

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

STANDARD MOTOR PRODUCTS INC

Form 10-K/A

November 19, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS  
-----

NAME OF EACH EXCHANGE ON WHICH REGISTERED  
-----

Common stock

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE  
-----

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 if disclosure of delinquent filers pursuant to Item 405

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

of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |\_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).  
Yes |X| No |\_|

The aggregate market value of the Common voting stock based on a closing price on the New York Stock Exchange on June 28, 2002 of \$16.95 per share held by non-affiliates of the registrant was \$119,803,041. For purposes of the foregoing calculation, all directors and officers have been deemed to be affiliates, but the registrant disclaims that any of such are affiliates.

As of the close of business on March 25, 2003 there were 12,558,009 outstanding shares of the Registrant's Common Stock, par value \$2.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders to be held in 2003, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

=====

EXPLANATORY NOTE

This Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2002, as originally filed on March 31, 2003, is being filed to amend and reflect the restatement of our Consolidated Balance Sheets of December 31, 2002 and 2001. 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 \$76,249 and \$106,790 (in thousands) as of December 31, 2002 and 2001, respectively, from long-term debt to notes payable which is classified as current liabilities. See Note 21 of Notes to Consolidated Financial Statements for further discussion. Each item of the Annual Report on Form 10-K as filed on March 31, 2003 that was affected by the restatement has been amended and restated. No attempt has been made in this Form 10-K/A to modify or update other disclosures as presented in the original Form 10-K except as required to reflect the effects of the restatement.

STANDARD MOTOR PRODUCTS, INC.

INDEX

PART I. PAGE  
Item 1. Business .....4

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

Item 2.	Properties .....	15
Item 3.	Legal Proceedings .....	16
Item 4.	Submission of Matters to a Vote of Security Holders .....	16
PART II.		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters .....	17
Item 6.	Selected Financial Data .....	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	20
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk .....	30
Item 8.	Financial Statements and Supplementary Data .....	31
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure .....	32

-2-

STANDARD MOTOR PRODUCTS, INC.

INDEX

(CONTINUED)

PART III.		
Item 10.	Directors and Executive Officers of the Registrant .....	32
Item 11.	Executive Compensation .....	32
Item 12.	Security Ownership of Certain Beneficial Owners and Management .....	32
Item 13.	Certain Relationships and Related Transactions .....	32
Item 14.	Controls and Procedures .....	32
PART IV.		
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K .....	33
	Signatures .....	37

-3-

PART I

In this Annual Report, "Standard Motor Products," "we", "us", "our", and the "Company" refer to Standard Motor Products, Inc. and its subsidiaries, unless the context requires otherwise.

THIS ANNUAL REPORT ON FORM 10-K/A AND THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE CONTAIN FORWARD-LOOKING STATEMENTS BASED ON EXPECTATIONS, ESTIMATES AND PROJECTIONS AS OF THE DATE OF THIS FILING. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN FORWARD-LOOKING STATEMENTS. SEE ITEM 7-- "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- FORWARD-LOOKING STATEMENTS."

ITEM 1. BUSINESS

OVERVIEW

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry. We are organized into two major operating segments, each of which focuses on a specific line 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 to warehouse distributors and large retail chains in the United States, Canada and Latin America. We also sell our products in Europe through our European Segment. Our customers consist of many of the leading warehouse distributors, such as Carquest and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, AutoZone and O'Reilly Automotive. We distribute parts under our own brand names, such as Standard, Blue Streak and Four Seasons, and through private labels, such as Carquest and NAPA Auto Parts.

We are a New York corporation founded in 1919. Our principal executive offices are located at 37-18 Northern Boulevard, Long Island City, New York 11101, and our main telephone number at that location is (718) 392-0200. Our Internet address is WWW.SMPCORP.COM. We do not make our period filings available on our website. However, for those persons that make a request in writing or by e-mail (financial@smpcorp.com), we will provide free of charge our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 .

BUSINESS STRATEGY

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality, low cost replacement parts in the engine management and temperature control automotive aftermarkets. The key elements of our strategy are as follows:

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

- MAINTAIN OUR STRONG COMPETITIVE POSITION IN THE ENGINE MANAGEMENT AND TEMPERATURE CONTROL BUSINESSES. We are one of the leading independent manufacturers serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. We believe that our success is attributable to our emphasis on product quality, the breadth and depth of our product lines for both domestic and imported automobiles, and our reputation for outstanding customer service, as measured by rapid order turn-around times and high-order fill rates.

To maintain our strong competitive position in our markets, we remain committed to the following:

- providing our customers with broad lines of high quality engine management and temperature control products, supported by the highest level of customer service and reliability;
- 4-
- continuing to maximize our production and distribution efficiencies;
  - continuing to improve our cost position; and
  - focusing further our engineering development efforts.
- PROVIDE SUPERIOR CUSTOMER SERVICE, PRODUCT AVAILABILITY AND TECHNICAL SUPPORT. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability and providing technical support in a cost-effective manner. In addition, our technically-skilled sales force of approximately 200 sales professionals provides product selection and application support to our customers.
  - EVOLVE AND EXPAND OUR PRODUCT LINES. We intend to increase our sales by continuing to develop and expand the range of Engine Management and Temperature Control products that we offer to our customers. We are committed to investing the resources necessary to maintain and expand our technical capability to manufacture multiple product lines that incorporate the latest technologies developed by OEMs in North America and Europe.
  - BROADEN OUR CUSTOMER BASE. Our goal is to increase our business by marketing our products more broadly to the distribution businesses of OEMs who sell products to new car dealer service areas.
  - IMPROVE OPERATING EFFICIENCY AND COST POSITION. Our management places significant emphasis on improving our financial performance, by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We have a proven track record of managing costs and improving operating efficiency through consolidating redundant functions and realizing cost savings in our business. We intend to continue to improve our operating efficiency and cost position by:
    - increasing cost-effective vertical integration in key product lines through internal development;

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

- o focusing on efficient inventory management, including warranty and overstock return management;
  - o maintaining and improving our cost effectiveness and competitive responsiveness to better serve the automotive aftermarket customer base;
  - o adopting company-wide programs geared toward manufacturing and distribution efficiency; and
  - o initiating company-wide overhead and operating expense cost reduction programs, such as closing excess facilities.
- o REDUCE OUR DEBT. We intend to apply any excess cash flow from operations and the management of working capital to reduce our outstanding indebtedness.

-5-

### ACQUISITION

On February 7, 2003, we signed an agreement to purchase Dana Corporation's Engine Management Group (EMG) which we refer to throughout this Annual Report as Dana's EMG Business, for a purchase price equal to the closing net book value of the business, subject to a maximum purchase price of \$125 million. Dana's EMG is a leading manufacturer of aftermarket parts in the automotive industry focused exclusively on engine management. Dana's EMG Business manufactures ignition systems, emission parts, engine computers, ignition wires, battery cables and fuel system parts. Customers of Dana's EMG Business include NAPA Auto Parts, CSK Auto, O'Reilly Automotive and Pep Boys. We intend to integrate Dana's EMG Business into our Engine Management Segment within 18 months from the closing of the acquisition. The closing of the acquisition is subject to our financing of the purchase price. We intend to finance the acquisition and the payment of related fees and expenses and restructuring and integration costs by (a) drawing on our revolving credit facility, (b) issuing shares of our common stock and (c) obtaining seller financing.

The acquisition purchase price is subject to a post-closing adjustment based upon the 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.

The acquisition is subject to our obtaining financing for the acquisition and other customary closing conditions. We expect to close the acquisition during the second quarter of 2003.

### THE AUTOMOTIVE AFTERMARKET

The automotive aftermarket industry is comprised of a large, diverse number of manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of vehicles on the road.

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

During periods of economic decline or weakness, more automobile owners may choose to repair their current automobiles using replacement parts rather than purchasing new automobiles, which benefits the automotive aftermarket industry, including suppliers like us. The automotive aftermarket industry is also dependent on new car sales, although to a lesser degree than original equipment manufacturers, or OEMs, and their suppliers, because these sales create the total number of cars available for repair. Despite the current economic climate, the current interest rate environment and aggressive financing programs by automakers has increased demand for new cars and trucks, which should benefit the automotive aftermarket manufacturers in the long term as vehicles age.

The automotive aftermarket industry differs substantially from the OEM supply business. Unlike the OEM supply business that primarily follows trends in new car production, the automotive aftermarket industry's performance primarily tends to follow different trends, such as:

- o growth in number of vehicles on the road;
- o increase in average vehicle age;
- o increase in total miles driven per year;
- o new and modified environmental regulations;
- o increase in pricing of new cars; and
- o new car quality and related warranties.

Traditionally, the supply arms of OEMs and the independent manufacturers who supply the original equipment part applications have supplied a majority of the business to new car dealer networks. However, Ford and General Motors have recently moved to make their supply arms more independent, which may provide future opportunities for independent automotive aftermarket manufacturers to supply replacement parts to the dealer networks of the original equipment vehicle manufacturers, both for warranty and out-of-warranty repairs.

-6-

The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of the original equipment vehicle manufacturers.

### FINANCIAL INFORMATION ABOUT OUR OPERATING SEGMENTS

The table below shows our consolidated net sales by operating division and by major product group within each division for the three years ended December 31, 2002. Our three reportable operating segments are Engine Management, Temperature Control and Europe.

		YEAR ENDED DECEMBER 31,					
		2002		2001		2000	
Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(DOLLARS IN THOUSANDS)							

ENGINE MANAGEMENT:

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

Ignition and Emission						
Parts .....	\$232,511	38.9%	\$218,694	37.0%	\$219,337	36.5%
Wires and Cables .....	63,267	10.6%	58,720	9.9%	59,517	9.9%
Fuel System Parts .....	7,334	1.2%	8,084	1.4%	9,386	1.6%
TOTAL ENGINE MANAGEMENT .....	303,112	50.7%	285,498	48.3%	288,240	48.0%
TEMPERATURE CONTROL:						
Compressors .....	105,301	17.6%	117,965	19.9%	118,399	19.7%
Other Air Conditioning						
Parts .....	136,973	22.9%	138,542	23.4%	139,051	23.1%
Heating Parts .....	12,814	2.1%	13,349	2.3%	13,398	2.2%
TOTAL TEMPERATURE CONTROL .....	255,088	42.6%	269,856	45.6%	270,848	45.0%
EUROPE:						
Engine Management Parts .	26,575	4.4%	26,315	4.4%	32,179	5.4%
Temperature Control Parts	9,453	1.6%	7,134	1.2%	6,131	1.0%
TOTAL EUROPE .....	36,028	6.0%	33,449	5.6%	38,310	6.4%
ALL OTHER .....	4,209	0.7%	2,849	0.5%	3,994	0.6%
TOTAL .....	\$598,437	100.0%	\$591,652	100.0%	\$601,392	100.0%

The table below shows our operating profit and identifiable assets by operating segment for the three years ended December 31, 2002.

	YEAR ENDED DECEMBER 31,					
	2002		2001		2000	
	OPERATING PROFIT	IDENTIFIABLE ASSETS	OPERATING PROFIT	IDENTIFIABLE ASSETS	OPERATING PROFIT	IDE
	(DOLLARS IN THOUSANDS)					
Engine Management .	\$ 41,844	\$247,318	\$ 26,432	\$233,564	\$ 37,974	\$
Temperature Control	10,095	157,343	3,624	182,083	11,513	
Europe .....	(10,464)	30,728	(1,718)	40,407	517	
All Other .....	(16,407)	55,369	(13,215)	53,375	(19,293)	
TOTAL .....	\$ 25,068	\$490,758	\$ 15,123	\$509,429	\$ 30,711	\$

"All Other" consists of items pertaining to the corporate headquarters function, as well as the Canadian business unit that do not meet the criteria of a reportable operating segment.



-7-

#### ENGINE MANAGEMENT SEGMENT

BREADTH OF PRODUCTS. In our Engine Management Division, replacement parts for ignition and emission control systems accounted for approximately 39% of our 2002 consolidated net sales. These parts include distributor caps and rotors, electronic ignition control modules, voltage regulators, coils, switches, sensors and EGR valves. We are a basic manufacturer of many of the ignition parts we market and continue to develop ways of increasing the number of parts we manufacture, rather than purchasing such parts from third parties and then reselling such parts to our customers. We believe our customers benefit from lower prices and improved quality from our manufacturing such parts. These products cover a wide range of applications, from 30-year old vehicles to current models, both domestic and imports, and include passenger cars, light trucks and certain off-road and marine applications.

We offer products at three different price points under a "good-better-best" concept. We began offering ignition parts under the "Standard" brand name that are equal in quality to original equipment parts installed on new vehicles. Soon afterward, we pioneered the concept of offering higher quality parts, sold at premium prices under the "Blue Streak" brand name, that are significantly better than original equipment. We also offer lower-priced lines under the "COBRA" brand to compete with lower priced private labels.

COMPUTER CONTROLLED TECHNOLOGY. Nearly all new vehicles are factory-equipped with computer-controlled engine management systems to control ignition, emission control and fuel injection. These computer-controlled engine management systems, as opposed to the traditional breaker-point ignition systems installed in prior generations of new vehicles, reflect the automobile industry's response to decades of pressure from the government and environmental groups to reduce national fuel consumption and the level of pollutants from auto exhaust. The on-board computers monitor inputs from many types of sensors located throughout the vehicle, and control a myriad of valves, switches and motors to manage engine and vehicle performance. Electronic ignition systems enable the engine to improve fuel efficiency and reduce the level of hazardous fumes in exhaust gases. We are a leading manufacturer and distributor of replacements for these engine management component parts, including remanufactured automotive computers. Electronic control modules and electronic voltage regulators comprised approximately 12% of our total ignition and emission consolidated net sales in 2002.

In 1992, we entered into a 50/50 joint venture in Canada with Blue Streak Electronics, Inc. to rebuild automotive engine management computers and mass air flow sensors. The volume of products produced by the joint venture are sold primarily to us and has positioned us as a key supplier in the growing remanufactured electronics markets. In 1994, we vastly increased our offering of remanufactured computers and instituted a program to offer slower-moving items by overnight shipment from our factory, which has enabled our customers to expand their coverage without increasing inventory investment. The Blue Streak joint venture has further expanded its product range to include computers used in temperature control, anti-lock brake systems and air bags.

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

We divide our electronic operations between product design and highly automated manufacturing operations in Orlando, Florida and assembly operations, which are performed in assembly plants in Orlando and Hong Kong.

Our sales of sensors, valves, solenoids and related parts have increased steadily as automobile manufacturers equip their cars with more complex engine management systems. Government emission laws have been implemented throughout the majority of the United States. The Clean Air Act, as amended in 1990, imposes strict emission control test standards on existing and new vehicles, and remains the preeminent legislation in the area of vehicle emissions. As many states have implemented required inspection/maintenance tests, the Environmental Protection Agency, through its rulemaking ability, has also encouraged both manufacturers and drivers to reduce vehicle emissions. As the Clean Air Act was "phased in" beginning in 1994, automobiles must now comply with emission standards from the time they are manufactured, and in most states, until the last day they are in use. This law has, and in the future we expect this law and other new government emission laws to have, a positive impact on sales of our ignition and emission controls parts. Vehicles failing these new, more stringent tests have required repairs utilizing parts sold by us.

-8-

WIRE AND CABLE PRODUCTS. Wire and cable parts accounted for approximately 11% of our 2002 consolidated net sales. These products include ignition (spark plug) wires, battery cables and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile's electrical system.

The largest component of this product line is the sale of ignition wire sets. We have historically offered a premium brand of ignition wires and battery cables, which capitalize on the market's awareness of the importance of quality. With the growing customer interest in lower-priced products, we introduced a second line of wire and products in 1989. This line has steadily expanded to include import coverage, and in 1995 was reintroduced under the Tru-Tech brand name.

In 1999, we relocated two of our wire and cable operations, one in Dallas, Texas and the other in Bradenton, Florida, to a new facility in Reynosa, Mexico. The Mexican operation focuses on assembly and packaging of the economy wire sets, while our premium line is manufactured at our facility in Edwardsville, Kansas.

### TEMPERATURE CONTROL SEGMENT

We manufacture, remanufacture and market a broad line of replacement parts for automotive temperature control systems (air conditioning and heating), primarily under the brand names of Four Seasons, Everco, Factory Air, Trumark, NAPA Auto Parts and Carquest. The major product groups sold by our Temperature Control Segment are compressors, other air conditioning parts including small motors, fan clutches, dryers, evaporators, accumulators and hoses, and heating parts, including heater cores and valves. Total sales for our Temperature Control Segment accounted for approximately 43% of our 2002 consolidated net sales.

A major factor in the Temperature Control Segment's business is the federal regulation of chlorofluorocarbon refrigerants. United States legislation phased out the production of domestic R-12 refrigerant (e.g., DuPont's Freon) completely by the end of 1995. As the new law became effective, vehicle air conditioners needing repair or recharge were retrofitted to use the new R-134a refrigerant. New vehicles began to use the new refrigerants in 1993. Installers continue to seek training and certification in the new technology and our Temperature Control Segment has taken the lead in providing this training and

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

certification. Additionally, as technological changes necessitate many new automotive parts, as well as new service equipment, in anticipation of the phase-out of chlorofluorocarbon refrigerants, in 1994 we reengineered our compressor line to be able to operate efficiently utilizing either R-12 or R-134a refrigerants, and remain a leader in providing retrofit kits for conversion of R-12 systems.

In 1998, we exchanged our brake business for the Moog automotive temperature control business of Cooper Industries, which expanded our position in temperature control. The Moog acquisition also expanded our position in the small motor and heater parts markets. In 1999, we acquired Eaglemotive Corporation, a manufacturer of fan clutches and oil coolers. In consolidating these two businesses with our existing operations, we closed three manufacturing facilities and consolidated three distribution sites into one.

### EUROPE SEGMENT

In July 1996, the Company acquired an equity interest in Standard Motor Products (SMP) Holdings Limited (formerly Intermotor Holdings Limited) located in Nottingham, England. This was the Company's first investment in Europe. (During 2002, the Company acquired the remaining equity interest bringing the Company's ownership percentage to 100%). SMP Holdings Limited manufacturers and distributors a broad line of engine management products primarily to customers in Europe. Also in 1996, the Company expanded its presence in Europe by opening a European distribution center in Strasbourg, France for temperature control products. A joint venture (Blue Streak-Europe) between SMP Holdings Limited and Blue Streak Electronics was also initiated in 1996, which supplies rebuilt engine computers for the European market.

-9-

Since 1996, the Company has made a series of smaller acquisitions supplementing both the Engine Management and Temperature Control portions of the business. With respect to the engine management business, in January 1999 the Company acquired Webcon UK Limited, an assembler and distributor of fuel system components and other engine management and motor sport performance products, and later in 1999 acquired Lemark Auto Accessories, a supplier of wire sets. In January 1999, Blue Streak Europe acquired Injection Correction UK LTD, and in September 2001, it also acquired TRW Inc.'s electronic control unit remanufacturing division, also located in the United Kingdom. In April of 2002, the wire business was further expanded by acquiring Carol Cable Limited, a manufacturer and distributor of wire.

With respect to the temperature control portion of the business, following the opening of the distribution center in France, in 1997 a joint venture was entered into with Valeo, SA to remanufacture air conditioner compressors for the European market. In addition, in January 2000 the Company acquired Four Seasons UK Ltd. (formerly Vehicle Air Conditioning Parts Ltd.) a distributor of components for the repair of air conditioning systems. In July 2000, the Temperature Control business was further expanded by purchasing Automotive Heater Exchange SRL in Italy.

Our European Segment accounted for approximately 6% of our 2002 total net sales. Aftermarket margins are under pressure from OE suppliers, while volumes are in a general decline in the ignition and carburetor product lines. The combination has had a negative impact on Engine Management product sales with increasing amounts of underabsorbed overhead. Excluding sales from our 2002 acquisition of

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

Carol Cable, Engine Management sales have declined from \$32.2 million in 2000 to \$22.8 in 2002. We are currently planning on ways of reducing manufacturing costs, including outsourcing products where their respective volumes are declining and margins can be improved by outsourcing. In addition, we have made investments in capital projects to facilitate the sale of new OE niche customers and the aftermarket. We are also giving preliminary consideration to consolidating certain facilities and reducing costs wherever we can.

Unlike Engine Management sales, European Temperature Control product sales are increasing. Through acquisitions and more importantly a growing market, net sales have increased from \$6.1 million in 2000 to \$9.5 million in 2002. To date, the focus has been on product coverage and high customer service levels. Without sacrificing growth, we are giving preliminary consideration to consolidating certain facilities and reducing costs wherever we can.

### FINANCIAL INFORMATION ABOUT OUR FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

We sell our line of products primarily in the United States, with additional sales in Canada, Europe and Latin America. Our sales are substantially denominated in U.S. dollars.

The table below shows our consolidated net sales by geographic area for the three years ended December 31, 2002:

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
United States . . . . .	\$ 512,055	\$ 515,322	\$ 521,593
Europe . . . . .	36,028	33,449	38,310
Canada . . . . .	32,188	28,811	27,942
Other Foreign . . . . .	18,166	14,070	13,547
Total . . . . .	\$ 598,437	\$ 591,652	\$ 601,392
	=====	=====	=====

-10-

The table below shows our long-lived assets by geographical area for the three years ended December 31, 2002:

	Year Ended December 31,		
	2002	2001	2000

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

	-----	-----	-----
		(Dollars in thousands)	
United States . . . . .	\$ 109,778	\$ 118,455	\$ 122
Europe . . . . .	7,153	17,301	17
Canada . . . . .	2,450	2,829	3
Other Foreign . . . . .	1,124	1,101	1
	-----	-----	-----
Total . . . . .	\$120,505	\$ 139,686	\$ 145
	=====	=====	=====

### SALES AND DISTRIBUTION

We sell our products under proprietary brand names throughout the United States, Canada, Europe and Latin America. Products are distributed to warehouse distributors, including 15,000 jobber outlets located throughout the United States and Canada. The jobbers sell our products primarily to professional mechanics and to consumers who perform their own automobile repairs. In addition, we sell directly to large auto parts retail chains, such as Advance Auto Parts, AutoZone and O'Reilly Automotive.

As of December 31, 2002, we sold and serviced our products through a direct sales force of approximately 200 employees and, in some instances, through independent sales representatives.

We believe that our sales force is the premier direct sales force for our two product lines. We believe the primary reason for this reputation is our high concentration of highly-qualified, well-trained salespeople dedicated to geographic territories, which allows us to provide a level of customer service that we believe is unmatched. The United States sales force is divided into three regions, each with five to six zones and approximately eight salespeople per zone.

From the outset, we thoroughly train our salespeople both in the function and application of every product line we sell, as well as in proven sales techniques. Customers therefore depend on these salespeople as a reliable source for technical information. We give newly hired salespeople extensive instruction at our training facility in Irving, Texas and have a policy of continuing education that allows our sales force to stay current on troubleshooting and repair techniques, as well as the latest automotive parts and systems technology. We employ a comprehensive CD-ROM training program that further broadens our capability to provide real-time updated training to our salespeople.

We generate demand for our products by directing a significant portion of our sales effort to the end-customers' customers (i.e., jobbers and professional mechanics), creating demand through our traditional distribution system. We also conduct instructional clinics, which teach mechanics how to diagnose and repair complex systems related to our products. To help our salespeople to be teachers and trainers, we focus our recruitment efforts on candidates who already have strong technical backgrounds as well as sales experience. We also create demand for our products through the Standard Plus Club. Our Standard Plus Club, a professional service dealer network comprised of approximately 7,900 members, offers technical and business development support and has a technical service telephone hotline which provides diagnostics and installation support. This club is available to any jobber or installer and provides training, special discount programs, on-line diagnostics assistance and logo merchandise.

In connection with our sales activities, we offer several types of discounts and allowances. We believe these discounts and allowances are a common practice throughout the automotive aftermarket industry. First, we offer cash discounts

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

for paying invoices in accordance with the discounted terms of the invoice. Second, we offer pricing discounts based on volume and different product lines purchased from us. Supplementally, rebates and discounts are provided to customers as advertising and sales force allowances. In addition to the aforementioned discounts and rebates, allowances for warranty and overstock returns are also provided.

-11-

### CUSTOMERS

Our customer base is comprised largely of warehouse distributors, jobber outlets, other manufacturers and export customers. In addition to serving our traditional customer base, we have expanded into the retail market by selling to large retail chains such as Advance Auto Parts, AutoZone and O'Reilly Automotive. Our retail channel of distribution has grown significantly from approximately \$41 million in consolidated net sales to retailers in 1993 (representing 7% of consolidated net sales), to approximately \$138 million in 1997 (representing 26% of consolidated net sales), and to approximately \$169 million in 2002 (representing 28% of consolidated net sales). In 1997, we commenced distributing our products through the original equipment service supplier channel, and sold approximately \$3 million in consolidated net sales to original equipment service suppliers (representing 0.6% of consolidated net sales), which increased to approximately \$23 million in 2002 (representing 3.8% of consolidated net sales).

Our five largest individual customers accounted for 46% of our 2002 consolidated net sales. Members of one marketing group represent our largest group of customers and accounted for approximately 15% of our 2002 consolidated net sales. One individual member of this marketing group accounted for 13% of our 2002 consolidated net sales.

### COMPETITION

We are a leading independent manufacturer of replacement parts for the product lines in Engine Management and Temperature Control. We compete primarily on the basis of price, product quality, customer service, product coverage, product availability, order turn-around time and order fill rate. We believe we differentiate ourselves from our competitors primarily through:

- o a value-added, knowledgeable sales force;
- o extensive product coverage;
- o sophisticated parts cataloguing systems; and
- o inventory levels sufficient to meet the rapid delivery requirements of customers.

In the engine management business, we are one of the leading independent manufacturers in the United States. Our significant competitors include Delco Electronics Corporation, Delphi Corporation, Federal-Mogul Corporation, KEM Manufacturing Products, Inc., Robert Bosch Corporation and Wells Manufacturing Corporation (a UIS, Inc. subsidiary).

Our temperature control business is one of the leading independent producers and distributors of a full line of temperature control products in North America and other geographic areas. Delphi Corporation, Visteon Corporation, AC Delco,

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

Transpro, Inc. and Jordan Automotive Aftermarket, Inc. are some of our key competitors in this market.

Although we are a leading independent manufacturer of automotive replacement parts with strong brand name recognition, we face substantial competition in all markets that we serve. The automotive aftermarket is highly competitive and our success in the marketplace continues to depend on our ability to offer competitive prices, improved products and expanded offerings in competition with many other suppliers to the aftermarket. Some major manufacturers of replacement parts are divisions of companies having greater financial, marketing and other resources than we do. In addition, automobile manufacturers supply virtually every replacement part sold by us, although these manufacturers generally supply parts only for cars they produce.

### SEASONALITY

Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year, with revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather. 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 borrowings from our revolving credit facility.

-12-

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.

### WORKING CAPITAL MANAGEMENT

Automotive aftermarket companies have been under increasing pressure to provide broad SKU (stock keeping unit) coverage in response to parts and brand proliferation. Since 1996, we have made significant changes to the inventory management system to reduce inventory requirements. We launched a new forecasting system in our Engine Management Segment that permitted a significant reduction in safety stocks. Our Engine Management Segment also introduced a new distribution system in the second half of 1999, which permits pack-to-order systems to be implemented. Such systems permit us to retain slow moving items in a bulk storage state until an order for a specific brand part is received. This system reduces the volume of a given part in inventory and reduces the labor requirements to package and repackage inventory.

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 fill rate levels of

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

approximately 93%. In 2002, we further reduced inventory by \$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.

Our profitability and working capital requirements have become more seasonal with the increased sales mix of 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. These increased working capital requirements are funded by borrowings from our revolving credit facility.

### SUPPLIERS

The principal raw materials purchased by us consist of brass, electronic components, fabricated copper (primarily in the form of magnet and insulated cable), ignition wire, stainless steel coils and rods, aluminum coils and rods, lead, rubber molding compound, thermo-set and thermo plastic molding powders. Additionally, we use components and cores (used parts) in our remanufacturing processes for computerized electronics and air conditioning compressors.

-13-

We purchase many materials in the U.S. open market, but do have a limited number of supply agreements on key components. A number of prime suppliers make these materials available. In the case of cores, we obtain them either from exchanges with customers who return cores when purchasing remanufactured parts, or through direct purchases from a network of core brokers.

We believe there is an adequate supply of primary raw materials and cores. In order to ensure a consistent, high quality, low cost supply of key components for each product line, we continue to develop our own sources through internal manufacturing capacity.

### PRODUCTION AND ENGINEERING

We engineer, tool and manufacture many of the components for our products, except for some commonly available small component parts from outside suppliers. We also perform our own plastic and rubber molding operations, stamping and



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

machining operations, automated electronics assembly and a wide variety of other processes. In the case of remanufactured components, we conduct our own teardown, diagnostics and rebuilding for computer modules and air conditioning compressors. We have found this level of vertical integration to provide advantages in terms of cost, quality and availability. We intend to selectively continue efforts toward further vertical integration to ensure a consistent quality and supply of low cost components.

We use the "just-in-time" cellular manufacturing concept as a major program to lower costs and improve efficiency. The main thrust of "just-in-time" cellular manufacturing is reducing work-in-process and finished goods inventory, and its implementation reduces the inefficient operations that burden many manufacturing processes. In 2000, we launched a program for the installation of a fully integrated enterprise resource planning (ERP) system. The implementation is expected to be fully completed in 2003 in our Temperature Control Segment. At that time, the system will encompass all aspects of the supply chain, including procurement, manufacturing, sales, distribution and finance at all of our Temperature Control facilities. The existing Engine Management information system continues to meet the need of our Engine Management Segment.

### EMPLOYEES

As of December 31, 2002, we employed approximately 2,200 people in the United States, and 1,100 people in Mexico, Canada, Puerto Rico, Europe and Hong Kong. Of these, approximately 2,200 are production employees. We operate primarily in non-union facilities and have binding labor agreements with the workers at our two unionized facilities. We have approximately 130 production employees in Edwardsville, Kansas who are covered by a contract with The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") that expires April 4, 2003. We expect to renew this agreement prior to its expiration. As of December 31, 2002, approximately 120 of our production employees in Long Island City, New York are under a UAW contract that expires October 2, 2004. We also have a union relationship in Mexico with an agreement negotiated each year. The current union agreement in Mexico, which covers approximately 260 employees, expires on January 29, 2004. We believe that our facilities are in favorable labor markets with ready access to adequate numbers of skilled and unskilled workers, and we believe our relations with our union and non-union employees are good.

### INSURANCE

We maintain basic liability coverage up to \$2 million for automobile liability, general and product liability and \$50 million for umbrella liability coverage. We also maintain a \$10 million environmental policy to cover our existing facilities, except for one of our facilities which is currently undergoing minor environmental remediation. The environmental remediation costs at such facility are covered by an insurance policy of \$3 million, which is subject to a \$1.5 million deductible. Historically, we have not experienced casualty losses in any year in excess of our coverage. We have no reason to expect this experience to change, but can offer no assurances that liability losses in the future will not exceed our coverage.

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

We maintain our executive offices and a manufacturing plant in Long Island City, New York.

The table below describes our principal physical properties.

LOCATION -----	STATE OR COUNTRY -----	PRINCIPAL BUSINESS ACTIVITY -----	APPROX. SQUARE FEET ----
ENGINE MANAGEMENT			
Orlando	FL	Manufacturing (Ignition)	50,640
Edwardsville	KS	Manufacturing and Distribution (Wire)	355,000
Wilson	NC	Manufacturing (Ignition)	31,500
Reno	NV	Distribution (Ignition)	67,000
Long Island City	NY	Administration and Manufacturing (Ignition)	318,000
Greenville	SC	Manufacturing (Ignition)	181,525
Disputanta	VA	Distribution (Ignition)	411,000
Fajardo	Puerto Rico	Manufacturing (Ignition)	114,000
Hong Kong	HK	Manufacturing (Ignition)	21,350
Reynosa	Mexico	Manufacturing (Wire)	62,500
Nottingham	England	Administration and Distribution (Ignition and Wire)	29,000
Nottingham	England	Manufacturing (Ignition)	46,777
Nottingham	England	Manufacturing (Ignition)	10,000
Wellingborough	England	Manufacturing (Wire)	18,500
TEMPERATURE CONTROL			
Corona	CA	Manufacturing and Distribution	78,200
Lewisville	TX	Administration and Distribution	415,000
Fort Worth	TX	Manufacturing and Distribution	204,000
Fort Worth	TX	Manufacturing and Distribution	103,000
Grapevine	TX	Manufacturing	180,000
St. Thomas	Canada	Manufacturing	40,000
Strasbourg	France	Administration and Distribution	16,146
Massa	Italy	Administration and Distribution	13,100
TEMPERATURE CONTROL/ENGINE MANAGEMENT			
Mississauga	Canada	Administration and Distribution (Ignition, Wire, Temperature Control)	128,400
Sunbury at Thames	England	Distribution (Ignition and Temperature Control)	28,095
OTHER			
Ontario	CA	Vacated-subleased	250,200
Cumming	GA	Vacated	77,000
Grapevine	TX	Storage	83,125
Irving	TX	Training Center	13,400

The real property we own in Kansas, Nevada, South Carolina, Virginia and Texas is encumbered by a mortgage or deed of trust, as applicable, in favor of General

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

Electric Capital Corporation, as agent for our secured revolving credit facility.

-15-

### ITEM 3. 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. We believe that these remaining matters will not have a material adverse 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. 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.

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

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

None.

-16-

## PART II

### ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades publicly on the New York Stock Exchange under the trading symbol "SMP." The following table shows the high and low sales prices per share of the common stock as reported by the New York Stock Exchange and the dividends declared per share for the periods indicated:

	HIGH ----	LOW ---	DIVIDEND -----
FISCAL YEAR ENDED DECEMBER 31, 2001			
First Quarter.....	\$ 10.60	\$ 7.44	\$0.09
Second Quarter.....	14.50	9.90	0.09
Third Quarter.....	13.70	11.65	0.09
Fourth Quarter.....	14.95	10.45	0.09
FISCAL YEAR ENDED DECEMBER 31, 2002			
First Quarter.....	\$ 15.15	\$ 12.90	\$0.09
Second Quarter.....	17.04	14.30	0.09
Third Quarter.....	17.39	10.63	0.09
Fourth Quarter.....	13.90	9.45	0.09

The last reported sale price of our common stock on the NYSE on March 25, 2003 was \$11.82 per share. As of March 25, 2003, there were 505 holders of record of our common stock.

Dividends are declared and paid on the common stock at the discretion of our board of directors and depend on our profitability, financial condition, capital needs, future prospects, and other factors deemed relevant by our board. Our current policy is to pay dividends on a quarterly basis. Our credit agreement permits dividends and distributions by us provided specific conditions are met.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the last five years. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes thereto included elsewhere in this Form 10-K/A.

YEAR ENDED DECEMBER 31,				
2002 ----	2001 ----	2000 ----	1999 ----	1998 ----

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

### STATEMENT OF OPERATIONS DATA:

Net sales(1).....	\$598,437	\$591,652	\$601,392	\$653,451	\$640,1
Gross profit(1).....	157,544	139,055	162,701	170,809	183,6
Operating income.....	25,068	15,123	30,711	30,223	43,7
Earnings (loss) from continuing operations (2).....	6,091	(2,485)	9,729	7,625	22,2
Net earnings (loss) (3) (4).....	(30,556)	(2,485)	9,729	7,625	22,2

### PER SHARE DATA:

#### Earnings from continuing operations:

Basic.....	\$ .51	\$ (.21)	\$ .82	\$ .58	\$ 1.
Diluted.....	.51	(.21)	.81	.58	1.
Net earnings (loss) per common share:					
Basic.....	(2.57)	(.21)	.82	.58	1.
Diluted.....	(2.54)	(.21)	.81	.58	1.
Cash dividends per common share.....	.36	.36	.36	.34	.

### OTHER DATA:

Depreciation and amortization.....	\$ 16,128	\$18,909	\$ 18,922	\$ 17,230	\$ 17,2
Capital expenditures.....	7,598	13,740	16,652	14,423	15,3
Dividends.....	4,290	4,236	4,324	4,456	2,0

### BALANCE SHEET DATA (AT PERIOD END):

Cash and cash equivalents.....	\$ 9,690	\$ 7,496	\$7,699	\$40,380	\$23,4
Working capital (As Restated).....	140,683	121,566	188,091	205,806	178,3
Total assets.....	490,758	509,429	549,396	556,021	521,5
Total debt.....	176,917	205,925	202,591	195,425	159,7
Long-term debt (excluding current portion) (As Restated).....	93,191	93,276	150,018	163,868	133,7
Stockholders' equity.....	153,881	185,687	194,305	203,518	205,0

-17-

- (1) On January 1, 2002, we adopted the guidelines of the Emerging Issues Task Force (EITF) entitled "Accounting for Certain Sales Incentives" and "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." These guidelines address when sales incentives and discounts should be recognized and the accounting for certain costs incurred by a vendor on behalf of a customer, as well as where the related revenues and expenses should be classified in the financial statements. Net sales and gross profit amounts for the periods prior to 2002 included in this Annual Report have been reclassified to conform to our 2002 presentation. As a result, certain costs of approximately \$30.4 million, \$25.4 million, \$18 million and \$21.8 million have been reclassified for December 31, 2001, 2000, 1999 and 1998.
- (2) Effective January 1, 2003, we adopted the provisions of 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. As a result, the extraordinary loss on the early

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

extinguishment of debt of approximately \$1.1 million, \$0.5 million and \$2.8 million has been reclassified to interest expense for December 31, 1999, 2000 and 2001, respectively.

- (3) 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 will no longer be amortized, but instead, will be subject to an annual review for potential impairment. 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 with our European Segment and with our Temperature Control Segment and we recorded charges of \$10.9 million related to our European Operations and \$7.4 million related to our Temperature Control Segment.

-18-

Upon adoption of SFAS No. 142, our earnings before cumulative effect of accounting change for basic and diluted earnings per share adjusted to exclude goodwill amortization expense (net of tax) are as follows:

	YEARS ENDED DECEMBER 31,			
	2002	2001	2000	1999
	----	----	----	----
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
Reported earnings (loss) before cumulative effect of accounting change .....	\$ (12,206)	\$ (2,485)	\$ 9,729	\$ 7,625
Add back: goodwill amortization expense, net of tax .....	--	2,727	2,574	2,481
	-----	-----	-----	-----
Adjusted earnings (loss) before cumulative effect of accounting change .....	\$ (12,206)	\$ 242	\$ 12,303	\$ 10,106
	=====	=====	=====	=====
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>				
Reported basic earnings (loss) per share before cumulative effect of accounting change .....	\$ (1.03)	\$ (0.21)	\$ 0.82	\$ 0.58
Add back: goodwill amortization expense, net of tax .....	--	0.23	0.22	0.19
	-----	-----	-----	-----
Adjusted basic earnings (loss) per share before cumulative effect of accounting change .....	\$ (1.03)	\$ 0.02	\$ 1.04	\$ 0.77
	=====	=====	=====	=====
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>				
Reported diluted earnings per share before cumulative effect of accounting change .	\$ (1.01)	\$ (0.21)	\$ 0.81	\$ 0.58
Add back: goodwill amortization expense,				

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

net of tax .....	---	0.23	0.21	0.19
	-----	-----	-----	-----
Adjusted diluted earnings (loss) per share before cumulative effect of accounting change .....	\$ (1.01)	\$ 0.02	\$ 1.02	\$ 0.77
	=====	=====	=====	=====

Upon adoption of SFAS No. 142, our net earnings (loss) for basic and diluted earnings per share adjusted to exclude goodwill amortization expense (net of tax) are as follows:

	YEARS ENDED DECEMBER 31,			
	2002	2001	2000	1999
	----	----	----	----
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE)			
Reported net earnings (loss) .....	\$ (30,556)	\$ (2,485)	\$ 9,729	\$ 7,000
Add back: goodwill amortization expense, net of tax .....	--	2,727	2,574	2,000
	-----	-----	-----	-----
Adjusted net earnings (loss) .....	\$ (30,556)	\$ 242	\$ 12,303	\$ 10,000
	=====	=====	=====	=====
BASIC NET EARNINGS (LOSS) PER SHARE:				
Reported basic net earnings (loss) per share .....	\$ (2.57)	\$ (0.21)	\$ 0.82	\$ 0.00
Add back: goodwill amortization expense, net of tax .....	--	0.23	0.22	0.00
	-----	-----	-----	-----
Adjusted basic net earnings (loss) per share .....	\$ (2.57)	\$ 0.02	\$ 1.04	\$ 0.00
	=====	=====	=====	=====
DILUTED NET EARNINGS (LOSS) PER SHARE:				
Reported diluted net earnings (loss) per share .....	\$ (2.54)	\$ (0.21)	\$ 0.81	\$ 0.00
Add back: goodwill amortization expense, net of tax .....	--	0.23	0.21	0.00
	-----	-----	-----	-----
Adjusted diluted net earnings (loss) per share .....	\$ (2.54)	\$ 0.02	\$ 1.02	\$ 0.00
	=====	=====	=====	=====

- (4) For the year ended December 31, 2002, we recorded an after tax charge of \$18.3 million as a loss from discontinued operations to account for potential costs associated with our asbestos-related liability.

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

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Report on Form 10-K/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, including 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 the filings of the Company with the Securities and Exchange Commission. Those forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with our financial statements and the notes thereto. This discussion summarizes the significant factors affecting our results of operations and the financial condition of our business during each of the fiscal years in the three year period ended December 31, 2002.

#### BUSINESS OVERVIEW

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

**ACQUISITION.** On February 7, 2003, we signed an agreement to purchase Dana's EMG Business, for a purchase price equal to the closing net book value of the business, subject to a maximum purchase price of \$125 million. Dana's EMG Business is a leading manufacturer of aftermarket parts in the automotive industry focused exclusively on engine management. Dana's EMG Business manufacturers ignition systems, emission parts, engine computers, ignition wires, battery cables and fuel system parts. Customers of Dana's EMG Business include NAPA Auto Parts, CSK Auto, O'Reilly Automotive and Pep Boys. We intend to integrate Dana's EMG Business into our Engine Management Segment within 18 months from the closing of the acquisition. The closing of the acquisition is subject to our financing of the purchase price. We intend to finance the acquisition and the payment of related fees and expenses and restructuring and integration costs by (a) drawing on our revolving credit facility, (b) issuing shares of our common stock and (c) obtaining seller financing.



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

The acquisition purchase price is subject to a post-closing adjustment based upon the 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.

The acquisition is subject to our obtaining financing for the acquisition and other customary closing conditions. We expect to close the acquisition during the second quarter of 2003.

-20-

CUSTOMERS. We distribute our products through a variety of distribution channels, including wholesale distributors, retail chains, service chains and original equipment dealers. Our warehouse distribution channel represents 61% of our consolidated net sales for the year ended December 31, 2002. Our retail channel of distribution has grown significantly from approximately \$41 million in consolidated net sales to retailers in 1993 (representing 7% of consolidated net sales) to approximately \$138 million in 1997 (representing 26% of consolidated net sales), and to approximately \$169 million in 2002 (representing 28% of consolidated net sales). In 1997, we commenced distributing our products through the original equipment service supplier channel, and sold approximately \$3 million in consolidated net sales to original equipment service suppliers (representing 0.6% of consolidated net sales), which increased to approximately \$23 million in 2002 (representing 3.8% of consolidated net sales).

Our five largest individual customers accounted for 46% of our 2002 consolidated net sales. Members of one marketing group represent our largest group of customers and accounted for approximately 15% of our 2002 consolidated net sales. One individual member of this marketing group accounted for 13% of our 2002 consolidated net sales.

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 fill rate levels of approximately 93%. In 2002, we further reduced inventory by

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

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.

### COMPARISON OF FISCAL YEARS 2002 AND 2001

**SALES.** On a consolidated basis, net sales for 2002 increased by \$6.8 million over 2001 to \$598.4 million. This net increase was driven by a \$17.6 million increase in Engine Management, year over year. New business was the primary contributor with gains achieved in the retail business where certain customers expanded their own business; new wire and cable business acquired from an existing customer; and new original equipment customers acquired through our acquisition of Sagem Inc. in May of 2002.

-21-

With respect to Temperature Control, net sales for 2002 decreased by \$14.8 million to \$255.1 million. Net sales were unfavorable due to a combination of factors including a partial loss in business with a significant retail customer in 2002; 2001 net sales including approximately \$7 million of "pipeline" orders for a new customer which did not repeat in 2002; and distributors "working off" inventory left over from previous mild summer seasons.

**GROSS MARGINS.** Gross margins, as a percentage of consolidated net sales, increased to 26.3% in 2002 from 23.5% in 2001. The improvement in gross margins reflects the return in 2002 to more normal production levels, as the aggressive and successful inventory reduction campaign in 2001 benefited 2002, in both of our major segments. Engine Management gross margins improved approximately 4 percentage points, while Temperature Control improved approximately 3.7 percentage points. 2002 gross margins also benefited from a decrease in warranty returns in both Engine Management and Temperature Control. Overall, warranty returns improved by approximately 1 percentage point, as a percentage of net sales.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling general and administrative expenses increased to \$129.1 million or 21.6% of net sales in 2002, from \$123.9 million or 20.9% of net sales in 2001. Contributing to the increase was approximately \$2 million of restructuring costs related to the consolidation of certain manufacturing and distribution facilities within the Temperature Control Segment. Also contributing to the overall increase was higher insurance and

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

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 will no longer be amortized, but instead, will be 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 Segment and our Temperature Control Segment for which we recorded charges of \$10.9 million and \$7.4 million, respectively.

During the fourth quarter of 2002, the Company completed its review of goodwill for potential impairment. After giving consideration to 2002 losses in Europe and budgeted 2003 losses, the Company wrote-off the remaining goodwill associated with the Engine Management reporting unit of the European Segment. With respect to the European Segment, approximately \$1.4 million of goodwill remains on the December 31, 2002 balance sheet, all of which pertains to the Temperature Control reporting unit.

OTHER INCOME. Other income, net increased approximately \$0.4 million over 2001. Contributing to the increase was the elimination of fees related to an accounts receivable sales arrangement eliminated in April of 2001.

INTEREST EXPENSE. Interest expense decreased by approximately \$7 million, as compared to 2001. Contributing to overall decrease was lower borrowings (during 2002 total debt was reduced approximately \$29 million) and lower interest rates. Effective January 1, 2003, we adopted the provisions of 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"). As a result, we reclassified the \$2.8 million extraordinary loss on the early extinguishment of debt recorded in 2001 to interest expense.

-22-

INCOME TAXES. The overall effective tax rate increased from 25% in 2001 to 57% in 2002. The significant increase is primarily the result of the operating losses in our European Segment, for which no income tax benefit has been recorded because it is more likely than not that such losses will not be realized in the near future. Supplementing the effect Europe had on the effective rate is the increase in the Company's domestic earnings as a percentage of overall earnings before taxes.

LOSS ON DISCONTINUED OPERATIONS. Loss on discontinued operations reflect the charges associated with asbestos, including legal expenses. As discussed in Note 18 of the notes to the consolidated financial statements, the Company is responsible for certain future liabilities relating to alleged exposure to

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

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 the Company, and as further set forth in such Note 18, the Company 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. The Company 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 the Company's consolidated financial statements, in accordance with generally accepted accounting principles. Total legal expenses associated with asbestos related matters totaled \$0.9 million in 2002.

### COMPARISON OF FISCAL YEARS 2001 AND 2000

**SALES.** After giving consideration to the adoption of Emerging Issues Task Force guidelines entitled "Accounting for Certain Sales Incentives" and "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", consolidated net sales in 2001 were \$591.7 million, a decrease of \$9.7 million compared to consolidated net sales of \$601.4 million in 2000. The decrease in consolidated net sales was a result of decreases in our existing traditional business lines and higher costs for adding a new customer. The decrease was mitigated by the Engine Management Segment, which benefited from a full year of sales to a new major customer added during the third quarter of 2000 (with incremental sales of approximately \$6 million in 2001), along with additional wire set business from a major group of warehouse distributors. The Temperature Control Segment regained a major retail customer we had lost in early 2000 (this customer accounted for consolidated net sales of approximately \$30 million in 2001, excluding filling the initial "pipeline" of orders from such customer). Excluding this new business, sales to existing accounts decreased, primarily a result of another cool summer for air conditioning, and the continuing inventory reduction program on the part of many of our customers.

**GROSS MARGINS.** Gross margins, as a percentage of consolidated net sales, decreased to 23.5% in 2001, from 27.1% in 2000. Gross margins in our Engine Management Segment were 26.4% in 2001 compared to 29.4% in 2000. Gross margins in our Temperature Control Segment were 18.2% in 2001 compared to 23.4% in 2000. The decrease in gross margins was primarily due to our planned inventory reduction programs. The reduction in gross margins was across all product lines as we originally targeted a minimum \$30 million inventory reduction in 2001. Actual inventory reduction amounted to \$57 million, while we maintained high customer service fill levels. These changes reflect the impact of underabsorbed overhead costs as a result of cutting production and temporarily closing manufacturing facilities at both Engine Management and Temperature Control facilities.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses decreased by \$8 million to \$124 million in 2001, compared to \$132 million in 2000. This decrease reflected the focus on our cost reduction efforts, with benefits primarily in the marketing and distribution areas in our Temperature Control Division.

**INCOME FROM OPERATIONS.** Operating income decreased by \$15.6 million compared to 2000, primarily due to the lower gross margins as discussed above.

**OTHER INCOME (EXPENSES), NET.** Other income, net increased by \$2.3 million compared to 2000. The increase was primarily due to the reduction of fees related to the termination of the sale of accounts receivable agreement and an increase in interest and dividend income.

INTEREST EXPENSE. Interest expense increased by \$2.3 million in 2001 compared to 2000 as a result of fees incurred in connection with the early extinguishment of debt. Effective January 1, 2003, we adopted the provisions of 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 APB No. 30. As a result, the extraordinary loss on the early extinguishment of debt of approximately \$0.5 million and \$2.8 million has been reclassified to interest expense for December 31, 2000 and 2001, respectively.

INCOME TAX PROVISION. Income tax expense decreased \$3.3 million in 2001 from \$2.5 million in 2000. The decrease was primarily due to losses incurred in 2001. The effective tax rate increased from 21% in 2000 to a 25% tax benefit in 2001.

#### IMPACT OF INFLATION

Although inflation is not a significant issue, management believes it will be able to continue to minimize any adverse effect of inflation on earnings through cost reduction programs, including the sale of manufactured products, and, where competitive situations permit, selling price increases.

#### FUTURE RESULTS OF OPERATIONS

We continue to face competitive pressures. In order to sell at competitive prices while maintaining profit margins we are continuing to focus on overhead and cost reductions.

#### LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. During the year ended December 31, 2002, cash provided by operations amounted to \$60.2 million, compared to \$40.2 million in 2001 and cash used in operations of \$1 million in 2000. The improvement in 2001 was primarily attributable to our efforts to reduce inventory levels from their elevated levels of December 31, 2000. The improvement in 2002 is primarily attributable to improved earnings from continuing operations, higher accounts payable and continued reductions in inventory.

For the year ended December 31, 2002, inventory decreased by an additional \$8 million over the \$57 million reduction in 2001, which resulted primarily from reduced production and purchases, and where needed, the temporary closing of manufacturing facilities. Reductions were realized in both the Engine Management and Temperature Control Segments. Inventory turnover was 2.3 x in 2002, 2.1x in 2001, and 1.8x in 2000.

INVESTING ACTIVITIES. Cash used in investing activities was \$26.9 million for the year ended December 31, 2002, compared to \$14.2 million in 2001 and \$18.7 million in 2000. The increase was primarily due to acquisitions, partially offset by decreases in capital expenditures. Assets acquired consist primarily of property, plant and equipment, receivables and inventory. All acquisitions were financed with funds provided under our revolving credit facility and seller financing.

In January 2002, we acquired the assets of a temperature control business from Hartle Industries for \$4.8 million. The assets consist primarily of property, plant and equipment, and inventory. In April 2002, we acquired Carol Cable Limited, a manufacturer and distributor of wire sets based in the United Kingdom, for approximately \$1.7 million. The assets from this acquisition consist primarily of property, plant and equipment, and inventory. In addition,

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

during 2002, the Company paid approximately an additional \$2.8 million for the remaining equity interest in SMP Holdings Limited. In May 2002, we purchased the aftermarket fuel injector business of Sagem Inc., a subsidiary of Johnson Controls, for \$10.5 million. Sagem Inc. is a basic manufacturer of fuel injectors and was our primary supplier prior to the acquisition. Assets acquired from this acquisition consist primarily of property, plant and equipment, and inventory. The purchase was partially financed by the seller (\$5.4 million to be paid over a two year period), with the remaining funds being provided under our revolving credit facility.

Capital expenditures for the three most recent fiscal years ended December 31 totaled \$7.6 million in 2002, \$13.7 million in 2001 and \$16.7 million in 2000.

FINANCING ACTIVITIES. Cash used in financing activities was \$32.7 million for the year ended December 31, 2002, compared to \$25.4 million in 2001 and \$11.5 million in 2000. The increase in cash used was primarily due to our focus on reducing our borrowings. Dividends paid for the three most recent fiscal years ended December 31 were \$4.3 million in 2002, \$4.2 million in 2001 and \$4.3 million in 2000. The decreased borrowings reflect our focus on reducing capital employed in the business.

-24-

Effective April 27, 2001 we entered into an agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a new secured revolving credit facility. The term of the new credit agreement was for a period of five years and provided for a line of credit up to \$225 million. The Company recorded an extraordinary loss of approximately \$2.8 million, net of taxes, in the second quarter of 2001, for a prepayment penalty and write-off of unamortized fees for the retirement of the above related debt. This charge was reclassified to interest expense as we adopted the provisions of Statement No. 145.

On February 7, 2003, we amended our revolving credit facility to provide for an additional \$80 million commitment, subject to the terms and conditions therein, which will become effective upon the closing of 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. In addition, in order to facilitate the aggregate financing of the acquisition, we are planning on issuing approximately \$59 million of common stock in a public offering which will occur in connection with the closing of the acquisition. After applying all of the net proceeds from the public offering of our common stock to repay a portion of our outstanding indebtedness under our revolving credit facility, we intend to borrow the entire cash portion of the purchase price of Dana's EMG Business from our revolving credit facility upon the closing of the acquisition. Availability under our revolving credit facility is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets, and will include the purchased assets 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 credit facility prior to the acquisition provides for certain financial covenants

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

limiting our capital expenditures and requiring us to maintain a certain tangible net worth at the end of each fiscal quarter. As of December 31, 2002, we were in compliance with our applicable financial covenants. 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 for the 12-month period then ended, through June 30, 2004, (2) to fall within specified levels of a fixed charge coverage ratio at the end of each fiscal quarter for the 12-month period then ended, and (3) to limit capital expenditure levels for each fiscal year through 2007.

Our profitability and working capital requirements are more seasonal due to the sales mix of our Temperature Control products. Our working capital requirements usually peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales, and payments on the receivables associated with such sales have yet to be received. These increased working capital requirements are funded by borrowings from our revolving credit facility. We anticipate that our present sources of funds will continue to be adequate to meet our needs for the next several years.

During the years 1998 through 2000, our board of directors authorized multiple repurchase programs under which we could repurchase shares of our common stock. During such years, an aggregate of \$26.7 million of common stock was repurchased to meet present and future requirements of our stock option programs and to fund our employee stock option plan. As of December 31, 2002, we had board authorization to repurchase additional shares at a maximum cost of \$1.7 million. During the years ended December 31, 2002 and 2001, we did not repurchase any shares of our common stock.

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 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. 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.

-25-

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.

The following is a summary of our contractual commitments associated with our long-term debt and lease obligations as of December 31, 2002 (As Restated):

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

(IN THOUSANDS)	YEAR ENDED DECEMBER 31,					
	2003	2004	2005	2006	2007	THEREAFTER
Principal payments of						
long term debt .....	\$ 4,108	\$ 2,914	\$ 75	\$ 81	\$ 88	\$ 90,033
Operating leases .....	7,706	6,320	5,336	3,736	2,558	4,112
Interest rate swap						
agreements .....	113	1,792	--	--	--	--
	-----	-----	-----	-----	-----	-----
Total commitments	\$ 11,927	\$ 11,026	\$ 5,411	\$ 3,817	\$ 2,646	\$ 94,145
	=====	=====	=====	=====	=====	=====

CRITICAL ACCOUNTING POLICIES

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 of the notes to our consolidated annual financial statements on this Annual Report on Form 10-K/A. Preparation of our consolidated annual and quarterly financial statements 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 financial statements, and the reported amounts of revenue and expenses during the reporting periods. We can give no assurance that actual results will not differ from those estimates.

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 demand.

SALES RETURNS AND OTHER ALLOWANCES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS. The



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

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

-26-

management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At December 31, 2002, the allowance for sales returns totaled \$16.3 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 December 31, 2002 the allowance for doubtful accounts and for discounts totaled \$4.9 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 December 31, 2002, we had a valuation allowance of \$21.7 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.

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, we test for potential impairment in the fourth quarter of each year as part of our annual budgeting process. We review the fair values of each of our reporting units using the discounted cash flows method and market multiples.

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

RETIREMENT AND POSTRETIREMENT MEDICAL BENEFITS. Each year we calculated 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 to our consolidated financial statements. 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. The Company is 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. The Company 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 the Company's consolidated financial statements, in accordance with generally accepted accounting principles. The Company plans on performing a similar annual actuarial analysis during third quarter of each year for the foreseeable future. Based on this analysis and all other available information, the Company 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.

-27-

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 ANNOUNCEMENTS

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. The standard 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.

We are required and plan to adopt the provisions of Statement No. 143 for the quarter ending March 31, 2003. To accomplish this, we must identify all legal

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

obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require us to gather market information and develop cash flow models. Additionally, we will be required to develop processes to track and monitor these obligations. The adoption of Statement No. 143 is not expected to have a material effect on our financial statements.

In April 2002, the FASB issued 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. 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. As a result, we reclassified the extraordinary loss on the early extinguishment of debt recorded in prior periods to interest expense.

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. Statement No. 146 grandfathers the accounting for liabilities that were previously recorded under EITF Issue 94-3. We do not believe the adoption of Statement No. 146 will have a material effect on our financial statements.

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"). This Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It 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

-28-

must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of the Interpretation apply on a prospective basis to guarantees issued or modified after December 31, 2002. We do not believe the adoption of this interpretation will have a material effect on our financial statements. See Note 18 of Notes to our Consolidated Financial Statements for discussion of product warranty claims. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement 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, this Statement 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

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

fiscal years ending after December 15, 2002. We do not believe the adoption of Statement No. 148 will have a material effect on our financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation 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, the Interpretation applies to that enterprises no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on our financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that we will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

-29-

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### EXCHANGE RATE RISK

We have exchange rate exposure, primarily, with respect to the Canadian dollar and the British pound. As of December 31, 2002, our financial instruments which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in both of the exchange rates affecting both of the foreign currencies in which the indebtedness and the financial instruments described above are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

#### INTEREST RATE RISK

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

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have entered into interest rate swap agreements. At December 31, 2002, we had approximately \$176.9 million in loans and financing outstanding, of which approximately \$96.0 million bear interest at fixed interest rates and approximately \$80.9 million bear interest at variable rates of interest. We invest our excess cash in highly liquid short-term investments. As a result of our refinancing agreement during the second quarter 2001, as described in the notes to our consolidated annual financial statements, our percentage of variable rate debt to total debt has increased from 32% at December 31, 2000 to 56% at December 31, 2001 and decreased to 46% at December 31, 2002. Depending upon the level of borrowings under our revolving credit facility, which may at times approach \$200 million, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate may have approximately \$0.9 million negative impact on our earnings or cash flows.

-30-

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS		PAGE NO.
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (Audited)		
Independent Auditors' Report.....		F-1
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000.....		F-2
Consolidated Balance Sheets as of December 31, 2002 and 2001 (As Restated)...		F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000.....		F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000.....		F-5
Notes to Consolidated Annual Financial Statements.....		F-6

-31-

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Standard Motor Products, Inc.:

We have audited the accompanying consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Standard Motor Products, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company adopted Emerging Issues Task Force Issue No. 01-9, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCTS) as of January 1, 2002. As described in Note 6, the Company adopted Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS as of January 1, 2002. Also as described in Note 1, these consolidated financial statements have been revised to account for the loss on early extinguishment of debt in accordance with Statement of Financial Accounting Standards No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS, which was adopted by the Company as of January 1, 2003.

As described in Note 21, the Company's consolidated balance sheets as of December 31, 2002 and 2001 have been restated to classify certain debt as current.

/s/ KPMG LLP  
-----

New York, New York  
February 24, 2003, except as to note 21, which is as of November 17, 2003

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Years Ended D	
	2002	2001
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales (Note 7)	\$ 598,437	\$ 591,
Cost of sales	440,893	452,
Gross profit	157,544	139,
Selling, general and administrative expenses	129,142	123,
Goodwill impairment charge (Note 6)	3,334	-
Operating income	25,068	15,
Other income (expense), net (Notes 3 and 14)	3,187	2,
Interest expense	14,244	21,
Earnings (loss) from continuing operations before taxes	14,011	(3,
Provision for income taxes (Note 15)	7,920	(
Earnings (loss) from continuing operations	6,091	(2,
Loss from discontinued operation, net of tax of \$6,099 (Note 18)	(18,297)	-
Earnings (loss) before cumulative effect of accounting change	(12,206)	(2,
Cumulative effect of accounting change, net of tax of \$2,473 (Note 6)	(18,350)	-
Net earnings (loss)	\$ (30,556)	\$ (2,
Net earnings (loss) Per Common Share - Basic:		
Earnings (loss) from continuing operations	\$ 0.51	\$ (0
Discontinued operation	(1.54)	-
Cumulative effect of accounting change	(1.54)	-
Net earnings (loss) Per Common Share - Basic	\$ (2.57)	\$ (0
Net earnings (loss) Per Common Share - Diluted:		
Earnings (loss) from continuing operations	\$ 0.51	\$ (0
Discontinued operation	(1.52)	-
Cumulative effect of accounting change	(1.53)	-
Net earnings (loss) Per Common Share - Diluted	\$ (2.54)	\$ (0
Average number of common shares	11,914,968	11,774,

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

Average number of common shares and dilutive common shares 12,008,496 11,774,

See accompanying notes to consolidated financial statements.

F-2

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (As Restated)

		December 31	
(IN THOUSANDS)		2002	2001
ASSETS	Current assets:		
	Cash and cash equivalents	\$ 9,690	\$ 9,690
	Marketable securities	7,200	7,200
	Accounts receivable, less allowances for discounts and doubtful accounts of \$4,882 and \$4,362 in 2002 and 2001, respectively (Notes 3 and 8)	117,644	117,644
	Inventories (Notes 4 and 8)	174,785	174,785
	Deferred income taxes (Note 15)	12,213	12,213
	Prepaid expenses and other current assets	6,828	6,828
	Total current assets	328,360	328,360
	Property, plant and equipment, net (Notes 5 and 8)	103,822	103,822
	Goodwill, net (Note 6)	16,683	16,683
Other assets (Notes 7 and 12)	41,893	41,893	
Total assets	\$ 490,758	\$ 490,758	
LIABILITIES AND STOCKHOLDERS' EQUITY	Current liabilities:		
	Notes payable (Notes 8 and 21)	\$ 79,618	\$ 79,618
	Current portion of long-term debt (Note 8)	4,108	4,108
	Accounts payable	35,744	35,744
	Sundry payables and accrued expenses	39,723	39,723
	Accrued customer returns	16,341	16,341
	Payroll and commissions	12,143	12,143
	Total current liabilities	187,677	187,677
	Long-term debt (Notes 8, 9 and 21)	93,191	93,191
	Postretirement medical benefits and other accrued liabilities (Notes 12 and 13)	30,414	30,414
Accrued asbestos liabilities	25,595	25,595	
Total non-current liabilities	149,200	149,200	
Commitments and contingencies			



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

(Notes 8, 10, 11, 12, 13 and 18)

Stockholders' equity (Notes 8, 9, 10, 11 and 12):

Common Stock - par value \$2.00 per share:		
Authorized 30,000,000 shares, issued and outstanding 11,957,009 and 11,823,650 shares in 2002 and 2001, respectively	26,649	2
Capital in excess of par value	1,764	
Retained earnings	148,686	18
Accumulated other comprehensive loss	(2,581)	(
	174,518	20
Less: Treasury stock - at cost (1,367,467 and 1,500,826 shares in 2002 and 2001, respectively)	20,637	2
Total stockholders' equity	153,881	18
Total liabilities and stockholders' equity	\$ 490,758	\$ 50

See accompanying notes to consolidated financial statements.

F-3

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(IN THOUSANDS)	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	\$ (30,556)	\$ (
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,128	1
Gain on disposal of property, plant & equipment	(97)	
Equity income from joint ventures	(352)	
Employee stock ownership plan allocation	1,230	
Tax benefit related to employee stock options	80	
Increase (decrease) in deferred income taxes	2,550	(
Cumulative effect of accounting change	18,350	
Loss from discontinued operation	18,297	
Goodwill impairment charge	3,334	
Change in assets and liabilities, net of effects from acquisitions:		
Decrease in accounts receivable, net	1,302	1
(Increase) decrease in inventories	7,996	5
(Increase) decrease in prepaid expenses and other current assets	7,485	(
(Increase) decrease in other assets	(4,307)	(
Increase (decrease) in accounts payable	9,152	(3
Decrease in sundry payables and accrued expenses	(3,215)	(
Increase (decrease) in other liabilities	12,806	

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

	Net cash provided by (used in) operating activities	60,183	4
CASH FLOWS FROM INVESTING ACTIVITIES	Proceeds from the sale of property, plant and equipment	520	(1)
	Capital expenditures, net of effects from acquisitions	(7,598)	(
	Payments for acquisitions, net of cash acquired	(19,855)	(
	Net cash used in investing activities	(26,933)	(1)
CASH FLOWS FROM FINANCING ACTIVITIES	Net borrowings (repayments) under line-of-credit agreements	(31,246)	7
	Payments of other long-term debt	(3,181)	(9)
	Issuance of long-term debt	5,419	
	Proceeds from exercise of employee stock options	589	
	Purchase of treasury stock	--	
	Dividends paid	(4,290)	(
	Net cash used in financing activities	(32,709)	(2)
	Effect of exchange rate changes on cash	1,653	
	Net increase (decrease) in cash and cash equivalents	2,194	
	Cash and cash equivalents at beginning of year	7,496	
	Cash and cash equivalents at end of year	\$ 9,690	\$
	Supplemental disclosure of cash flow information: Cash paid during the year for:		
	Interest	\$ 14,362	\$ 1
	Income taxes	\$ 1,549	\$

See accompanying notes to consolidated financial statements.

F-4

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

(IN THOUSANDS)	Years Ended December 31, 2002, 2001 and 2000				
	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREAS STOCK
BALANCE AT DECEMBER 31, 1999	\$ 26,649	\$ 2,957	\$184,848	\$ 714	\$ (11,6
Comprehensive Income:					
Net earnings			9,729		
Foreign currency translation adjustment				(1,305)	
Total comprehensive income					
Cash dividends paid			(4,324)		
Employee Stock Ownership Plan		(416)			1,4

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

Purchase of treasury stock					(14,3
-----					
BALANCE AT DECEMBER 31, 2000	26,649	2,541	190,253	(591)	(24,5
Comprehensive Loss:					
Net loss			(2,485)		
Foreign currency translation adjustment				(1,086)	
Unrealized loss on interest rate swap agreements				(2,045)	
Total comprehensive loss					
Cash dividends paid			(4,236)		
Exercise of employee stock options		(295)			7
Tax benefits applicable to the exercise of employee stock options		48			
Employee Stock Ownership Plan		(417)			1,1
-----					
BALANCE AT DECEMBER 31, 2001	26,649	1,877	183,532	(3,722)	(22,6
Comprehensive Loss:					
Net loss			(30,556)		
Foreign currency translation adjustment				1,295	
Unrealized loss on interest rate swap agreements, net of tax of \$205				617	
Minimum pension liability adjustment				(771)	
Total comprehensive loss					
Cash dividends paid			(4,290)		
Exercise of employee stock options		(291)			8
Tax benefits applicable to the exercise of employee stock options		80			
Employee Stock Ownership Plan		98			1,1
-----					
BALANCE AT DECEMBER 31, 2002	\$ 26,649	\$ 1,764	\$148,686	\$ (2,581)	\$ (20,6
-----					

See accompanying notes to consolidated financial statements.

F-5

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Standard Motor Products, Inc. (the "Company") is engaged in the manufacture and sale of automotive replacement parts. The consolidated financial statements include the accounts of the Company and all subsidiaries in which the Company has more than a 50% equity ownership. The Company's investments in unconsolidated affiliates are accounted for on the equity method. All significant intercompany items have been eliminated.

USE OF ESTIMATES

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

In conformity with generally accepted accounting principles, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, inventory valuation reserves, depreciation and amortization of long-lived assets, product liability, asbestos and litigation matters, deferred tax asset valuation allowance and sales return allowances. Actual results could differ from those estimates.

### RECLASSIFICATIONS

Where appropriate, certain amounts in 2001 and 2000 have been reclassified to conform with the 2002 presentation.

### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### MARKETABLE SECURITIES

At December 31, 2002 and 2001, held-to-maturity securities amounted to \$7.2 million. Held-to-maturity securities consist primarily of U.S. Treasury Bills and corporate debt securities which are reported at amortized cost which approximates fair value. As of December 31, 2002, the held-to-maturity securities mature within one year.

### INVENTORIES

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

### DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Instruments are accounted for in accordance with SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements establish accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. For derivatives that have been formally designated as a cash flow hedge (interest rate swap agreements), the effective portion of changes in the fair value of the derivatives are recorded in "other comprehensive income (loss)." Payment or receipts on interest rate swap agreements are recorded in the "interest expense" caption in the statement of operations.

### PROPERTY, PLANT AND EQUIPMENT

These assets are recorded at cost and are depreciated using the straight-line method of depreciation over the estimated useful lives as follows:

	Estimated Life -----
Buildings and Improvements	10 to 33-1/2 years
Machinery and equipment	7 to 12 years
Tools, dies and auxiliary equipment	3 to 8 years
Furniture and fixtures	3 to 12 years
Computer software	3 to 10 years
Leasehold improvements	10 years or life of lease

### GOODWILL, OTHER INTANGIBLE AND LONG-LIVED ASSETS

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

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as purchases. The Company adopted Statement of Financial Accounting Standards ("SFAS 142") in January 2002. Goodwill and certain other intangible assets having indefinite lives, which were previously amortized on a straight-line basis over the periods benefited, are no longer being amortized to earnings, but instead are subject to periodic testing for impairment. Intangible assets determined to have definite lives are amortized over their remaining useful lives.

Goodwill of a reporting unit is tested for impairment on an annual basis or between annual tests if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, the Company is required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, the Company compares the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill.

The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, "Business Combinations." The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Intangible and other long-lived assets are reviewed for impairment whenever events such as product discontinuance, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may not be recoverable. In reviewing for impairment, the Company compares the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets fair value and their carrying value. Prior to the adoption of SFAS No. 142, goodwill was assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining

F-6

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

---

life could be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill and other intangible asset impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

#### FOREIGN CURRENCY TRANSLATION

Assets and liabilities are translated into U.S. dollars at year end exchange rates and revenues and expenses are translated at average exchange rates during the year. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) and remains there until the underlying foreign operation is liquidated or substantially disposed of.

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

### REVENUE RECOGNITION

The Company recognizes revenues from product sales upon shipment to customers. The Company estimates and records provisions for cash discounts, quantity rebates, sales returns and warranties, in the period the sale is recorded, based upon its prior experience.

### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The annual net postretirement benefit liability and related expense under the Company's benefit plans are determined on an actuarial basis. Benefits are determined primarily based upon employees' length of service.

### INCOME TAXES

Income taxes are calculated using the asset and liability method in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No.109, "Accounting for Income Taxes." Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities, as measured by the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability.

### NET EARNINGS PER COMMON SHARE

The Company presents two calculations of earnings per common share. "Basic" earnings per common share equals net income divided by weighted average common shares outstanding during the period. "Diluted" earnings per common share equals net income divided by the sum of weighted average common shares outstanding during the period plus potentially dilutive common shares. Potentially dilutive common shares that are anti-dilutive are excluded from net earnings per common share.

The following is a reconciliation of the shares used in calculating basic and dilutive net earnings per common share.

(IN THOUSANDS)	2002	2001	2000
Weighted average common shares	11,915	11,775	11,934
Effect of stock options	93	--	40
Weighted average common equivalent shares outstanding assuming dilution	12,008	11,775	11,974

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

(IN THOUSANDS)	2002	2001	2000
Stock options	574	625	861
Convertible debentures	2,796	2,796	2,796

### STOCK OPTION PLANS

The Company accounts for its stock option plans in accordance with the provisions of SFAS No.123 "Accounting for Stock Based Compensation." As

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

permitted by this statement, the Company has chosen to continue to apply the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" and related interpretations including SFAS interpretation No.44, "Accounting for certain transactions involving stock compensation and interpretation of APB No.25," issued in March 2001. Accordingly, no compensation expense has been recognized for options granted because the exercise price is equal to the fair value of the stock at the date of grant. As required, the Company provides pro forma net income and pro forma earnings per share disclosures for stock option grants, as if the fair value based method defined in SFAS No.123 had been applied.

### CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments with high quality financial institutions and limits the amount of credit exposure to any one institution. With respect to accounts receivable, such receivables are primarily from warehouse distributors and major retailers in the automotive aftermarket industry located in the United States. The Company performs ongoing credit evaluations of its customers' financial conditions. Members of one marketing group represent the Company's largest group of customers and accounted for approximately 15%, 15% and 15% of consolidated net sales for the years ended December 31, 2002, 2001 and 2000, respectively. One individual member of this marketing group accounted for 13%, 10%, and 10% of net sales for the years ended December 31, 2002, 2001 and 2000, respectively. The Company's five largest individual customers, including members of this marketing group, accounted for 46%, 44% and 33% of net sales in 2002, 2001 and 2000, respectively.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 1, 2002, the Company adopted the guidelines of the Emerging Issues Task Force Issue No. 01-09, Accounting Consideration Given by a Vendor to a Customer (Including Reseller of the Vendor's Products) ("EITF 01-09"). These guidelines address when sales incentives and discounts should be recognized and the accounting for certain costs incurred by a vendor on behalf of a customer, as well as where the related revenues and expenses should be classified in the financial statements. Historically, the Company has provided certain consideration, including rebates, product and discounts to customers and treated such costs as advertising, marketing and sales force expenses. Such costs are now treated as a

F-7

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

---

reduction of revenues or as costs of sales. As a result, certain costs of approximately \$30.4 million and \$25.4 million, have been reclassified from selling, general and administrative expenses for the two years ended December 31, 2001 and 2000, respectively. These reclassifications had no effect on net earnings.

SFAS 143

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

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. The standard 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.

We are required and plan to adopt the provisions of Statement No. 143 for the quarter ending March 31, 2003. To accomplish this, we must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require us to gather market information and develop cash flow models. Additionally, we will be required to develop processes to track and monitor these obligations. The adoption of Statement No. 143 is not expected to have a material effect on our financial statements.

### SFAS 145

In April 2002, the FASB issued 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. Statement No. 145 also requires sales-lease-back accounting for lease modifications that have economic effects that are similar to sales-leaseback transactions, and make various other technical corrections to existing pronouncements. Statement No. 145 will be effective for the year ending December 31, 2003. Effective January 1, 2003, we adopted the provisions of Statement No. 145. As a result, the extraordinary loss on the early extinguishment of debt of approximately \$0.5 million and \$2.8 million has been reclassified to interest expense for December 2000 and 2001, respectively.

### SFAS 146

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. Statement No. 146 grandfathers the accounting for liabilities that were previously recorded under EITF Issue 94-3. We do not believe the adoption of Statement No. 146 will have a material effect on our financial statements.

### FASB INTERPRETATION NO. 45



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

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"). This Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It 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 the Interpretation apply on a prospective basis to guarantees issued or modified after December 31, 2002. We do not believe the adoption of this interpretation will have a material effect on our financial statements.

SFAS 148

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement 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, this Statement 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. We do not believe the adoption of Statement No.148 will have a material effect on our financial statements.

FASB INTERPRETATION NO. 46

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to

F-8

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

---

variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

#### 2. ACQUISITIONS

In January 2000, the Company completed the purchase of Vehicle Air Conditioning Parts, located in England, which has subsequently been named "Four Seasons UK, LTD." In July 2000, the Company completed the purchase of Automotive Heater Exchange SRL in Massa, Italy. Such 2000 acquisitions had an immaterial effect on net earnings.

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

In January 2002, the Company acquired the assets of a Temperature Control business from Hartle Industries for \$4.8 million. The assets acquired consist primarily of property, plant and equipment, and inventory.

In April 2002, the Company acquired Carol Cable Limited, a manufacturer and distributor of wire sets, based in England, for \$1.7 million. The assets acquired consist primarily of property, plant and equipment, and inventory. In addition, during 2002 the Company acquired the remaining equity interest in SMP Holdings Limited resulting in a \$2.8 million increase in goodwill.

In May 2002, the Company purchased the aftermarket fuel injector business of Sagem Inc., a subsidiary of Johnson Controls, for \$10.5 million. Sagem Inc. is a basic manufacturer of fuel injectors, and was the primary supplier to the Company prior to its acquisition. The assets acquired consist primarily of property, plant and equipment, and inventory. The purchase was partially financed by the seller (\$5.4 million to be paid over a two-year period), with the remaining funds being provided under the Company's revolving credit facility.

Such 2002 acquisitions had an immaterial effect on net earnings.

### 3. SALE OF ACCOUNTS RECEIVABLE

The Company sold certain accounts receivable through its wholly-owned subsidiary, SMP Credit Corp., a qualifying special-purpose corporation. In May 1999 SMP Credit Corp. and an independent financial institution entered into a three year agreement whereby SMP Credit Corp. could sell up to a \$25 million undivided ownership interest in a designated pool of certain of these eligible receivables. This agreement was terminated in 2001 as part of the new credit facility described in Note 8. At December 31, 2000, net accounts receivables amounting to \$25 million had been sold under this agreement. These sales were reflected as reductions of trade accounts receivable and the related fees and discounting expense were recorded as other expense (Note 14).

### 4. INVENTORIES

	December 31,	
(IN THOUSANDS)	2002	2001
Finished goods	\$141,487	\$141,799
Work in process	2,417	3,155
Raw materials	30,881	32,337
Total inventories	\$174,785	\$177,291

### 5. PROPERTY, PLANT AND EQUIPMENT

	December 31,	
(IN THOUSANDS)	2002	2001
Land, buildings and improvements	\$ 66,200	\$ 60,665
Machinery and equipment	120,655	109,617
Tools, dies and auxiliary equipment	19,962	17,815
Furniture and fixtures	25,831	26,211
Computer software	12,120	11,663
Leasehold improvements	7,164	7,450
Construction in progress	4,169	6,440
	256,101	239,861
Less accumulated depreciation and amortization	152,279	138,215

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

---

Total property, plant and equipment, net	\$103,822	\$101,646
--	-----------	-----------

---

Depreciation expense was \$16.1 million, \$15.3 million and \$15.4 million for 2002, 2001 and 2000, respectively.

### 6. GOODWILL

Effective January 1, 2002, the company 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 being 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, the company reviewed the fair values of each reporting unit. 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 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 the European and Temperature Control Segments for which charges of \$10.9 million and \$7.4 million, were recorded, respectively.

During the fourth quarter of 2002, the Company completed its review of goodwill for potential impairment. After giving consideration to 2002 losses and budgeted 2003 losses, the Company wrote-off the remaining goodwill associated with Engine Management reporting unit of the European Segment. With respect to the European Segment, approximately \$1.4 million of goodwill remains on the December 31, 2002 balance sheet, all of which pertains to the Temperature Control reporting unit.

F-9

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

---

(IN THOUSANDS)	Engine Management	Temperature Control	Europe	Total
Balance as of				
December 31, 2001	\$ 10,490	\$ 14,713	\$ 12,837	\$ 38,040
Goodwill acquired	--	--	2,800	2,800
Change in accounting principle	--	(9,891)	(10,932)	(20,823)
Impairment loss	--	--	(3,334)	(3,334)
Balance as of				
December 31, 2002	\$ 10,490	\$ 4,822	\$ 1,371	\$ 16,683

---

Upon adoption of SFAS No. 142, our earnings before cumulative effect of accounting change and net earnings for basic and diluted earnings per share adjusted to exclude goodwill amortization expense (net of taxes) were as

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

follows:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	Year Ended December 31,		
	2002	2001	2000
Reported earnings (loss) before cumulative effect of accounting change	\$ (12,206)	\$ (2,485)	\$ 9,729
Add back: goodwill amortization expense, net of tax	--	2,727	2,574
Adjusted earnings (loss) before cumulative effect of accounting change	\$ (12,206)	\$ 242	\$ 12,303
Basic earnings per share:			
Reported basic earnings per share before cumulative effect of accounting change	\$ (1.03)	\$ (0.21)	\$ 0.82
Add back: goodwill amortization expense, net of tax	--	0.23	0.22
Adjusted basic earnings (loss) per share before cumulative effect of accounting change	\$ (1.03)	\$ 0.02	\$ 1.04
Diluted earnings (loss) per share:			
Reported diluted earnings (loss) per share before cumulative effect of accounting change	\$ (1.01)	\$ (0.21)	\$ 0.81
Add back: goodwill amortization expense, net of tax	--	0.23	0.21
Adjusted diluted earnings (loss) per share before cumulative effect of accounting change	\$ (1.01)	\$ 0.02	\$ 1.02
Reported net earnings (loss)	\$ (30,556)	\$ (2,485)	\$ 9,729
Add back: goodwill amortization expense, net of tax	--	2,727	2,574
Adjusted net earnings (loss)	\$ (30,556)	\$ 242	\$ 12,303
Basic net earnings (loss) per share:			
Reported basic net earnings (loss) per share	\$ (2.57)	\$ (0.21)	\$ 0.82
Add back: goodwill amortization expense, net of tax	--	0.23	0.22
Adjusted basic net earnings (loss) per share	\$ (2.57)	\$ 0.02	\$ 1.04
Diluted net earnings (loss) per share:			
Reported diluted net earnings (loss) per share	\$ (2.54)	\$ (0.21)	\$ 0.81
Add back: goodwill amortization expense, net of tax	--	0.23	0.21
Adjusted diluted net earnings			

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

(loss) per share \$ (2.54) \$ 0.02 \$ 1.02

### 7. OTHER ASSETS

	December 31,	
(IN THOUSANDS)	2002	2001
Marketable securities	\$ --	\$ 7,200
Unamortized customer supply agreements	1,419	1,892
Equity in joint ventures	2,202	2,149
Deferred income taxes	18,692	12,653
Deferred loan costs	4,472	5,389
Other	15,108	11,511
Total other assets	\$ 41,893	\$ 40,794

Included in Other is a preferred stock investment in a customer of the Company. Net sales to such customer amounted to \$76.1 million, \$57.9 million and \$57.4 million in 2002, 2001 and 2000, respectively.

### 8. CREDIT FACILITIES AND LONG-TERM DEBT (AS RESTATED)

The Company, effective April 27, 2001 entered into an agreement with GE Capital Corp. and a syndicate of lenders for a new secured revolving credit facility. The former unsecured revolving credit facility was set to expire on November 30, 2001. The term of the new credit agreement is for a period of five years and provides for a line of credit up to \$225 million. The initial proceeds were used to refinance approximately \$97 million of the outstanding indebtedness under the Company's former bank line of credit, a 7.56% senior note of \$52 million, a \$25 million accounts receivable sales arrangement and a Canadian Credit Facility of \$5 million. Availability under the new credit facility is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Direct borrowings bear interest at the Prime Rate plus the applicable margin (as defined) or the LIBOR Rate plus the applicable margin (as defined), at the option of the Company. At December 31, 2002 and 2001, the interest rate on the Company's revolving credit facilities was 3.4% and 4.3%, respectively. Outstanding borrowings under this revolving credit facility, classified as current liabilities, was \$76.2 million and \$106.8 million at December 31, 2002 and 2001, respectively. Borrowings are collateralized by accounts receivable, inventory and fixed assets of the Company and its subsidiaries. The terms of the new revolving credit facility contain, among other provisions, requirements of maintaining defined levels of tangible net worth and specific limits or restrictions on additional indebtedness, capital expenditures, liens and acquisitions. The Company was in compliance with the covenants at December 31, 2002.

In addition, a foreign subsidiary of the Company has a revolving credit facility. The amount of short-term bank borrowings outstanding under that facility was \$3.4 million and \$4.1 million at December 31, 2002 and 2001, respectively. At December 31, 2002, the foreign subsidiary was not in compliance with certain covenants, for which it received a waiver. The weighted average interest rates on these borrowings at December 31, 2002 and 2001 were 6.5% and 6.4%, respectively.

On July 26, 1999, the Company 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 Debentures are convertible into approximately 2,796,000 shares of the Company's common stock. The Company may, at its option, redeem some or all of the Debentures at any time on or after July 15, 2004, for a redemption price

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

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

Long-term debt consists of:

(IN THOUSANDS)	December 31,	
	2002	2001
6.75% convertible		
subordinated debentures	\$ 90,000	\$ 90,000
Other	7,299	5,060
	97,299	95,060
Less current portion	4,108	1,784
Total non-current portion of		
long-term debt	\$ 93,191	\$ 93,276

F-10

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

Maturities of long-term debt during the five years ending December 31, 2003 through 2007 are \$4.1 million, \$2.9 million, \$0.1 million, \$0.1 million and \$0.1 million, respectively.

#### 9. INTEREST RATE SWAP AGREEMENTS

The Company does not enter into financial instruments for trading or speculative purposes. The principal financial instruments used for cash flow hedging purposes are interest rate swaps.

In July 2001, the Company entered into interest rate swap agreements to manage its exposure to interest rate changes. The swaps effectively convert a portion of the Company's variable rate debt under the revolving credit facility to a fixed rate, without exchanging the notional principal amounts. At December 31, 2002, the Company had two outstanding interest rate swap agreements (in an aggregate notional principal amount of \$75 million), one of which matured in January 2003 and the other is scheduled to mature in January 2004. Under these agreements the Company receives a floating rate based on the LIBOR interest rate, and pays a fixed rate of 4.92% on a notional amount of \$45 million and 4.37% on a notional amount of \$30 million. If, at any time, the swaps are determined to be ineffective, in all 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 in the period. It is not expected that any gain or loss will be reported in the statement of operations during the year ending December 31, 2003 nor was any recorded in 2002 or 2001.

#### 10. STOCKHOLDERS' EQUITY

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

The Company has authority to issue 500,000 shares of preferred stock, \$20 par value, and the Board of Directors is vested with the authority to establish and designate series of preferred, to fix the number of shares therein and the variations in relative rights as between series. On December 18, 1995, the Board of Directors established a new series of preferred shares designated as Series A Participating Preferred Stock. The number of shares constituting the Series A Preferred Stock is 30,000. The Series A Preferred Stock is designed to participate in dividends, ranks senior to the Company's common stock as to dividends and liquidation rights and has voting rights. Each share of the Series A Preferred Stock shall entitle the holder to one thousand votes on all matters submitted to a vote of the stockholders of the Company. No such shares were outstanding at December 31, 2002.

On January 17, 1996, the Board of Directors adopted a Shareholder Rights Plan (Plan). Under the Plan, the Board declared a dividend of one Preferred Share Purchase Right (Right) for each outstanding common share of the Company. The dividend was payable on March 1, 1996, to the shareholders of record as of February 15, 1996. The Rights are attached to and automatically trade with the outstanding shares of the Company's common stock.

The Rights will become exercisable only in the event that any person or group of affiliated persons becomes a holder of 20% or more of the Company's outstanding common shares, or commences a tender or exchange offer which, if consummated, would result in that person or group of affiliated persons owning at least 20% of the Company's outstanding common shares. Once the rights become exercisable they entitle all other shareholders to purchase, by payment of an \$80.00 exercise price, one one-thousandth of a share of Series A Participating Preferred Stock, subject to adjustment, with a value of twice the exercise price. In addition, at any time after a 20% position is acquired and prior to the acquisition of a 50% position, the Board of Directors may require, in whole or in part, each outstanding Right (other than Rights held by the acquiring person or group of affiliated persons) to be exchanged for one share of common stock or one one-thousandth of a share of Series A Preferred Stock. The Rights may be redeemed at a price of \$0.001 per Right at any time prior to their expiration on February 28, 2006.

During the years 1998 through 2000, the Board of Directors authorized multiple repurchase programs under which the Company could repurchase shares of its common stock. During such years, \$26.7 million (in aggregate) of common stock has been repurchased to meet present and future requirements of the Company's stock option programs and to fund the Company's ESOP. As of December 31, 2002, the Company has Board authorization to repurchase additional shares at a maximum cost of \$1.7 million. During 2002 and 2001, the Company did not repurchase any shares of its common stock.

### 11. STOCK OPTIONS

The Company has principally two fixed stock-based compensation plans. Under the 1994 Omnibus Stock Option Plan, as amended, the Company is authorized to issue 1,500,000 stock options. The options become exercisable over a three to five year period and expire at the end of five years following the date they become exercisable. Under the 1996 Independent Directors' Stock Option Plan, the Company is authorized to issue 50,000 stock options. The options become exercisable one year after the date of grant and expire at the end of ten years following the date of grant. At December 31, 2002, in aggregate 1,266,441 shares of authorized but unissued common stock were reserved for issuance under the Company's stock option plans.

As permitted under SFAS No.123, the Company continues to apply the provisions of APB Opinion No. 25 for stock-based awards granted to employees. Accordingly, no compensation cost has been recognized for the fixed stock option plans. Had compensation cost for the Company's stock-based compensation plans been

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

determined based on the fair value method of SFAS No.123, the Company's net earnings (loss) per share would have changed to the pro forma amounts as follows:

(DOLLARS IN THOUSANDS EXCEPT PER SHARE		2002	2001	2000
Net earnings(loss)	As reported	\$(30,556)	\$(2,485)	\$9,729
	Pro forma	\$(30,791)	\$(2,697)	\$8,708
Basic earnings(loss) per share	As reported	\$ (2.57)	\$ (0.21)	\$ 0.82
	Pro forma	\$ (2.59)	\$ (0.23)	\$ 0.73
Diluted earnings (loss) per share	As reported	\$ (2.54)	\$ (0.21)	\$ 0.81
	Pro forma	\$ (2.56)	\$ (0.23)	\$ 0.72

F-11

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2002	2001	2000
Expected option life	3.9 YEARS	4.0 years	4.3 years
Expected stock volatility	38.7%	38.6%	39.1%
Expected dividend yield	2.6%	2.8%	3.8%
Risk-free interest rate	1.8%	4.2%	4.6%
Fair value of option	\$4.07	\$3.71	\$2.53

A summary of the status of the Company's stock option plans follow:

		2002		2001		2000	
(SHARES IN THOUSANDS)	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Outstanding at beginning of year	1,011	\$ 16.76	1,189	\$16.60	808	\$20.40	
Granted	10	14.43	10	13.05	498	10.73	
Exercised	(54)	9.74	(55)	9.29	--	--	
Forfeited	(57)	16.91	(133)	18.18	(117)	17.78	
Outstanding at end of year	910	\$ 17.14	1,011	\$16.76	1,189	\$16.60	
Options exercisable at end of year	748		671		526		

#### STOCK OPTIONS OUTSTANDING

Range of	Shares Outstanding	Weighted-Average Remaining	Weighted-Average
----------	-----------------------	-------------------------------	------------------



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

Exercise Prices	at 12/31/02	Contractual Life (Years)	Exercise Price
\$ 6.56 - \$11.29	325	5.3	\$ 9.93
\$13.05 - \$16.94	115	2.3	\$15.83
\$20.50 - \$24.84	470	2.5	\$22.43

STOCK OPTIONS EXERCISABLE

Range of Exercise Prices	Shares Exercisable at 12/31/02	Weighted-Average Exercise Price
\$ 6.56 - \$24.84	748	\$18.55

12. RETIREMENT BENEFIT PLANS

The Company had a defined benefit pension plan covering certain former employees of the Company's former Brake business. During 2002, the Company settled its benefit obligation by purchasing non-participating annuity contracts. The following table represents a reconciliation of the beginning and ending benefit obligation, the fair value of plan assets and the funded status of the plan:

(IN THOUSANDS)	December 31,	
	2002	2001
Benefit obligation at beginning of year	\$ 8,813	\$ 8,957
Interest cost	368	629
Actuarial loss	1,096	93
Settlement	(9,793)	--
Benefits paid	(484)	(866)
Benefit obligation at end of year	\$ --	\$ 8,813
Fair value of plan assets at beginning of year	\$ 11,062	\$ 12,063
Settlement	(9,793)	--
Actual return on plan assets	(39)	(135)
Benefits paid	(484)	(866)
Fair value of plan assets at end of year	\$ 746	\$ 11,062
Funded status	\$ 746	\$ 2,249
Unrecognized net actuarial gain (loss)	56	(1,386)
Prepaid benefit cost	\$ 802	\$ 863

Weighted average assumptions are as follows:

	December 31,		
	2002	2001	2000
Discount rates	6.50%	7.25%	7.50%
Expected long-term rate of return on assets	8.00%	8.00%	8.00%

Components of net periodic (benefit) cost follow:

December 31,

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

(IN THOUSANDS)	2002	2001	2000
Interest cost	\$368	\$ 629	\$ 658
Return on assets	(530)	(928)	(988)
Settlement	228	--	--
Recognized actuarial (gain) loss	(5)	(112)	(127)
Net periodic (benefit) cost	\$ 61	\$(411)	\$(457)

In addition, the Company participates in several multi employer plans which provide defined benefits to substantially all unionized workers. The Multi employer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employers associated with multi employer plans. The Company has not received information from the plans' administrators to determine its share, if any, of unfunded vested benefits.

The Company and certain of its subsidiaries also maintain various defined contribution plans, which include profit sharing and provide retirement benefits for other eligible employees.

The provisions for retirement expense in connection with the plans are as follows:

	Multi- employer Plans	Defined Contribution and Other Plans
Years ended December 31,		
2002	\$306,000	\$2,553,000
2001	299,000	2,449,000
2000	344,000	2,319,000

The Company has an Employee Stock Ownership Plan and Trust for employees who are not covered by a collective bargaining agreement. 75,000 shares each were granted to employees during 2002, 2001 and 2000, under the terms of the ESOP. These shares were funded directly from treasury stock.

In fiscal 2000, the Company created an employee benefits trust to which it contributed 750,000 shares of treasury stock. The Company is authorized to instruct the trustees to distribute such shares toward the satisfaction of the Company's 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.

The provision for expense in connection with the ESOP was approximately \$1.2 million in 2002, \$0.7 million in 2001 and \$1.0 million in 2000.

In August 1994 the Company established an unfunded Supplemental Executive Retirement Plan (SERP) for key employees of the Company. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, the Company may at its discretion make contributions to the plan on behalf of the employees. Such contributions

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

### Notes to Consolidated Financial Statements, continued

were \$46,000, \$37,000 and \$24,000 in 2002, 2001, and 2000, respectively.

On October 1, 2001, the Company adopted a second unfunded SERP. The SERP is a defined benefit plan pursuant to which the Company will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service and compensation.

(IN THOUSANDS)	December 31,	
	2002	2001
Benefit obligation at beginning of year	\$ 1,342	\$ --
Initial unrecognized prior service cost	--	1,270
Service cost	211	49
Interest cost	140	23
Actuarial loss	582	--
<b>Benefit obligation at end of year</b>	<b>\$ 2,275</b>	<b>\$ 1,342</b>
Funded status	\$ (2,275)	\$ (1,342)
Unrecognized prior service cost	1,132	1,242
Minimum pension liability	(1,298)	(830)
Unrecognized net actuarial gain	538	
<b>Accrued benefit cost</b>	<b>\$ (1,903)</b>	<b>\$ (930)</b>

Components of net periodic benefit cost follow:

(IN THOUSANDS)	December 31,	
	2002	2001
Service cost	\$211	\$ 49
Interest cost	140	23
Amortization of prior service cost	110	27
Amortization of unrecognized loss	44	--
<b>Net periodic benefit cost</b>	<b>\$505</b>	<b>\$ 99</b>

Actuarial assumptions used to determine costs and benefit obligations are as follows:

	December 31,	
	2002	2001
Discount rates	6.50%	7.25%
Salary increase	4%	4%

#### 13. POSTRETIREMENT MEDICAL BENEFITS

The Company provides certain medical and dental care benefits to eligible retired employees. The Company's current policy is to fund the cost of the health care plans on a pay-as-you-go basis.

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

The following table represents a reconciliation of the beginning and ending benefit obligation and the funded status of the plan:

(IN THOUSANDS)	December 31,	
	2002	2001
Benefit obligation at beginning of year	\$ 20,484	\$ 17,447
Service cost	1,765	1,500
Interest cost	1,517	1,314
Actuarial (gain) loss	3,375	1,180
Benefits paid	(953)	(957)
Benefit obligation at end of year	\$ 26,188	\$ 20,484
Funded status	\$ (26,188)	\$ (20,484)
Unrecognized prior service cost	790	914
Unrecognized net actuarial gain	846	(2,582)
Accrued benefit cost	\$ (24,552)	\$ (22,152)

Components of net periodic benefit cost follow:

(IN THOUSANDS)	December 31,		
	2002	2001	2000
Service cost	\$ 1,765	\$ 1,500	\$ 1,377
Interest cost	1,517	1,314	1,152
Amortization of prior service cost	124	124	124
Recognized actuarial gain	(53)	(232)	(275)
Net periodic benefit cost	\$ 3,353	\$ 2,706	\$ 2,378

Actuarial assumptions used to determine costs and benefit obligations are as follows:

	2002	2001	2000
Discount Rate	6.5%	7.25%	7.50%
Current medical cost trend rate	12%	9%	10%
Current dental cost trend rate	5%	5%	5.5%
Ultimate medical cost trend rate	5%	5%	5%
Year trend rate declines to ultimate	2005	2005	2005

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2002:

(IN THOUSANDS)	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on total of service and interest cost components	\$ 345	\$ (277)
Effect on post retirement benefit obligation	\$ 2,154	\$ (1,787)

14. OTHER INCOME (EXPENSE), NET

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

(IN THOUSANDS)	2002	2001	2000
Interest and dividend income	\$ 1,338	\$ 1,336	\$ 1,038
Loss on sale of accounts receivable (Note 3)	--	(484)	(1,567)
Income from joint ventures	352	844	702
Gain on disposal of property, plant and equipment	97	265	99
Other - net	1,400	802	178
Total other income (expense), net	\$ 3,187	\$ 2,763	\$ 450

15. INCOME TAXES

The income tax provision (benefit) consists of the following:

(IN THOUSANDS)	2002	2001	2000
Current:			
Domestic	\$ 2,422	\$ 1,124	\$ 896
Foreign	2,948	1,673	2,523
Total Current	5,370	2,797	3,419
Deferred:			
Domestic	3,350	(3,408)	(1,103)
Foreign	(800)	(220)	206
Total Deferred	2,550	(3,628)	(897)
Total income tax provision	\$ 7,920	\$ (831)	\$ 2,522

The Company has not provided for federal income taxes on the undistributed income of its foreign subsidiaries because of the availability of foreign tax credits and/or the Company's intention to permanently reinvest such undistributed income. Cumulative undistributed earnings of foreign subsidiaries on which no United States income tax has been provided were \$10.7 million at the end of 2002, \$28.2 million

F-13

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

at the end of 2001 and \$27.5 million at the end of 2000.

Earnings (loss) before income taxes for foreign operations (excluding Puerto Rico) amounted to approximately (\$5) million, \$3 million, and \$4 million, in 2002, 2001, and 2000, respectively. U.S. taxes on the earnings of the Puerto Rican subsidiary are largely eligible for tax credits against U.S. income taxes (phased out effective 2005) and are partially exempt from Puerto Rican income taxes under a tax exemption grant currently being renewed and expected to expire

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

in 2016. The tax benefits of the exemption, reduced by a minimum tollgate tax instituted in 1993, amounted to \$0.13 per share share in 2002 (2001 -\$0.12; 2000 - \$0.23).

Reconciliations between the U.S. federal income tax rate and the Company's effective income tax rate as a percentage of earnings from continuing operations before income taxes are as follows:

	2002	2001	2000
U.S. federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
State and local income taxes, net of federal income tax benefit	4.1	21.4	1.2
Non-deductible items, net	3.4	60.5	0.1
Foreign tax rate differential	(2.4)	(91.9)	(15.3)
Change in foreign valuation allowance	16.4	--	--
Effective tax rate	56.5%	25.0%	21.0%

The following is a summary of the components of the net deferred tax assets and liabilities recognized in the accompanying consolidated balance sheets:

	December 31,	
(IN THOUSANDS)	2002	2001
Deferred tax assets:		
Inventories	\$ 6,025	\$ 6,044
Allowance for customer returns	6,152	7,069
Postretirement benefits	10,390	8,751
Allowance for doubtful accounts	1,442	1,587
Accrued salaries and benefits	3,339	2,938
Net operating loss and tax credit carry forwards	14,084	15,390
Goodwill	3,578	--
Accrued asbestos liabilities	10,765	1,497
Other	5,580	5,054
	61,355	48,330
Valuation allowance	(21,698)	(14,571)
Total	\$ 39,657	\$ 33,759
Deferred tax liabilities:		
Depreciation	\$ 7,565	\$ 6,702
Promotional costs	1,106	1,036
Other	81	1,052
Total	8,752	8,790
Net deferred tax assets	\$ 30,905	\$ 24,969

During 2002 the Company increased the valuation allowance by \$7.1 million. At December 31, 2002, the Company has approximately \$15.8 million of domestic and foreign net operating loss carry forwards of which \$6.8 million will expire in 2021 and the remainder (foreign) have an indefinite carry forward period. The Company also has foreign tax credit carry forwards of approximately \$2.1 million

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

which expire between 2003 and 2007. The Company also has alternative minimum tax credit carry forwards of approximately \$6.6 million for which there is no expiration date.

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. However, if the Company is unable to generate sufficient taxable income in the future through its operations, increases in the valuation allowance may be required.

### 16. INDUSTRY SEGMENT AND GEOGRAPHIC DATA

Under the provisions of SFAS No. 131, the Company has three reportable operating segments which are the major product areas of the automotive aftermarket in which the Company competes. Engine Management consists primarily of ignition and emission parts, wire and cable, and fuel system parts. Temperature Control consists primarily of compressors, other air conditioning parts and heater parts. The third reportable operating segment is Europe which consists of both Engine Management and Temperature Control reporting units. The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1). The following tables contain financial information for each reportable segment:

For the year ended December 31, 2002					
(IN THOUSANDS)	Engine Management	Temperature Control	European Group	Other Adjustments	Consoli- dated
Net Sales	\$303,112	\$255,088	\$ 36,028	\$ 4,209	\$598,437
Depreciation and amortization	8,660	5,484	902	1,082	16,128
Operating income	41,844	10,095	(10,464)	(16,407)	25,068
Investment in equity affiliates	--	--	185	2,017	2,202
Capital expenditures	3,465	2,066	1,831	236	7,598
Total Assets	\$247,318	\$157,343	\$ 30,728	\$ 55,369	\$490,758

For the year ended December 31, 2001					
(IN THOUSANDS)	Engine Management	Temperature Control	European Group	Other Adjustments	Consoli- dated
Net Sales	\$285,498	\$269,856	\$33,449	\$ 2,849	\$591,652
Depreciation and amortization	9,649	6,462	1,961	837	18,909
Operating income	26,432	3,624	(1,718)	(13,215)	15,123
Investment in equity affiliates	105	--	166	1,878	2,149
Capital expenditures	4,724	6,781	775	1,460	13,740

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

	\$233,564	\$182,083	\$40,407	\$53,375	\$509,429
-----					
For the year ended December 31, 2000					
-----					
(IN THOUSANDS)	Engine Management	Temperature Control	European Group	Other Adjustments	Consolidated
-----					
Net Sales	\$288,240	\$270,848	\$38,310	\$ 3,994	\$601,392
-----					
Depreciation and amortization	10,293	6,116	1,902	611	18,922
-----					
Operating income	37,974	11,513	517	(19,293)	30,711
-----					
Investment in equity affiliates	105	--	96	1,755	1,956
-----					
Capital expenditures <sup>1</sup>	8,914	6,454	380	904	16,652
-----					
Total Assets	\$265,336	\$224,410	\$39,321	\$20,329	\$549,396
-----					

F-14

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

-----

Other Adjustments consist of items pertaining to the corporate headquarters function, as well as our Canadian business unit that does not meet the criteria of a reportable operating segment under SFAS No.131.

(IN THOUSANDS)	2002	2001	2000
-----			
United States	\$512,055	\$515,322	\$521,593
Europe	36,028	33,449	38,310
Canada	32,188	28,811	27,942
Other Foreign	18,166	14,070	13,547
-----			
Total	\$598,437	\$591,652	\$601,392
-----			

LONG LIVED ASSETS

(IN THOUSANDS)	2002	2001	2000
-----			
United States	\$109,778	\$118,455	\$122,825
Europe	7,153	17,301	17,573
Canada	2,450	2,829	3,511
Other Foreign	1,124	1,101	1,312
-----			
Total	\$120,505	\$139,686	\$145,221
-----			

Revenues are attributed to countries based upon the location of the customer.



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

### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS (AS RESTATED)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

#### CASH AND CASH EQUIVALENTS

The carrying amount approximates fair value because of the short maturity of those instruments.

#### MARKETABLE SECURITIES

The fair values of investments are estimated based on quoted market prices for these or similar instruments.

#### LONG-TERM DEBT

The fair value of the Company's long-term debt is estimated based on quoted market prices or current rates offered to the Company for debt of the same remaining maturities.

#### INTEREST RATE SWAPS

The fair value of the Company's financial instruments are based on market quotes and represents the net amount required to terminate the position, taking into consideration market rates and counterparty credit risk. The estimated fair values of the Company's financial instruments are as follows:

DECEMBER 31, 2002 (IN THOUSANDS)	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	\$ 9,690	\$ 9,690
Marketable securities	7,200	7,200
Long-term debt	(97,299)	(80,188)
Interest rate swaps	(1,905)	(1,905)

DECEMBER 31, 2001 (IN THOUSANDS)	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	\$ 7,496	\$ 7,496
Marketable securities	7,200	7,200
Long-term debt	(95,060)	(70,730)
Interest rate swaps	(2,045)	(2,045)

### 18. COMMITMENTS AND CONTINGENCIES

Total rent expense for the three-years ended December 31, 2002 was as follows:

(IN THOUSANDS)	TOTAL	REAL ESTATE	OTHER
2002	\$8,434	\$6,282	\$2,152
2001	8,673	6,508	2,165
2000	9,797	7,217	2,580

At December 31, 2002, the Company is obligated to make minimum rental payments through 2011, under operating

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

leases which are as follows :

(IN THOUSANDS)

2003 .....	\$7,706	2006 .....	3,736
2004 .....	6,320	2007 .....	2,558
2005 .....	5,336	Thereafter .....	4,112
		Total .....	\$29,768

The Company also has lease and sub-lease agreements in place for various properties under its control. The Company expects to receive operating lease payments from lessees during the five years ending December 31, 2003 through 2007 of \$1.0 million, \$0.6 million, \$0.6 million, \$0.6 million, and \$0.6 million, respectively.

The Company generally warrants its 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 December 31, 2002 and 2001, the Company has accrued \$10.4 million and \$12.7 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 each of the years 2002, 2001, and 2000 were: \$46.7 million, \$52.2 million, and \$55.1 million, respectively.

The following table provides the changes in the Company's product warranties:

(IN THOUSANDS)

January 1, 2002	\$12,743
Liabilities accrued for current year sales	46,671
Settlements of warranty claims	(49,054)
December 31, 2002	\$10,360

At December 31, 2002, the Company had outstanding letters of credit aggregating approximately \$3.5 million. The contract amount of the letters of credit is a reasonable estimate of their value as the value for each is fixed over the life of the commitment.

The Company has entered into Change in Control arrangements with two key officers of the Company. In the event of a Change of Control (as defined), each executive will receive severance payments, (as defined), and certain other benefits.

On January 28, 2000, a former significant customer of the Company currently undergoing a Chapter 7 liquidation in U.S. Bankruptcy Court, filed claims against a number of its former suppliers, including the Company. The claim against the Company alleges \$0.5 million of preferential payments in the 90 days prior to the related bankruptcy petition. The claim pertaining to the preferential payments was settled for an immaterial amount during the second quarter of 2002.

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

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

---

In addition, this former customer seeks \$9.4 million from the Company 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. The Company has purchased insurance with respect to the actions. On August 22, 2002, the court dismissed the antitrust claims. The Company believes that these remaining matters will not have a material adverse effect on the Company's consolidated financial statements taken as a whole.

In 1986, the Company acquired a brake business, which it subsequently sold in March 1998 and which is accounted for as a discontinued operation in the accompanying consolidated financial statements. When the Company originally acquired this brake business, the Company 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, the Company agreed to assume the liabilities for all new claims filed on or after September 1, 2001. The ultimate exposure to the Company will depend upon the number of claims filed against the Company 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 the Company was responsible for any related liabilities. At December 31, 2002, the number of cases outstanding for which the Company was responsible for related liabilities increased to approximately 2,500, which include approximately 1,600 cases filed in December 2002 in Mississippi. The Company believes that these Mississippi cases filed against the Company 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. To date, the amounts paid for settled claims have been immaterial. The Company does not have insurance coverage for the defense and indemnity costs associated with these claims.

In evaluating its potential asbestos-related liability, the Company has considered various factors including, among other things, an actuarial study performed by a leading actuarial firm with expertise in assessing asbestos-related liabilities, settlement amounts of the Company 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 the Company's 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 the Company's recent claims history to estimate likely filing rates for the remainder of 2002 through 2052; (3) an analysis of the Company's currently pending claims; and (4) an analysis of the Company's 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 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 the Company, the Company 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. The Company 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 the Company's consolidated

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

financial statements, in accordance with generally accepted accounting principles. Given the uncertainties associated with projecting such matters into the future, the short period of time that the Company has been responsible for defending these claims, and other factors outside the control of the Company, the Company 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, the Company does not believe that any additional provisions would be reasonably likely to have a material adverse effect on the Company's liquidity or consolidated financial position.

The Company is involved in various other litigation and product liability matters arising in the ordinary course of business. Although the final outcome of these matters cannot be determined, it is management's opinion that the final resolution of these matters will not have a material effect on the Company's financial statements taken as a whole.

### 19. SUBSEQUENT EVENTS (UNAUDITED)

On February 7, 2003, the Company signed an agreement to purchase Dana Corporation's Engine Management Group (EMG), for a purchase price equal to the closing net book value of the business, subject to a maximum purchase price of \$125 million. Dana's EMG is a leading manufacturer of aftermarket parts in the automotive industry focused exclusively on engine management. The Company intends to finance the acquisition and the closing payment of related fees and expenses and restructuring and integration costs by (a) drawing on the revolving credit facility, as amended, (b) issuing shares of common stock and (c) obtaining seller financing.

The acquisition purchase price is subject to a post-closing adjustment based upon the 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.

The acquisition is subject to obtaining financing for the acquisition and other customary closing conditions. The Company expects to close the acquisition during the second quarter of 2003.

F-16

### STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements, continued

### 20. QUARTERLY FINANCIAL DATA (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Quarter Ended	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002
Net Sales	\$107,856	\$183,631	\$180,629	\$ 126,321
Gross Profit	29,127	50,608	46,833	30,976
Earnings (loss) from continuing operations	(8,087)	9,832	6,267	(1,921)
Loss from discontinued				

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

operation, net of taxes	(254)	(16,918)	(806)	(319)
-----				
Cumulative effect of accounting change, net of taxes	--	--	--	(18,350)
-----				
Net Earnings (loss)	\$ (8,341)	\$ (7,086)	\$ 5,461	\$ (20,590)
-----				
Net Earnings (loss) from continuing operations per common share:				
Basic	\$ (.68)	\$ .82	\$ .53	\$ (.16)
Diluted	\$ (.68)	\$ .72	\$ .48	\$ (.16)
-----				
Net Earnings (loss) per common share:				
Basic	\$ (.70)	\$ (.59)	\$ .46	\$ (1.74)
Diluted	\$ (.70)	\$ (.42)	\$ .43	\$ (1.74)
-----				
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Quarter Ended	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001
-----				
Net Sales	\$ 96,432	\$157,590	\$183,167	\$ 154,463
-----				
Gross Profit	18,642	41,151	41,831	37,431
-----				
Earnings (loss) from continuing operations	(6,330)	3,748	(522)	619
-----				
Net Earnings (loss)	\$ (6,330)	\$ 3,748	\$ (522)	\$ 619
-----				
Net Earnings (loss) from continuing operations per common share:				
Basic	\$ (0.54)	\$ 0.32	\$ (0.05)	\$ 0.05
Diluted	\$ (0.54)	\$ 0.32	\$ (0.05)	\$ 0.05
-----				
Net Earnings (loss) per common share:				
Basic	\$ (0.54)	\$ 0.32	\$ (0.05)	\$ 0.05
Diluted	\$ (0.54)	\$ 0.32	\$ (0.05)	\$ 0.05
-----				

The fourth quarter of 2002 reflects unfavorable adjustments including approximately \$1.6 million of restructuring costs related to the consolidation of certain manufacturing and distributing facilities within the Temperature Control Segment; and a writeoff of approximately \$3.3 million for the impairment of goodwill associated with the Engine Management reporting unit of the Europe Segment.

21. 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 \$76,249 and \$106,790 (in thousands) as of December 31, 2002 and 2001, 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 December 31, 2002 and 2001 follows:

(IN THOUSANDS)	December 31, 2002	December 31, 2001
----------------	-------------------	-------------------

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

	As Previously Reported	As Restated	As Previously Reported	As Restated
Notes payable	\$ 3,369	\$ 79,618	\$ 4,075	\$ 110,865
Total current liabilities	111,428	187,677	100,593	207,383
Long-term debt	169,440	93,191	200,066	93,276
Total non-current liabilities	\$ 225,449	\$149,200	\$ 223,149	\$ 116,359

F-17

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to our 2003 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our 2003 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to our 2003 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to our 2003 Proxy Statement under the caption "Certain Transactions."

ITEM 14. 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

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

disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that the Company's disclosure and procedures are effective.

- (b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

-32-

### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

##### 15(A) . DOCUMENT LIST

- (1) Among the responses to this Item 15(a) are the following financial statements.

Independent Auditors' Report

Financial Statements:

Consolidated Balance Sheets - December 31, 2002 and 2001

Consolidated Statements of Operations  
- Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Changes in Stockholders' Equity  
- Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows  
- Years Ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

- (2) The following financial schedule and related report for the years 2002, 2001 and 2000 is submitted herewith:

Independent Auditors' Report of Schedule II

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not required, not applicable or the information is included in the financial statements or notes thereto.

- (3) Exhibits required by Item 601 of Securities and Exchange

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

Commission Regulations S-K: See "Exhibit Index" beginning on page 34.

### 15(B) . REPORTS ON FORM 8-K

No reports on Form 8-K were required to be filed for the three-months ended December 31, 2002.

-33-

### STANDARD MOTOR PRODUCTS, INC. EXHIBIT INDEX

#### EXHIBIT NUMBER

- 2.1 Asset Exchange Agreement dated as of March 28, 1998 among SMP Motor Products, LTD., Standard Motor Products, Inc., Cooper Industries (Canada) Inc., Moog Automotive Company and Moog Automotive Products, Inc., filed as an Exhibit of Company's report on Form 8-K dated March 28, 1998.
- 2.2 Asset Purchase Agreement, dated as of February 7, 2003, by and among Dana Corporation, Automotive Controls Corp., BWD Automotive Corporation, Pacer Industries, Inc., Ristance Corporation, Engine Controls Distribution Services, Inc., as Sellers, and Standard Motor Products, Inc., as Buyer (incorporated by reference to Standard Motor Products, Inc.'s Current Report on Form 8-K (File No. 001-04743), filed on February 10, 2003).
- 3.1 By-laws filed as an Exhibit of Company's annual report on Form 10-K for the year ended December 31, 1986.
- 3.2 Restated Certificate of Incorporation, dated July 31, 1990, filed as an Exhibit of Company's Annual Report on Form 10-K for the year ended December 31, 1990.
- 3.3 Restated Articles of Incorporation, dated February 15, 1996, filed as an Exhibit of Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- 3.4 Restated By-Laws dated May 23, 1996, filed as an Exhibit of the Company's annual report on Form 10-K for the year ended December 31, 1996.
- 4.1 Restated Certificate of Incorporation, dated July 31, 1990 (incorporated by reference to Exhibit 4.2 of Standard Motor Products, Inc.'s Registration Statement on Form S-8 (Registration No. 333-51565), dated May 1, 1998).
- 4.2 Certificate of Amendment to the Restated Certificate of Incorporation, dated July 31, 1990 (incorporated by reference to Exhibit 4.3 of Standard Motor Products, Inc.'s Registration Statement on Form S-8 (Registration No. 333-51565), filed on May 1, 1998).
- 4.3 Restated By-Laws, dated May 23, 1996 (incorporated by reference to



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

Exhibit 3.4 of Standard Motor Products, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996).

-34-

### STANDARD MOTOR PRODUCTS, INC. EXHIBIT INDEX

#### EXHIBIT NUMBER

- 4.4 Form of Subordinated Debenture Indenture (including form of convertible debenture) (incorporated by reference to Exhibit 4.1 to Standard Motor Products, Inc.'s Amendment No. 2 to its Registration Statement on Form S-3 (Registration No. 333-79177), filed on July 20, 1999).
- 4.5 Rights Agreement, dated as of February 15, 1996, between Standard Motor Products, Inc. and Registrar & Transfer Co., as rights agent (incorporated by reference to Standard Motor Products, Inc.'s Registration Statement on Form 8-A (File No. 001-04743), filed on April 11, 1996).
- 4.6 Form of Share Ownership Agreement by and between Standard Motor Products, Inc. and Dana Corporation (incorporated by reference to Standard Motor Products, Inc.'s Current Report on Form 8-K (File No. 001-04743), filed on February 10, 2003).
- 10.1 Employee Stock Ownership Plan and Trust dated January 1, 1989 filed as an Exhibit of Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- 10.2 Supplemental Executive Retirement Plan dated August 15, 1994 filed as an Exhibit of Company's Annual Report on Form 10-K for the year ended December 31, 1994.
- 10.3 1994 Omnibus Stock Option Plan of Standard Motor Products, Inc. is filed as Exhibit 4.1 of the Company's Registration Statement on Form S-8 (33-58655).
- 10.4 1996 Independent Outside Directors Stock Option Plan of Standard Motors Products, Inc. filed as an Exhibit of Company's annual report on Form 10-K for the year ended December 31, 1996.
- 10.5 1994 Omnibus Stock Option Plan of Standard Motor Products, Inc., as amended, is filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (333-51565), dated May 1, 1998.
- 10.6 Credit Agreement dated April 27, 2001 among Standard Motor Products, Inc. and subsidiaries, as Borrowers and GE Capital Corp. as Agent and Lender, GMAC Commercial Credit LLC, on Lender and Syndication Agent and Bank of America, N.A., as Lender and Documentation Agent.
- 10.7 The 1994 Omnibus Stock Option Plan of Standard Motor Products, Inc. as Amended and restated, is filed as Exhibit 4.1 to the Company's

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

Registration Statement on Form S-8 (33359524), dated April 25, 2001.

-35-

### STANDARD MOTOR PRODUCTS, INC. EXHIBIT INDEX

#### EXHIBIT NUMBER

- 10.8 Supplemental Compensation Plan effective October 1, 2001.
- 10.9 Change of Control Agreement dated December 12, 2001 between Standard Motor Products, Inc. and John Gethin.
- 10.10 Change of Control Agreement dated December 12, 2001 between Standard Motor Products, Inc. and James Burke.
- 21. List of Subsidiaries of Standard Motor Products, Inc.
- 23 Consent of Independent Auditors - KPMG LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-36-

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STANDARD MOTOR PRODUCTS, INC.  
(COMPANY)

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

/s/ LAWRENCE I. SILLS

-----  
Lawrence I. Sills  
Chairman, Chief Executive Officer and Director

/s/ JAMES J. BURKE

-----  
James J. Burke  
Vice President, Finance; Chief Financial Officer

New York, New York  
November 19, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

November 19, 2003            /s/    LAWRENCE I. SILLS  
-----  
Lawrence I. Sills  
Chairman, Chief Executive Officer and Director

November 19, 2003            /s/    ARTHUR D. DAVIS  
-----  
Arthur D. Davis, Vice Chairman and Director

November 19, 2003            /s/    MARILYN F. CRAGIN  
-----  
Marilyn F. Cragin, Director

November 19, 2003            /s/    SUSAN F. DAVIS  
-----  
Susan F. Davis, Director

November 19, 2003            /s/    ARTHUR S. SILLS  
-----  
Arthur S. Sills, Director

November 19, 2003            /s/    PETER J. SILLS  
-----  
Peter J. Sills, Director

-37-

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Standard Motor Products, Inc.:

Under date of February 24, 2003, except as to note 21, which is as of November 17, 2003, we reported on the consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31,

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

2002, as contained in the annual report on Form 10-K/A for the year 2002. Our report contains an explanatory paragraph that the Company adopted Emerging Issues Task Force Issue No. 01-9, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCTS) and Statement of Financial Accounting Standards No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS as of January 1, 2002. Our report also indicates that these consolidated financial statements have been revised to account for the loss on early extinguishment of debt in accordance with Statement of Financial Accounting Standards No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS, which was adopted by the Company as of January 1, 2003. Our report also indicates that the Company's consolidated balance sheets as of December 31, 2002 and 2001 have been restated to classify certain debt as current. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP  
-----

New York, New York  
February 24, 2003

-38-

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2002, 2001 and 2000

DESCRIPTION -----	BALANCE AT BEGINNING OF YEAR -----	CHARGED TO COSTS AND EXPENSES -----	ADDITIONS -----		DEDUCTIONS -----
				OTHER -----	
YEAR ENDED DECEMBER 31, 2002:					
Allowance for doubtful accounts	\$ 2,917,000	\$ 489,000	\$	162,000	\$ --
Allowance for discounts .....	1,445,000	--		--	131,000
	-----	-----	-----	-----	-----
	\$ 4,362,000	\$ 489,000	\$	162,000	\$ 131,000
	=====	=====	=====	=====	=====

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

Allowance for sales returns .....	\$ 18,167,000	\$ 73,030,000	\$ --	\$ 74,856,000
	=====	=====	=====	=====
Allowance for inventory valuation	\$ 13,895,000	\$ 1,265,000	\$ --	\$ 869,000
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 2001:				
Allowance for doubtful accounts	\$ 2,979,000	\$ 598,000	\$ --	\$ 660,000
Allowance for discounts .....	1,598,000	--	--	153,000
	-----	-----	-----	-----
	\$ 4,577,000	\$ 598,000	\$ --	\$ 813,000
	=====	=====	=====	=====
Allowance for sales returns .....	\$ 17,693,000	\$ 94,122,000	\$ --	\$ 93,648,000
	=====	=====	=====	=====
Allowance for inventory valuation	\$ 12,930,000	\$ 4,387,000	\$ --	\$ 3,422,000
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 2000:				
Allowance for doubtful accounts	\$ 2,619,000	\$ 699,000	\$ --	\$ 339,000
Allowance for discounts .....	1,992,000	--	--	394,000
	-----	-----	-----	-----
	\$ 4,611,000	\$ 699,000	\$ --	\$ 733,000
	=====	=====	=====	=====
Allowance for sales returns .....	\$ 22,698,000	\$100,403,000	\$ --	\$105,408,000
	=====	=====	=====	=====
Allowance for inventory valuation	\$ 13,766,000	\$ 3,165,000	\$ --	\$ 4,001,000
	=====	=====	=====	=====