticipated effective tax rate for the balance of the year. However, significant changes in the mix of earnings in our domestic or foreign operations and changes in operating results in our European segment could have a significant impact on our effective tax rate.

LOSS FROM DISCONTINUED OPERATION. Loss from discontinued operation reflects the

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

charges associated with asbestos, including legal expenses. We recorded \$0.8 million and \$1.1 million as a loss from discontinued operations for the six months ended June 30, 2003 and 2002, respectively. As discussed in Note 14 of the notes to the consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products. Based on the information contained in the September 2002 actuarial study, which estimated an undiscounted liability for settlement payments ranging from \$27.3 million to \$58 million, and all other available information considered by us, and as further set forth in such Note 14, we recorded an after tax charge of \$16.9 million as a loss from discontinued operation during the third quarter of 2002 to reflect such liability, excluding legal costs. 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 2052 in our consolidated financial statements, in accordance with generally accepted accounting principles.

### CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected

23

financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements of our Annual Report on Form 10-K/A for the year ended December 31, 2002. Note that our preparation of this Quarterly Report on Form 10-Q/A requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

**REVENUE RECOGNITION.** We derive our revenue primarily from sales of replacement parts for motor vehicles, from both our Engine Management and Temperature Control Segments. We recognize revenue from product sales upon shipment to customers. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

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

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

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

demand.

SALES RETURNS AND OTHER ALLOWANCES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS. The preparation of financial statements requires our management to make estimates and assumptions that affect the reported amount of assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Specifically, our management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At June 30, 2003, the allowance for sales returns totaled \$35.6 million. Similarly, our management must make estimates of the uncollectability of our accounts receivables. Management specifically analyzes accounts receivable and analyzes 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, 2003, the allowance for doubtful accounts and for discounts totaled \$9.3 million.

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 exposure 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 recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At June 30, 2003, we had a valuation allowance of approximately \$22 million, due to uncertainties related to our ability to utilize some of our deferred tax assets. The 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.

24

In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our business, financial condition and results of operations.

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

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

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

RETIREMENT AND POSTRETIREMENT MEDICAL BENEFITS. Each year we calculate the costs of providing retiree benefits under the provisions of SFAS 87 and SFAS 106. The key assumptions used in making these calculations are disclosed in Notes 12 and 13 of our Annual Report on Form 10-K/A for the year ended December 31, 2002. The most significant of these assumptions are the discount rate used to value the future obligation, expected return on plan assets and health care cost trend rates. We select discount rates commensurate with current market interest rates on high-quality, fixed rate debt securities. The expected return on assets is based on our current review of the long-term returns on assets held by the plans, which is influenced by historical averages. The medical cost trend rate is based on our actual medical claims and future projections of medical cost trends.

ASBESTOS RESERVE. We are responsible for certain future liabilities relating to alleged exposure to asbestos-containing products. A September 2002 actuarial study estimated a liability for settlement payments ranging from \$27.3 million to \$58 million. 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 2052 in our consolidated financial statements, in accordance with generally accepted accounting principles. We plan on performing a similar 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 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 operations. Legal expenses associated with asbestos-related matters are expensed as incurred and recorded as a loss from discontinued operations in the statement of operations.

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

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

#### ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, Accounting for Asset Retirement Obligations ("Statement No. 143"), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Statement No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, we will recognize a gain or loss on settlement. Effective January 1, 2003, we adopted Statement No. 143, which did not have a material effect on our consolidated financial statements.

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

### RESCISSION OF FASB STATEMENTS

In April 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections ("Statement No. 145"). Statement No. 145 eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board ("APB") No. 30, Reporting Results of Operations ("APB No. 30"). Statement No. 145 also requires sales-leaseback accounting for lease modifications that have economic effects that are similar to sales-leaseback transactions, and makes various other technical corrections to existing pronouncements. Effective January 1, 2003, we adopted Statement No. 145, which did not have a material effect on our consolidated financial statements, however, Statement No. 145 will require prior periods to be reclassified for any loss on extinguishment of debt not meeting the criteria of APB No. 30.

### ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT AND DISPOSAL ACTIVITIES

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associates with Exit or Disposal Activities ("Statement No. 146"). Statement No. 146, which is effective prospectively for exit or disposal activities initiated after December 31, 2002, applies to costs associated with an exit activity, including restructurings, or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Statement No. 146 requires that exit or disposal costs are recorded as an operating expense when the liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal by itself will not meet the requirement for recognizing a liability and the related expense under Statement No. 146. The adoption of Statement No. 146 did not have a material effect on our consolidated financial statements.

### ACCOUNTING FOR AND DISCLOSURES OF GUARANTEES

In November 2002, the FASB issued interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("Interpretation No. 45"). Interpretation No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. Interpretation No. 45 also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not have a material effect on our consolidated financial statements. See Note 14 of Notes to Consolidated Financial Statements for discussion of product warranty claims.

### ACCOUNTING FOR STOCK-BASED COMPENSATION

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123 ("Statement No. 148"). Statement No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the

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

disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. Effective January 1, 2003, we adopted Statement No. 148 and have provided the disclosures required under Statement No. 148 in Note 10 of Notes to Consolidated Financial Statements.

26

### CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("Interpretation No. 46"). Interpretation No. 46 addresses the consolidation by business enterprises of variable interest entities as defined in Interpretation No. 46. Interpretation No. 46 applies immediately to variable interests in variable interest entities obtained after January 31, 2003. For public enterprises with a variable interest in a variable interest entity created before February 1, 2003, Interpretation No. 46 applies to that enterprises no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. Interpretation No. 46 requires certain disclosures in financial statements issued after January 31, 2003. We currently are evaluating the impact of Interpretation No. 46 on our consolidated financial statements and related disclosures.

### ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("Statement No. 150"). Statement No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Statement No. 150 is not expected to have a material adverse effect on our consolidated financial statements.

27

### 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. We have exchange rate exposure primarily with respect to the Canadian Dollar and



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

the British Pound. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than a 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 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 entered into interest rate swap agreements, see Note 8 of Notes to Consolidated Financial Statements. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt is 46% at December 31, 2002 and 57% at June 30, 2003.

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/A for the year ended December 31, 2002.

### ITEM 4. CONTROLS AND PROCEDURES

- (a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.
- (b) There have been no changes in our internal controls that have materially affected or are reasonably likely to materially affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On January 28, 2000, a former significant customer of ours which is currently undergoing a Chapter 7 liquidation in U.S. Bankruptcy Court filed claims against a number of its former suppliers, including us. The claim against us alleged \$0.5 million of preferential payments in the 90 days prior to the related Chapter 11 bankruptcy petition. The claim pertaining to the preferential payments was settled for an immaterial amount during the second quarter of 2002. In addition, this former customer seeks \$9.4 million from us for a variety of claims including antitrust, breach of contract, breach of warranty and conversion. These latter claims arise out of allegations that this customer was entitled to various discounts, rebates and credits after it filed for bankruptcy. We have purchased insurance with respect to the actions. On August 22, 2002, the court dismissed the antitrust claims. On July 8, 2003, the

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

remaining claims were settled without any material financial effect on our business, financial condition or results of operations.

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation in the accompanying consolidated financial statements. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 1, 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 1, 2001 and the amounts paid for indemnity and defense thereof. At December 31, 2001, approximately 100 cases were outstanding for which we were responsible for any related liabilities. At December 31, 2002, the number of cases outstanding for which we were responsible for related liabilities increased to approximately 2,500, which include approximately 1,600 cases filed in December 2002 in Mississippi. We believe that these Mississippi cases filed against us in December 2002 were due in large part to potential plaintiffs accelerating the filing of their claims prior to the effective date of Mississippi's tort reform statute in January 2003, which statute eliminated the ability of plaintiffs to file consolidated cases. At June 30, 2003, approximately 2,900 cases were outstanding for which we were responsible for any related liabilities. To date, the amounts paid for settled claims have been immaterial. We do not have insurance coverage for the defense and indemnity costs associated with these claims. We recorded a liability associated with future settlements through 2052 and recorded an after tax charge of \$16.9 million as a loss from a discontinued operation during the third quarter of 2002 to reflect such liability.

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.

29

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) May 22, 2003 Annual Meeting

(b) Directors Elected --

Lawrence I. Sills  
Arthur D. Davis  
Susan F. Davis  
William H. Turner  
John L. Kelsey  
Frederick D. Sturdivant  
Marilyn F. Cragin  
Arthur S. Sills  
Peter J. Sills  
Robert M. Gerrity  
Kenneth A. Lehman

(c) Proposals voted upon:

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

(1) Election of Directors:	VOTES FOR	VOTES WITHHELD
Lawrence I. Sills	11,065,648	271,057
Arthur D. Davis	11,073,963	262,742
Susan F. Davis	11,291,205	45,500
William H. Turner	11,299,601	37,104
John L. Kelsey	11,299,605	37,100
Frederick D. Sturdivant	11,299,605	37,100
Marilyn F. Cragin	11,299,557	37,148
Arthur S. Sills	11,299,315	37,390
Peter J. Sills	11,299,605	37,100
Robert M. Gerrity	11,299,605	37,100
Kenneth A. Lehman	11,065,563	271,142

30

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)	EXHIBIT(S)	DESCRIPTION
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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished under Exhibit 32 of Item 601 of Regulation S-K.
32.2		Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished under Exhibit 32 of Item 601 of Regulation S-K.

(b) REPORTS ON FORM 8-K

On April 28, 2003, we filed a current report on Form 8-K reporting under Item 9 - Regulation FD Disclosure (Information furnished pursuant to Item 12 - Results of Operations and Financial Condition) that Standard Motor Products, Inc. issued a press release announcing its financial results for the quarter ended March 31, 2003 and a quarterly dividend. A copy of the press release was filed as an exhibit to such Form 8-K.

SIGNATURE

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

STANDARD MOTOR PRODUCTS, INC.  
(Registrant)

(Date): November 19, 2003

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

Vice President Finance,  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)