SMP®
Standard Motor Products, Inc.

ANNUAL REPORT 2019

SMP® 100
1919 A CENTURY OF EXCELLENCE™ 2019

EXECUTIVE OFFICES
Standard Motor Products, Inc.
37-18 Northern Boulevard
Long Island City, NY 11101

ENGINE MANAGEMENT DIVISION
Offices:
- Long Island City, NY

Manufacturing and Distribution Centers:
- Fort Lauderdale, FL
- Mishawaka, IN
- Edwardsville, KS
- Independence, KS
- Greenville, SC
- Disputanta, VA
- Reynosa, Mexico
- Bialystok, Poland

TEMPERATURE CONTROL DIVISION
Offices:
- Lewisville, TX

Manufacturing and Distribution Centers:
- Lewisville, TX
- St. Thomas, Canada
- Reynosa, Mexico

CANADA SUBSIDIARY
SMP Motor Products Ltd.
Mississauga, Ontario, Canada

CHINA SUBSIDIARY
Standard Motor Products (Foshan) Co., Ltd.
Foshan, China

HONG KONG SUBSIDIARY
Standard Motor Products
(Hong Kong) Limited
Hong Kong, China

MEXICO SUBSIDIARIES
Standard Motor Products de Mexico,
S. de R.L. de C.V.
Reynosa, Mexico

SMP Automotive de Mexico,
S.A. de C.V.
Cuernavaca, Mexico

SMP Automotive Services de Mexico,
S.A. de C.V.
Reynosa, Mexico

SMP Engine Management de Mexico,
S. de R.L. de C.V.
Reynosa, Mexico

SMP Four Seasons de Mexico,
S. de R.L. de C.V.
Reynosa, Mexico

POLAND SUBSIDIARY
SMP Poland sp. z o.o.
Bialystok, Poland

CHINA JOINT VENTURES
Foshan GWOYNG SMP Vehicle Climate
Control & Cooling Products Co. Ltd.
Foshan, China

Foshan FGD SMP Automotive
Compressor Co., Ltd.
Foshan, China

Jiangsu Che Yijia New Energy
Technology Co., Ltd.
Changzhou, China

SMP®
Standard Motor Products, Inc.

REGISTRAR AND TRANSFER AGENT
Computershare Investor Services
462 South 4th Street, Suite 1600
Louisville, KY 40233-5000

INDEPENDENT AUDITORS
KPMG LLP
345 Park Avenue
New York, NY 10154

COMMON STOCK
Standard Motor Products, Inc.'s
Common Stock is listed on the
New York Stock Exchange
under the symbol "SMP"

YEAR ENDED DECEMBER 31,

	2019	2018	2017
Net Sales	**$ 1,137,913**	$ 1,092,051	$ 1,116,143
Operating Income	**94,495**	81,268	97,521
Earnings From Continuing Operations	**69,051**	56,854	43,630
Net Earnings	**$ 57,917**	$ 43,003	$ 37,976
PER SHARE: Earnings From Continuing Operations - Diluted	**$ 3.03**	$ 2.48	$ 1.88
Net Earnings - Diluted	**2.54**	1.88	1.64
Dividends	**0.92**	0.84	0.76
Stock Price at Year End	**$ 53.22**	$ 48.43	$ 44.91
Average Number of Common and Dilutive Shares	**22,818,451**	22,931,723	23,198,392
Assets	**$ 912,730**	$ 843,132	$ 787,567
Stockholders' Equity	**$ 504,228**	$ 467,201	$ 453,654
Total Debt to Capitalization	**10.2%**	9.5%	12%

(Dollars in thousands, except per share amounts)

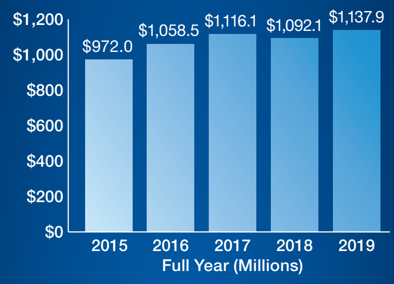
ABOUT THE COMPANY

Standard Motor Products, Inc. is a leading independent manufacturer and distributor of premium replacement parts for the engine management and temperature control systems of motor vehicles in the automotive aftermarket industry with a complementary focus on heavy duty, industrial equipment and original equipment markets.

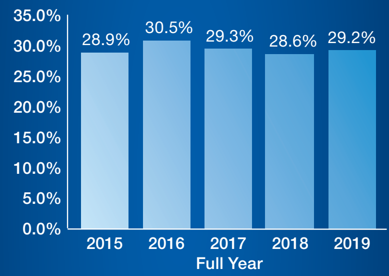
We are organized into two operating segments. Each segment focuses on providing our customers with full-line coverage of its products, and a full suite of complementary services that are tailored to our customers' business needs and driving end-user demand for our products. Our Engine Management Segment manufactures and distributes a full line of critical components for the ignition, electrical, emissions, fuel and safety-related systems of motor vehicles. Our Temperature Control Segment manufactures and distributes a full line of critical components for the temperature control (air conditioning and heating) systems, engine cooling systems, power window accessories and windshield washer systems of motor vehicles. We sell our products primarily to automotive aftermarket retailers, program distribution groups, warehouse distributors, original equipment manufacturers and original equipment service part operations in the United States, Canada, Mexico, Europe, Asia and other Latin American countries. We employ approximately 4,200 people in North America, Europe and Asia.

TO OUR SHAREHOLDERS,

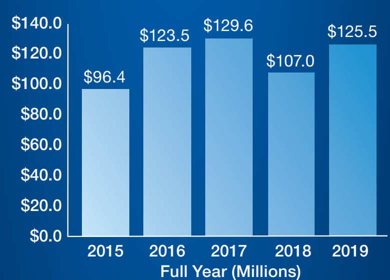
CONSOLIDATED NET SALES



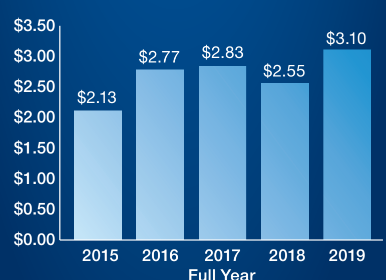
GROSS MARGIN



EBITDA (W/O SPECIAL ITEMS)*



DILUTED EPS (W/O SPECIAL ITEMS)*



See the Reconciliation of GAAP and Non-GAAP Measures on the page facing the inside back cover of this Annual Report.

2019 was a memorable year for our Company. We celebrated our hundredth anniversary, while at the same time setting all-time records for sales and profit.

Our company was founded by Elias Fife on April 19, 1919, with a dozen people in a small office in New York City. Today, we have over 4,200 people, with facilities all around the world. But despite the growth, despite all the changes in automotive technology, customers, and channels of distribution, we are still managed by the descendants of the original family. Very few companies, in our industry or any industry, make it this far.

We owe our success primarily to our group of skilled and dedicated employees, many of whom have spent their entire careers with the company. In 1950, we inaugurated a "25 Year Club", open to all employees who had been with the company 25 years or more. Since then, over 1,000 men and women have been inducted into the Club. These people are the heart and soul of our company.

As our 2019 results show, we continue to grow revenues and improve our operations. Our consolidated net sales in 2019 were $1,137.9 million, compared to $1,092.1 million in 2018, an increase of 4.2%. The 2019 results include $28 million of sales from the Pollak business that we acquired in April 2019.

Our earnings grew even faster. Excluding non-operational gains and losses identified on the attached reconciliation of GAAP and non-GAAP measures, net earnings from continuing operations went from $58.5 million, or $2.55 per diluted share in 2018, to $70.8 million or $3.10 per diluted share in 2019.

In 2018, if you recall, we suffered from substantial one-time costs in two areas. First was the cost of installing an automated distribution system in our Temperature Control division in Lewisville, Texas. The second was the cost of merging and doubling the size of our wire assembly operation in Reynosa, Mexico, as a result of our acquisition of the automotive ignition wire business of General Cable. We realized significant improvements in both areas in 2019. These savings, in addition to our ongoing cost reduction and efficiency initiatives throughout our company, were key factors in our earnings increase.

We continue to seek intelligent acquisitions and investments, which will fit into our long-term strategic goals, and where we can achieve synergistic growth and improvement. In 2019 we made two such acquisitions.

LAWRENCE I. SILLS
Executive Chairman of the Board of Directors

ERIC P. SILLS
Director, Chief Executive Officer & President

JAMES J. BURKE
Chief Operating Officer

DALE BURKS
Executive Vice President & Chief Commercial Officer

NATHAN ILES
Chief Financial Officer

The first was our Pollak acquisition, mentioned earlier. Pollak is a 110 year old, highly respected manufacturer of parts for the heavy duty market. During the year, we were able to successfully relocate their operations from Canton, Massachusetts and Juarez, Mexico to our existing facilities in Reynosa, Mexico and Independence, Kansas. These moves have enabled us to improve our combined cost structure and better serve our customers.

In August 2019, we acquired a minority interest in Jiangsu Che Yijia New Energy Technology Co., a manufacturer of air conditioning compressors for electric vehicles, located in Changzhou, China. While this is a new and relatively small company, we are now in a position to provide compressors for the fast growing electric vehicle market.

In September 2019, we were pleased to announce that Nathan Iles had joined our company as Chief Financial Officer, replacing Jim Burke who had been promoted to Chief Operating Officer. Nathan comes with a strong background in our industry, and we look forward to his important contributions in the years ahead.

We are also pleased to announce that we increased our quarterly dividend from 23 cents to 25 cents. This represents our eleventh consecutive year of dividend increases, reflecting our healthy cash flow and our confidence in our long-term outlook.

Finally, as we write this, we are in the midst of the coronavirus pandemic. No one can predict with certainty the ultimate outcome, but we are sure of two things. First, that the number one priority will be the health and safety of our 4,200 employees. And second, we will come through this crisis well, as we have every other significant crisis in the last 100 years.

Thank you for your support.

LAWRENCE I. SILLS
Executive Chairman of the Board of Directors

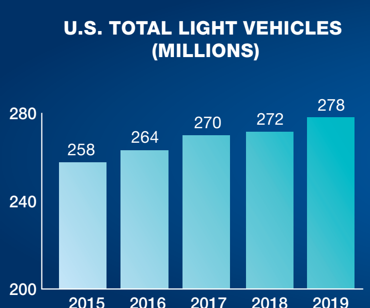
ERIC P. SILLS
Director, Chief Executive Officer and President

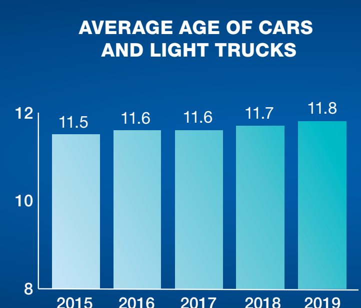
JAMES J. BURKE
Chief Operating Officer

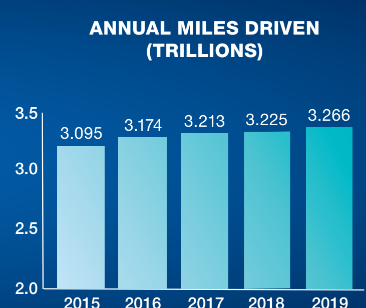
DALE BURKS
Executive Vice President and Chief Commercial Officer

NATHAN ILES
Chief Financial Officer

SMP®
Standard Motor Products, Inc.







ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of
Standard Motor Products, Inc. will be held on:

Tuesday, May 19, 2020 at 3:00 PM
at the Standard Motor Products Building
37-18 Northern Blvd., 6th Floor
Long Island City, New York 11101

A notice of this meeting, together with a proxy
statement, is being mailed to all shareholders
on or about April 17, 2020.

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

FORM 10-K

(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, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transaction period from ____ to ____

Commission file number: 001-04743

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, New York	**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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $2.00 per share	SMP	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☑ No ☐

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

Large Accelerated Filer ☑ Accelerated Filer ☐
Non-Accelerated Filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting common stock based on the closing price on the New York Stock Exchange on June 30, 2019 (the last business day of registrant's most recently completed second fiscal quarter) of $45.34 per share held by non-affiliates of the registrant was $903,974,464. For purposes of the foregoing calculation only, all directors and officers have been deemed to be affiliates, but the registrant disclaims that any of such are affiliates.

As of February 18, 2020, there were 22,462,392 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 is incorporated herein by reference from the registrant's definitive proxy statement relating to its annual meeting of stockholders to be held on May 19, 2020.

STANDARD MOTOR PRODUCTS, INC.

INDEX

PART I

In this Annual Report on Form 10-K, "Standard Motor Products," "we," "us," "our" and the "Company" refer to Standard Motor Products, Inc. and its subsidiaries, unless the context requires otherwise. This Report, including the documents incorporated herein by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this Report are indicated by words such as "anticipates," "expects," "believes," "intends," "plans," "estimates," "projects," "strategies" and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, changes in business relationships with our major customers and in the timing, size and continuation of our customers' programs; changes in our supply chain financing arrangements, such as changes in terms, termination of contracts and/or the impact of rising interest rates; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs, including procurement costs resulting from higher tariffs, that cannot be recouped in product pricing; the performance of the aftermarket, heavy duty, industrial equipment and original equipment markets; changes in the product mix and distribution channel mix; economic and market conditions; successful integration of acquired businesses; our ability to achieve benefits from our cost savings initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under Risk Factors, Quantitative and Qualitative Disclosures About Market Risk and those detailed herein and from time to time in the filings of the Company with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. In addition, historical information should not be considered as an indicator of future performance.

ITEM 1. BUSINESS

Overview

We are a leading independent manufacturer and distributor of premium replacement parts for the engine management and temperature control systems of motor vehicles in the automotive aftermarket industry with a complementary focus on the heavy duty, industrial equipment and original equipment markets.

We are organized into two operating segments. Each segment focuses on providing our customers with full-line coverage of its products, and a full suite of complimentary services that are tailored to our customers' business needs and driving end-user demand for our products. We sell our products primarily to automotive aftermarket retailers, program distribution groups, warehouse distributors, original equipment manufacturers and original equipment service part operations in the United States, Canada, Europe, Asia, Mexico and other Latin American countries.

Our Culture

Our Company was founded in 1919 on the values of ethics, integrity, common decency and respect for others. These values continue to this day and are embodied in our Code of Ethics, which has been adopted by the Board of Directors of the Company to serve as a statement of principles to guide our decision-making and reinforce our commitment to these values in all aspects of our business. We believe that our commitment to our Company, our employees and the communities within which we operate has led to high employee satisfaction and low employee turnover, and our commitment to our customers, suppliers and business partners has resulted in high customer satisfaction, as evidenced by the customer awards that we routinely win, and decades-long customer relationships.

We also take environmental and social issues seriously. We believe that our commitment to identifying and implementing positive environmental and social related business practices strengthens our Company, improves our relationship with our shareholders and better serves our customers, our communities and the broader environment within which we conduct our business.

The Automotive Aftermarket

The automotive aftermarket industry is comprised of a large number of diverse manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies must allocate resources towards an efficient distribution process in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes, and must distribute, with rapid turnaround times, products for nearly all domestic and import vehicles on the road today.

The automotive aftermarket replacement parts business differs substantially from the OEM parts business. Unlike the OEM parts business that primarily follows trends in new car production, the automotive aftermarket replacement parts business primarily tends to follow different trends, such as:

- the number of vehicles on the road;
- the average age of vehicles on the road; and
- the total number of miles driven per year.

Our Business Strategy

Our mission is to be the best full-line, full-service supplier of premium engine management and temperature control products.

The key elements of our strategy are as follows:

- *Maintain Our Strong Competitive Position in our Engine Management and Temperature Control Businesses*. We are a leading independent manufacturer and distributor 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 import vehicles, and our reputation for outstanding value-added services.

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

  - providing our customers with full-line coverage of high quality engine management and temperature control products, supported by the highest level of value-added services;
  - continuing to maximize our production, supply chain and distribution efficiencies;
  - continuing to improve our cost position through increased global sourcing, increased manufacturing at our low-cost plants, and strategic transactions with manufacturers in low-cost regions; and
  - focusing on our engineering development efforts including a focus on bringing more product manufacturing in-house.
- *Provide Superior Value-Added Services and Product Availability*. 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 offering a product portfolio that provides comprehensive coverage for all vehicle applications. In addition, our marketing support provides insightful customer category management, technical support and award-winning programs, and our technically skilled sales personnel provide our customers with product selection, assortment and application support, and technical training on diagnosing and repairing vehicles equipped with complex systems related to our products.

- *Expand Our Product Lines*. We intend to increase our sales by continuing to develop internally, or through potential acquisitions, 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 product lines that incorporate the latest technologies, including product lines relating to safety, advanced driver assistance and collision avoidance systems.
- *Broaden Our Customer Base*. Our goal is to increase our customer base by (a) leveraging our manufacturing capabilities to secure additional business globally with original equipment vehicle and equipment manufacturers and their service part operations, as well as our existing customer base of large retailers, program distribution groups, warehouse distributors, other manufacturers and export customers, and (b) supporting the service part operations of vehicle and equipment manufacturers with value-added services and product support for the life of the part.
- *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 intend to continue to improve our operating efficiency and cost position by:

  - increasing cost-effective vertical integration in key product lines through internal development;
  - focusing on integrated supply chain management, customer collaboration and vendor managed inventory initiatives;
  - evaluating additional opportunities to relocate manufacturing to our low-cost plants;
  - maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain materials and products from low cost regions such as those in Asia without compromising product quality;
  - enhancing company-wide programs geared toward manufacturing and distribution efficiency; and
  - focusing on company-wide overhead and operating expense cost reduction programs.
- *Cash Utilization*. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, expand our product lines by investing in new tooling and equipment, grow revenues through potential acquisitions, and repurchase shares of our common stock.

Our Products & Services

Engine Management Segment

Our Engine Management Segment manufactures and distributes a full line of critical components for the ignition, electrical, emissions, fuel and safety-related systems of motor vehicles. Key product categories within our engine management portfolio include: electronic ignition control modules, fuel injectors, including diesel injectors and pumps (new and remanufactured), ignition wires, coils, switches, relays, EGR valves, distributor caps and rotors, various sensors primarily measuring temperature, pressure and position in numerous vehicle systems (such as camshaft and crankshaft position, fuel pressure, vehicle speed and mass airflow sensors), electronic throttle bodies, variable valve timing (VVT) components, safety-related components, such as anti-lock brake (ABS) sensors, tire pressure monitoring (TPMS) sensors and park assist sensors, in addition to many other engine management components.

We continuously look to expand our product offering to provide our customers with full-line coverage. We have more recently expanded our offering by adding late-model coverage for existing product categories, and new product categories in response to new and evolving vehicle technologies, including diesel injectors, pumps and components, turbochargers, evaporation emission control system components, exhaust gas temperature sensors, active grill shutters, battery current sensors, and Advanced Driver Assistance Systems (ADAS) components, including blind spot detection sensors, cruise control distance sensors, lane departure sensor cameras and park assist backup cameras.

Ignition, Emission Control, Fuel & Safety Related System Products. Replacement parts for ignition, emission, fuel and safety related systems accounted for approximately $706 million, or 62%, of our consolidated net sales in 2019, approximately $648.3 million, or 59%, of our consolidated net sales in 2018, and approximately $657.3 million, or 59%, of our consolidated net sales in 2017.

In April 2019, we acquired certain assets and liabilities of the Pollak business of Stoneridge, Inc., a manufacturer and distributer of specialty engine management products including sensors, switches, and connectors for the OE/OES, heavy duty and commercial vehicle markets. The acquisition enhanced our growth opportunities in the OE/OES, heavy duty and commercial vehicle markets and added to our existing expertise in aftermarket distribution, product management and service. For additional information regarding this acquisition and our integration efforts related to the acquisition, refer to the information set forth under the caption "2019 Business Acquisition and Investment" appearing in Note 3, and "Integration Costs" appearing in Note 5 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Wire & Cable Products. Wire and cable parts accounted for approximately $143.2 million, or 13%, of our consolidated net sales in 2019, approximately $155.2 million, or 14%, of our consolidated net sales in 2018, and approximately $172.1 million, or 15%, of our consolidated net sales in 2017. These products include ignition (spark plug) wire sets, battery cables, pigtails, sockets and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile's electrical system.

Computer-Controlled Technology. All new vehicles are factory-equipped with numerous electronic control modules designed to monitor and control the internal combustion process and the emissions, transmission, safety and comfort systems of the vehicle. These control modules monitor inputs from many types of sensors, switches and actuators located throughout the vehicle, and control the systems used to optimize vehicle performance and comfort features. Our sales of sensors, switches, actuators, valves, solenoids and related parts have increased as automobile manufacturers continue to equip their cars with these more complex engine management systems.

Government mandated emissions and fuel economy regulations have been implemented throughout the United States. The Clean Air Act imposes strict emissions control test standards on existing and new vehicles. 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. Automobiles must now comply with emissions standards from the time they were manufactured and, in most states, until the last day they are in use. This law and other government emissions laws and fuel economy regulations have had a positive impact on sales of our ignition, emissions control and fuel delivery parts since vehicles failing these laws may require repairs utilizing parts sold by us.

Safety, Driver Assistance and Collision Avoidance Systems. An increasing number of new vehicles are factory-equipped with government-mandated safety devices, such as anti-lock braking systems and air bags. As these systems mature, requiring servicing and repair, we anticipate increased sales opportunities for many of our products such as ABS sensors, TPMS sensors and traction control products. Newer automotive systems include Advanced Driver Assistance Systems and Collision Avoidance Systems to alert the driver to potential problems, or to avoid collisions by implementing safeguards. Many of these systems use on-board computers to monitor inputs from sensing devices located throughout the vehicle. As the use and complexity of these systems continue to develop and proliferate, we expect to identify and benefit from new sales opportunities within this category.

Temperature Control Segment

Our Temperature Control Segment manufactures and distributes a full line of critical components for the temperature control (air conditioning and heating) systems, engine cooling systems, power window accessories and windshield washer systems of motor vehicles. Key product categories within our temperature control portfolio include: air conditioning compressors (new and remanufactured), air conditioning repair kits, clutch assemblies, blower and radiator fan motors (brushless and brushed), filter dryers, evaporators, accumulators, hose assemblies, thermal expansion devices, heater valves, heater cores, A/C service tools and chemicals, fan assemblies, fan clutches, oil coolers, window lift motors, window regulators and assemblies, and windshield washer pumps.

We continuously look to improve our cost position through strategic transactions with manufacturers in low cost regions. In 2014, we formed a joint venture with Gwo Yng Enterprise Co., Ltd., a China-based manufacturer of air conditioning accumulators, filter driers, hose assemblies, and switches; in 2017, we formed a joint venture with Foshan Guangdong Automotive Air Conditioning Co., Ltd., a China-based manufacturer of air conditioning compressors for the automotive aftermarket and the Chinese OE market; and in 2019, we acquired an approximate 29% minority interest in Jiangsu Che Yijia New Energy Technology Co., Ltd., a China-based manufacturer of electric air conditioning compressors for electric vehicles. We believe that these transactions will enhance our position as a basic low-cost manufacturer and a leading supplier of temperature control parts to the aftermarket, as well as provide us with an opportunity for growth in the China market.

Compressors. Compressors accounted for approximately $160.5 million, or 14%, of our consolidated net sales in 2019, approximately $148.4 million, or 14%, of our consolidated net sales in 2018, and approximately $148.4 million, or 13%, of our consolidated net sales in 2017.

Other Climate Control Parts. Other climate control parts accounted for approximately $117.9 million, or 10%, of our consolidated net sales in 2019, approximately $130 million, or 12%, of our consolidated net sales in 2018, and approximately $130.8 million, or 12%, of our consolidated net sales in 2017.

Financial Information about our Operating Segments

For additional information related to our operating segments, and the disaggregation of operating segment net sales by geographic area, major product group and major sales channel, see Note 20 "Industry Segment and Geographic Data" and Note 21 "Net Sales", respectively, of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Our Brands

We believe that our brands are an important component of our value proposition, and serve to distinguish our premium engine management and temperature control products from those of our competitors. We market and distribute our products under our own brands, such as:

Engine Management Products

Temperature Control Products

We also distribute our products to customers for resale under private labels and the following co-labels:

Engine Management

We have also developed our product offering and brand strategies to support our customers' initiatives to market a tiered product assortment designed to satisfy end-user preferences for quality and value. We believe that this alignment makes us an invaluable business partner to our customers.

Our Customers

We sell our products primarily to:

- *Automotive aftermarket retailers*, such as O'Reilly Automotive, Inc. ("O'Reilly"), Advance Auto Parts, Inc. (operating under the trade names Advance Auto Parts, Autopart International, Carquest and Worldpac) ("Advance"), AutoZone, Inc. ("AutoZone"), and Canadian Tire Corporation, Limited.
- *Automotive aftermarket distributors, including warehouse distributors and program distribution groups*, such as Genuine Parts Co. and National Automotive Parts Association ("NAPA"), Auto Value and All Pro/Bumper to Bumper (Aftermarket Auto Parts Alliance, Inc.), Automotive Distribution Network LLC, The National Pronto Association ("Pronto"), Federated Auto Parts Distributors, Inc. ("Federated"), Pronto and Federated's affiliate, the Automotive Parts Services Group or The Group, and Icahn Automotive Group LLC (doing business as Pep Boys, Auto Plus, AAMCO and Precision Tune Auto Care).
- *Original equipment manufacturers and original equipment service part operations*, such as General Motors Co., FCA US LLC (formerly known as Chrysler Group LLC), Ford Motor Co., Woodward, Inc. and Red Dot Corporation.

Our five largest individual customers accounted for approximately 69% of our consolidated net sales in 2019, and approximately 70% of our consolidated net sales in 2018 and 2017. During 2019, O'Reilly, Advance, NAPA, and AutoZone accounted for 22%, 16%, 15% and 11% of our consolidated net sales, respectively. Net sales from each of these customers were reported in both our Engine Management and Temperature Control Segments.

Competition

We compete primarily on the basis of product quality, product availability, value-added services, product coverage, order turn-around time, order fill rate, technical support and price. We believe we differentiate ourselves from our competitors primarily through:

- a value-added, knowledgeable sales force;
- extensive product coverage in conjunction with market leading brands;
- rigorous product qualification standards to ensure that our parts meet or exceed exacting performance specifications;
- sophisticated parts cataloging systems, including catalogs available online through our website and our mobile application;
- inventory levels and logistical systems sufficient to meet the rapid delivery requirements of customers;
- breadth of manufacturing capabilities; and
- award-winning marketing programs, sales support and technical training.

We are one of the leading independent manufacturers and distributors serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. In the Engine Management Segment, we compete with: ACDelco, Delphi Technologies PLC, Denso Corporation, Continental AG, Hitachi, Ltd., Motorcraft, Robert Bosch GmbH, Visteon Corporation, NGK Spark Plug Co., Ltd., Dorman Products, Inc. and several privately-owned companies primarily importing products from Asia. In the Temperature Control Segment, we compete with: ACDelco, MAHLE GmbH, Behr Hella Service GmbH, Denso Corporation, Motorcraft, Sanden International, Inc., Continental AG, Dorman Products, Inc., and several privately-owned companies.

The automotive aftermarket is highly competitive, and we face substantial competition in all markets that we serve. Our success in the marketplace depends on our ability to execute the key elements of our business strategy discussed above. Some of our competitors may have greater financial, marketing and other resources than we do. In addition, we face competition from automobile manufacturers who supply many of the replacement parts sold by us, although these manufacturers generally supply parts only for cars they sell through OE dealerships.

Sales and Distribution

In the aftermarket channel, we sell our products to warehouse distributors and retailers. Our customers buy directly from us and sell directly to jobber stores, professional technicians and to “do-it-yourselfers” who perform automotive repairs on their personal vehicles. In recent years, warehouse distributors have consolidated with other distributors, and an increasing number of distributors own their jobber stores or sell down channel to professional technicians. Retailers are also consolidating with other retailers and have begun to increase their efforts to sell to professional technicians adding additional competition in the “do-it-for-me,” or the professional technician segment of our industry. As automotive parts and systems become more complex, “do-it-yourselfers” are less likely to service their own vehicles and may become more reliant on professional technicians.

In the original equipment and original equipment service channel, we sell our products to original equipment manufacturers (“OEMs”) for use in the production of vehicles or for distribution within their network to independent dealerships and service dealer technicians. In addition to new car sales, automotive dealerships sell parts and service vehicles. We also sell our products to Tier 1 suppliers of OEMs.

In the heavy duty and industrial markets, we sell our products to warehouse distributors and retailers, who buy directly from us and sell directly to fleet operators for use in the maintenance of medium to heavy duty fleet vehicles and owners and operators of heavy duty and industrial equipment. We also sell our products to OEMs for use in production and service of medium to heavy duty vehicles as well as construction, agricultural and specialty vehicles and equipment.

We sell our products primarily in the United States, with additional sales in Canada, Europe, Asia, Mexico and other Latin American countries. Our sales are substantially denominated in U.S. dollars. For information on revenues and long-lived assets by geographic area, see Note 20 "Industry Segment and Geographic Data" of the Notes to Consolidated Financial Statements in Item 8 of this report.

Our sales force is structured to meet the needs of our customers across the distribution channel, allowing us to provide value-added services that we believe are unmatched by our competitors. We also believe that our sales force is the premier direct sales force for our product lines due to our concentration of highly-qualified, well-trained sales personnel. We focus our recruitment efforts on candidates who have technical backgrounds as well as strong sales experience, and we provide our sales personnel extensive instruction and continuing education at our training facility in Irving, Texas, which allows our sales force to stay current on troubleshooting and repair techniques. The continuing education courses along with monthly supplemental web-based training are an integral part of our sales force development strategy.

Our customers have come to depend on our sales personnel as a reliable source for technical information and to assist with sales to their customers (*e.g.*, jobber stores and professional technicians). In this manner, we direct a significant portion of our sales efforts to our customers' customers to generate demand for our products, and we believe that the structure of our sales force facilitates these efforts by enabling us to implement our sales and marketing programs uniformly throughout the distribution channel. One of the ways we generate this demand is through our training program, which offers training seminars to professional automotive technicians. Our training program is accredited by the National Institute for Automotive Service Excellence (ASE) Training Managers Council. Our seminars are taught by ASE certified instructors and feature in-person training seminars on more than 30 different topics and on-demand training webinars online on more than 150 different topics. Through our training program, we teach approximately 60,000 technicians annually how to diagnose and repair vehicles equipped with complex systems related to our products, and we have approximately 16,000 technicians who are registered to participate in such sessions through our online platform.

We offer a variety of strategic customer discounts, allowances and incentives to increase customer purchases of our products. For example, we offer cash discounts for paying invoices in accordance with the specified discounted terms of the invoice. We also offer rebates and discounts to customers as advertising and sales force allowances, and allowances for warranty and overstock returns are also provided. We believe these discounts, allowances and incentives are a common practice throughout the automotive aftermarket industry, and we intend to continue to offer them in response to competitive pressures and to strategically support the growth of all our products.

Seasonality

Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our temperature control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. For example, a warm summer, as we experienced in 2018, may increase the demand for our temperature control products, while a mild summer, as we experienced in 2017, may lessen such demand.

Working Capital and Inventory Management

Automotive aftermarket companies have been under increasing pressure to provide broad SKU (stock keeping unit) coverage due to parts and brand proliferation. In response to this, we have made, and continue to make, changes to our inventory management system designed to reduce inventory requirements. We have a pack-to-order distribution system, which permits us to retain slow moving items in a bulk storage state until an order for a specific branded part is received. This system reduces the volume of a given part in inventory. We also expanded our inventory management system to improve inventory deployment, enhance our collaboration with customers on forecasts and inventory assortments, and further integrate our supply chain both to customers and suppliers.

We face inventory management issues as a result of overstock returns. We permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. In addition, 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. We accrue for overstock returns as a percentage of sales after giving consideration to recent returns history.

Our profitability and working capital requirements are seasonal due to our 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.

Production and Engineering

An important component of our business strategy is to invest the resources necessary to expand our technical capabilities and bring more product manufacturing in-house. We engineer, tool and manufacture many of the products that we offer for sale and the components used in the assembly of those products, and we continue to evaluate opportunities to bring new product categories in-house. For example, we perform our own plastic molding operations, stamping and machining operations, wire extrusion, 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 air conditioning compressors, diesel injectors, and diesel pumps. We have found this level of vertical integration, in combination with our manufacturing footprint in low cost regions, provides advantages in terms of cost, quality and availability.

Suppliers

We source materials through a global network of suppliers to ensure a consistent, high quality and low cost supply of materials and key components for our product lines. As a result of the breadth of our product offering, we are not dependent on any single raw material.

The principal raw materials purchased by us consist of brass, electronic components, fabricated copper (primarily in the form of magnet and insulated cable), steel magnets, laminations, tubes and shafts, stamped steel parts, copper wire, stainless steel coils and rods, aluminum coils, fittings, rods, cast aluminum parts, lead, steel roller bearings, rubber molding compound, thermo-set and thermo plastic molding powders, and chemicals. Additionally, we use components and cores (used parts) in our remanufacturing processes for air conditioning compressors, diesel injectors, diesel pumps, and turbo chargers.

In the case of cores for air conditioning compressors, diesel injectors, diesel pumps, and turbo chargers, we obtain them either from exchanges with customers who return cores subsequent to purchasing remanufactured parts or through direct purchases from a network of core brokers. In addition, we acquire certain materials by purchasing products that are resold into the market, particularly by OEM sources and other domestic and foreign suppliers.

We believe there is an adequate supply of primary raw materials and cores; however, there can be no assurance over the long term that the availability of materials and components or increases in commodity prices will not materially affect our business or results of operations.

Employees

As of December 31, 2019, we employed approximately 4,200 people, with 1,800 people in the United States and 2,400 people in Mexico, Canada, Poland, the U.K., Hong Kong and Taiwan. Of the 4,200 people employed, approximately 2,200 people are production employees. We operate primarily in non-union facilities and have binding labor agreements with employees at other unionized facilities. We have approximately 76 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 in August 2022. We also have approximately 1,200 employees in Mexico who are covered under union agreements negotiated at various intervals. For clarification, the employee numbers described above exclude the employees of our joint venture operations.

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. Our employees share our corporate values of ethics, integrity, common decency and respect of others, values which have been established since our company was founded.

Available Information

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 provide a link to reports that we have filed with the SEC. 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. These reports and other information are also available, free of charge, at *www.sec.gov.*

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business and results of operations. If any of the stated risks actually occur, they could materially and adversely affect our business, financial condition or operating results.

Risks Related to Our Operations

We depend on a limited number of key customers, and the loss of any such customer, or a significant reduction in purchases by such customer, could have a material adverse effect on our business, financial condition and results of operations.

Our five largest individual customers accounted for approximately 69% of our consolidated net sales in 2019, and approximately 70% of our consolidated net sales in 2018 and 2017. During 2019, O'Reilly, Advance, NAPA, and AutoZone accounted for 22%, 16%, 15% and 11% of our consolidated net sales, respectively. The loss of one or more of these customers or, a significant reduction in purchases of our products from any one of them, could have a materially adverse impact on our business, financial condition and results of operations. In addition, any consolidation among our key customers may further increase our customer concentration risk.

Also, we do not typically enter into long-term agreements with any of our customers. Instead, we enter into a number of purchase order commitments with our customers, based on their current or projected needs. We have in the past, and may in the future, lose customers or lose a particular product line of a customer due to the highly competitive conditions in the automotive aftermarket industry, including pricing pressures, consolidation of customers, customer initiatives to buy direct from foreign suppliers or other business considerations. A decision by any significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to materially decrease the amount of products purchased from us, to change their manner of doing business with us, or to stop doing business with us, including a decision to source products directly from a low cost region such as Asia, could have a material adverse effect on our business, financial condition and results of operations.

Because our sales are concentrated, and the market in which we operate is very competitive, we are under ongoing pressure from our customers to offer lower prices, extend payment terms, increase marketing allowances and other terms more favorable to these customers. These customer demands have put continued pressure on our operating margins and profitability, resulted in periodic contract renegotiation to provide more favorable prices and terms to these customers, and significantly increased our working capital needs.

Our industry is highly competitive, and our success depends on our ability to compete with suppliers of automotive aftermarket products, some of which may have substantially greater financial, marketing and other resources than we do.

The automotive aftermarket industry is highly competitive, and our success depends on our ability to compete with domestic and international suppliers of automotive aftermarket products. In the Engine Management Segment, we compete with: ACDelco, Delphi Technologies PLC, Denso Corporation, Continental AG, Hitachi, Ltd., Motorcraft, Robert Bosch GmbH, Visteon Corporation, NGK Spark Plug Co., LTD., Dorman Products, Inc. and several privately-owned companies primarily importing products from Asia. In the Temperature Control Segment, we compete with: ACDelco, MAHLE GmbH, Behr Hella Service GmbH, Denso Corporation, Motorcraft, Sanden International, Inc., Continental AG, Dorman Products, Inc., and several privately-owned companies. In addition, automobile manufacturers supply many of the replacement parts we sell.

Some of our competitors may have larger customer bases and significantly greater financial, technical and marketing resources than we do. These factors may allow our competitors to:

- respond more quickly than we can to new or emerging technologies and changes in customer requirements by devoting greater resources than we can to the development, promotion and sale of automotive aftermarket products and services;
- engage in more extensive research and development;
- sell products at a lower price than we do;
- undertake more extensive marketing campaigns; and
- make more attractive offers to existing and potential customers and strategic partners.

We cannot assure you that our competitors will not develop products or services that are equal or superior to our products or that achieve greater market acceptance than our products or that in the future other companies involved in the automotive aftermarket industry will not expand their operations into product lines produced and sold by us. We also cannot assure you that additional entrants will not enter the automotive aftermarket industry or that companies in the aftermarket industry will not consolidate. Any such competitive pressures could cause us to lose market share or could result in significant price decreases and could have a material adverse effect upon our business, financial condition and results of operations.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure. This is the result of a number of industry trends, including the impact of offshore suppliers in the marketplace (particularly in China) which do not have the same infrastructure costs as we do, the consolidated purchasing power of large customers, and actions taken by some of our competitors in an effort to ‘‘win over’’ new business. We have in the past reduced prices to remain competitive and may have to do so again in the future. Price reductions have impacted our sales and profit margins and are expected to do so in the future. Our future profitability will depend in part upon our ability to respond to changes in product and distribution channel mix, to continue to improve our manufacturing efficiencies, to generate cost reductions, including reductions in the cost of components purchased from outside suppliers, and to maintain a cost structure that will enable us to offer competitive prices. Our inability to maintain a competitive cost structure could have a material adverse effect on our business, financial condition and results of operations.

Our business is seasonal and is subject to substantial quarterly fluctuations, which impact our quarterly performance and working capital requirements.

Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and with revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. For example, a warm summer, as we experienced in 2018, may increase the demand for our temperature control products, while a mild summer, as we experienced in 2017, may lessen 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.

We may incur material losses and significant costs as a result of warranty-related returns by our customers in excess of anticipated amounts.

Our products are required to meet rigorous standards imposed by our customers and our industry. 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, failure to meet industry published specifications and/or the result of installation error. In the event that there are material deficiencies or defects in the design and manufacture of our products and/or installation error, the affected products may be subject to warranty returns and/or product recalls. Although we maintain a comprehensive quality control program, we cannot give any assurance that our products will not suffer from defects or other deficiencies or that we will not experience material warranty returns or product recalls in the future.

We accrue for warranty returns as a percentage of sales, after giving consideration to recent historical returns. While we believe that we make reasonable estimates for warranty returns in accordance with our revenue recognition policies, actual returns may differ from our estimates. We have in the past incurred, and may in the future incur, material losses and significant costs as a result of our customers returning products to us for warranty-related issues in excess of anticipated amounts. Deficiencies or defects in our products in the future may result in warranty returns and product recalls in excess of anticipated amounts and may have a material adverse effect on our business, financial condition and results of operations.

Our profitability may be materially adversely affected as a result of overstock inventory-related returns by our customers in excess of anticipated amounts.

We permit overstock returns of inventory that may be either new or non-defective or non-obsolete but that we believe we can re-sell. Customers are generally limited to returning overstocked inventory according to a specified percentage of their annual purchases from us. In addition, a customer’s annual allowance cannot be carried forward to the upcoming year.

We accrue for overstock returns as a percentage of sales, after giving consideration to recent historical returns. While we believe that we make reasonable estimates for overstock returns in accordance with our revenue recognition policies, actual returns may differ from our estimates. To the extent that overstocked returns are materially in excess of our projections, our business, financial condition and results of operations may be materially adversely affected.

We may be materially adversely affected by asbestos claims arising from products sold by our former brake business, as well as by other product liability claims.

In 1986, we acquired a brake business, which we subsequently sold in March 1998. 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 after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001, and the amounts paid for settlements, awards of asbestos-related damages, and defense of such claims. We do not have insurance coverage for the indemnity and defense costs associated with the claims we face.

At December 31, 2019, approximately 1,550 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2019, the amounts paid for settled claims are approximately $30.9 million. During 2018, we were a defendant in an asbestos liability case in California, in which we were found liable for $7.6 million in compensatory damages. We are pursuing all rights of appeal of this case. A substantial increase in the number of new claims, or increased settlement payments, or awards of asbestos-related damages, as well as additional findings in the California case, could have a material adverse effect on our business, financial condition and results of operations.

In accordance with our policy to perform an annual actuarial evaluation in the third quarter of each year, and whenever events or changes in circumstances indicate that additional provisions may be necessary, an actuarial study was performed as of August 31, 2019. Based upon the results of the August 31, 2019 actuarial study, we increased our asbestos liability to $52 million, the low end of the range, and recorded an incremental pre-tax provision of $9.7 million in earnings (loss) from discontinued operations in the accompanying statement of operations. The results of the August 31, 2019 study included an estimate of our undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs and any potential recovery from insurance carriers ranging from $52 million to $90.6 million for the period through 2064. Future legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations, are estimated, according to the study, to range from $50.6 million to $85.2 million.

Given the uncertainties associated with projecting asbestos-related matters into the future and other factors outside our control, we cannot give any assurance that significant increases in the number of claims filed against us will not occur, that awards of asbestos-related damages or settlement awards will not exceed the amount we have in reserve, or that additional provisions will not be required. Management will continue to monitor the circumstances surrounding these potential liabilities in determining whether additional reserves and provisions may be necessary. We plan on performing an annual actuarial analysis during the third quarter of each year for the foreseeable future, and whenever events or changes in circumstances indicate that additional provisions may be necessary.

In addition to asbestos-related claims, our product sales entail the risk of involvement in other product liability actions. We maintain product liability insurance coverage, but we cannot give any assurance that current or future policy limits will be sufficient to cover all possible liabilities. Further, we can give no assurance that adequate product liability insurance will continue to be available to us in the future or that such insurance may be maintained at a reasonable cost to us. In the event of a successful product liability claim against us, a lack or insufficiency of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to achieve the benefits that we expect from our cost savings initiatives.

We expect to realize cost savings as a result of various recently completed initiatives, including the closing of our Grapevine, Texas facility; the closing of our recently acquired wire set assembly operation in Nogales, Mexico; the closing of our Orlando, Florida facility; and the moving of production to our domestic and international facilities in Mexico and Poland. Due to factors outside our control, such as the adoption or modification of domestic and foreign laws, regulations or policies, we may not be able to achieve the level of benefits that we expect to realize in these initiatives, or we may not be able to realize these benefits within the time frames we currently expect. Our ability to achieve any anticipated cost savings could be affected by a number of factors such as changes in the amount, timing and character of charges related to such initiatives, or a substantial delay in the completion of such initiatives. Failure to achieve the benefits of our cost saving initiatives could have a material adverse effect on us. Our cost savings is also predicated upon maintaining our sales levels.

Severe weather, natural disasters and other disruptions could adversely impact our operations at our manufacturing and distribution facilities.

Severe weather conditions and natural disasters, such as hurricanes, floods and tornados, could damage our properties and effect our operations, particularly our major manufacturing and distribution operations at foreign facilities in Canada, Mexico and Poland, and at our domestic facilities in Florida, Indiana, Kansas, South Carolina, Texas, and Virginia. In addition, our business and operations could be materially adversely affected in the event of other serious disruptions at these facilities due to fire, electrical blackouts, power losses, telecommunications failures, terrorist attack or similar events. Any of these occurrences could impair our ability to adequately manufacture or supply our customers due to all or a significant portion of our equipment or inventory being damaged. We may not be able to effectively shift the manufacture or delivery of products to our customers if one or more of our manufacturing or distribution facilities are significantly disrupted.

Our operations would be materially and adversely affected if we are unable to purchase raw materials, manufactured components or equipment from our suppliers.

Because we purchase various types of raw materials, finished goods, equipment, and component parts from suppliers, we may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. Our suppliers' ability to supply products to us is also subject to a number of risks, including the availability and cost of raw materials, the destruction of their facilities, or work stoppages, or other limitations on their business operations, which could be caused by any number of factors, such as labor disruptions, financial distress, severe weather conditions and natural disasters, social unrest, economic and political instability, and public health crises, including the occurrence of a contagious disease or illness, such as the novel coronavirus, war, terrorism or other catastrophic events. In addition, our failure to promptly pay, or order sufficient quantities of inventory from our suppliers may increase the cost of products we purchase or may lead to suppliers refusing to sell products to us at all. Our efforts to protect against and to minimize these risks may not always be effective.

Our operations could be adversely affected by interruptions or breaches in the security of our computer and information technology systems.

We rely on information technology systems throughout our organization to conduct day-to-day business operations, including the management of our supply chain and our purchasing, receiving and distribution functions. We also routinely use our information technology systems to send, receive, store, access and use sensitive data relating to our Company and its employees, customers, suppliers, and business partners, including intellectual property, proprietary business information, and other sensitive materials. Our information technology systems have been subject to cyber threats, including attempts to hack into our network and computer viruses. Such hacking attempts and computer viruses have not significantly impacted or interrupted our business operations. While we implement security measures designed to prevent and mitigate the risk of cyber attacks, our information technology systems, and the systems of our customers, suppliers and business partners, may continue to be vulnerable to computer viruses, attacks by hackers, or unauthorized access caused by employee error or malfeasance. The exploitation of any such vulnerability could unexpectedly compromise our information security, or the security of our customers, suppliers and other business partners. Furthermore, because the techniques used to carry out cyber attacks change frequently and in many instances are not recognized until after they are used against a target, we may be unable to anticipate these changes or implement adequate preventative measures. If our information technology systems, or the systems of our customers, suppliers or business partners, are subject to cyber attacks, such as those involving significant or extensive system interruptions, sabotage, computer viruses or unauthorized access, we could experience disruptions to our business operations and incur substantial remediation costs, which could have a material adverse effect on our business, financial condition or results of operations.

Failure to maintain the value of our brands could have an adverse effect on our reputation, cause us to incur significant costs and negatively impact our business.

Our brands are an important component of our value proposition, and serve to distinguish our premium engine management and temperature control products from those of our competitors. We believe that our success depends, in part, on maintaining and enhancing the value of our brands and executing our brand strategies, which are designed to drive end-user demand for our products and make us a valued business partner to our customers through the support of their marketing initiatives. A decline in the reputation of our brands as a result of events, such as deficiencies or defects in the design or manufacture of our products, or from legal proceedings, product recalls or warranty claims resulting from such deficiencies or defects, may harm our reputation as a manufacturer and distributor of premium automotive parts, reduce demand for our products and adversely affect our business.

Risks Related to Liquidity

We are exposed to risks related to our receivables supply chain financing arrangements.

We are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable without recourse to such customers' financial institutions. To the extent that these arrangements are terminated, our financial condition, results of operations, cash flows and liquidity could be adversely affected by extended payment terms, delays or failures in collecting trade accounts receivables. The utility of the supply chain financing arrangements also depends upon the LIBOR rate, as it is a component of the discount rate applicable to each arrangement. If the LIBOR rate increases significantly, we may be negatively impacted as we may not be able to pass these added costs on to our customers, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

Increasing our indebtedness could negatively affect our financial health.

We have an existing revolving bank credit facility of $250 million with JPMorgan Chase Bank, N.A., as agent, and a syndicate of lenders, which we refer to throughout this Report as our revolving credit facility. As of December 31, 2019, our total outstanding indebtedness was $57 million, of which amount $52.5 million of outstanding indebtedness and approximately $194.3 million of availability was attributable to this revolving credit facility. Any significant increase in our indebtedness could increase our vulnerability to general adverse economic and industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

In addition, we have granted the lenders under our revolving credit facility a first priority security interest in substantially all of our assets, including accounts receivable, inventory and certain fixed assets, and those of certain of our subsidiaries. We have also pledged shares of stock in our subsidiaries to those lenders. If we default on any of our indebtedness, or if we are unable to obtain necessary liquidity, our business could be adversely affected.

We may not be able to generate the significant amount of cash needed to service our indebtedness and fund our future operations.

Our ability either to make payments on or to refinance our indebtedness, or to fund planned capital expenditures and research and development efforts, will depend on our ability to generate cash in the future. Our ability to generate cash is in part subject to:

- general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control;
- the ability of our customers to pay timely the amounts we have billed; and
- our ability to sell receivables under supply chain financing arrangements.

The occurrence of any of the foregoing factors could result in reduced cash flow, which could have a material adverse effect on us.

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our revolving credit facility will be adequate to meet our future liquidity needs for at least the next twelve months. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as:

- deferring, reducing or eliminating future cash dividends;
- reducing or delaying capital expenditures or restructuring activities;
- reducing or delaying research and development efforts;
- selling assets;
- deferring or refraining from pursuing certain strategic initiatives and acquisitions;
- refinancing our indebtedness; and
- seeking additional funding.

We cannot assure you that, if material adverse developments in our business, liquidity or capital requirements should occur, our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our revolving credit facility in amounts sufficient to enable us to pay the principal and interest on our indebtedness, or to fund our other liquidity needs. In addition, if we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected.

The proposed phase-out of the London Interbank Offered Rate (LIBOR) could materially impact our borrowing costs under our secured revolving credit facility or the utility of our supply chain financing arrangements.

Our secured revolving credit facility and certain of our supply chain financing arrangements utilize LIBOR for the purpose of determining the interest rate on certain borrowings or the discount rate on the sale of trade accounts receivable, respectively. In July 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that, after the end of 2021, it would no longer compel contributing banks to make rate submissions for the purposes of setting LIBOR. As a result, it is possible that commencing in 2022, LIBOR may cease to be available or may cease to be deemed an appropriate reference rate, and we may need to amend our credit agreement and supply chain financing arrangements to utilize an alternative reference rate based on the then prevailing market convention at the time. Although we do not believe that the proposed phase-out of LIBOR will materially impact our business, financial condition or results of operations, we can provide no assurances that any such alternative reference rate will be similar to LIBOR, or produce the same value or economic equivalence of LIBOR, or have the same volume or liquidity as LIBOR prior to its discontinuance.

Risks Related to External Factors

We conduct our manufacturing and distribution operations on a worldwide basis and are subject to risks associated with doing business outside the United States.

We have manufacturing and distribution facilities in many countries, including Canada, Poland, Mexico and China, and increasing our manufacturing footprint in low cost regions is an important element of our strategy. There are a number of risks associated with doing business internationally, including: (a) exposure to local economic and political conditions; (b) social unrest such as risks of terrorism or other hostilities; (c) currency exchange rate fluctuations and currency controls; (d) the effect of potential changes in U.S. trade policy and international trade agreements; and (e) the potential for shortages of trained labor.

In particular, there has been social unrest in Hong Kong and Mexico and any increased violence in or around our facilities in such countries could be disruptive to our business operations at such facilities, or present risks to our employees who may be directly affected by the violence and may result in a decision by them to relocate from the area, or make it difficult for us to recruit or retain talented employees at such facilities.

Furthermore, changes in U.S. trade policy, particularly as it relates to China, have resulted in the assessment of increased tariffs on goods that we import into the United States, and have caused uncertainty about the future of free trade generally. We benefit from free trade agreements, such as the North American Free Trade Agreement (NAFTA) and its successor agreement, the U.S.-Mexico-Canada Agreement (USMCA). The repeal or modification of NAFTA or the USMCA or further increases to tariffs on goods imported into the United States could increase our costs to source materials, component parts and finished goods from other countries. The likelihood of such occurrences and their potential effect on us is unpredictable and may vary from country to country. Any such occurrences could be harmful to our business and our financial results.

We may incur liabilities under government regulations and environmental laws, which may have a material adverse effect on our business, financial condition and results of operations.

Domestic and foreign political developments and government regulations and policies directly affect automotive consumer products in the United States and abroad. Regulations and policies relating to over-the-highway vehicles include standards established by the United States Department of Transportation for motor vehicle safety and emissions. The modification of existing laws, regulations or policies, or the adoption of new laws, regulations or policies could have a material adverse effect on our business, financial condition and results of operations.

Our operations and properties are subject to a wide variety of increasingly complex and stringent federal, state, local and international laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of materials, substances and wastes, the remediation of contaminated soil and groundwater and the health and safety of employees. Such environmental laws, including but not limited to those under the Comprehensive Environmental Response Compensation & Liability Act, may impose joint and several liability and may apply to conditions at properties presently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors have been sent or otherwise come to be located.

The nature of our operations exposes us to the risk of claims with respect to such matters, and we can give no assurance that violations of such laws have not occurred or will not occur or that material costs or liabilities will not be incurred in connection with such claims. We are currently monitoring our environmental remediation efforts at one of our facilities and our reserve balance related to the environmental clean-up at this facility is $1.7 million at December 31, 2019. The environmental testing and any remediation costs at such facility may be covered by several insurance policies, although we can give no assurance that our insurance will cover any environmental remediation claims. We also maintain insurance to cover our existing U.S. and Canadian facilities. We can give no assurance that the future cost of compliance with existing environmental laws and the liability for known environmental claims pursuant to such environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. In addition, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

Our future performance may be materially adversely affected by changes in technologies and improvements in the quality of new vehicle parts.

Changes in automotive technologies, such as vehicles powered by fuel cells or electricity, could negatively affect sales to our aftermarket customers. These factors could result in less demand for our products thereby causing a decline in our results of operations or deterioration in our business and financial condition and may have a material adverse effect on our long-term performance.

In addition, the size of the automobile replacement parts market depends, in part, upon the growth in number of vehicles on the road, increase in average vehicle age, change in total miles driven per year, new or modified environmental and vehicle safety regulations, including fuel-efficiency and emissions reduction standards, increase in pricing of new cars and new car quality and related warranties. The automobile replacement parts market has been negatively impacted by the fact that the quality of more recent automotive vehicles and their component parts (and related warranties) has improved, thereby lengthening the repair cycle. Generally, if parts last longer, there will be less demand for our products and the average useful life of automobile parts has been steadily increasing in recent years due to innovations in products and technology. In addition, the introduction by original equipment manufacturers of increased warranty and maintenance initiatives has the potential to decrease the demand for our products. When proper maintenance and repair procedures are followed, newer air conditioning (A/C) systems in particular are less prone to leak resulting in fewer A/C system repairs. These factors could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We maintain our executive offices in Long Island City, New York. The table below describes our principal facilities as of December 31, 2019.

Location	State or Country	Principal Business Activity	Approx. Square Feet	Owned or Expiration Date of Lease
		Engine Management		
Ft. Lauderdale	FL	Distribution	23,300	Owned
Ft. Lauderdale	FL	Distribution	30,000	Owned
Mishawaka	IN	Manufacturing	153,100	Owned
Edwardsville	KS	Distribution	363,500	Owned
Independence	KS	Manufacturing	337,400	Owned
Long Island City	NY	Administration	75,800	2023
Greenville	SC	Manufacturing	184,500	Owned
Disputanta	VA	Distribution	411,000	Owned
Reynosa	Mexico	Manufacturing	175,000	2025
Reynosa	Mexico	Manufacturing	153,000	2023
Bialystok	Poland	Manufacturing	108,300	2022
		Temperature Control		
Lewisville	TX	Administration and Distribution	415,000	2024
St. Thomas	Canada	Manufacturing	40,000	Owned
Reynosa	Mexico	Manufacturing	82,000	2024
Reynosa	Mexico	Manufacturing	118,000	2021
		Other		
Mississauga	Canada	Administration and Distribution	82,400	2023
Irving	TX	Training Center	13,400	2021

ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is incorporated herein by reference to the information set forth in Item 8, "Financial Statements and Supplementary Data" of this Report under the captions "Asbestos" and "Other Litigation" appearing in Note 22, "Commitments and Contingencies" of the Notes to Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

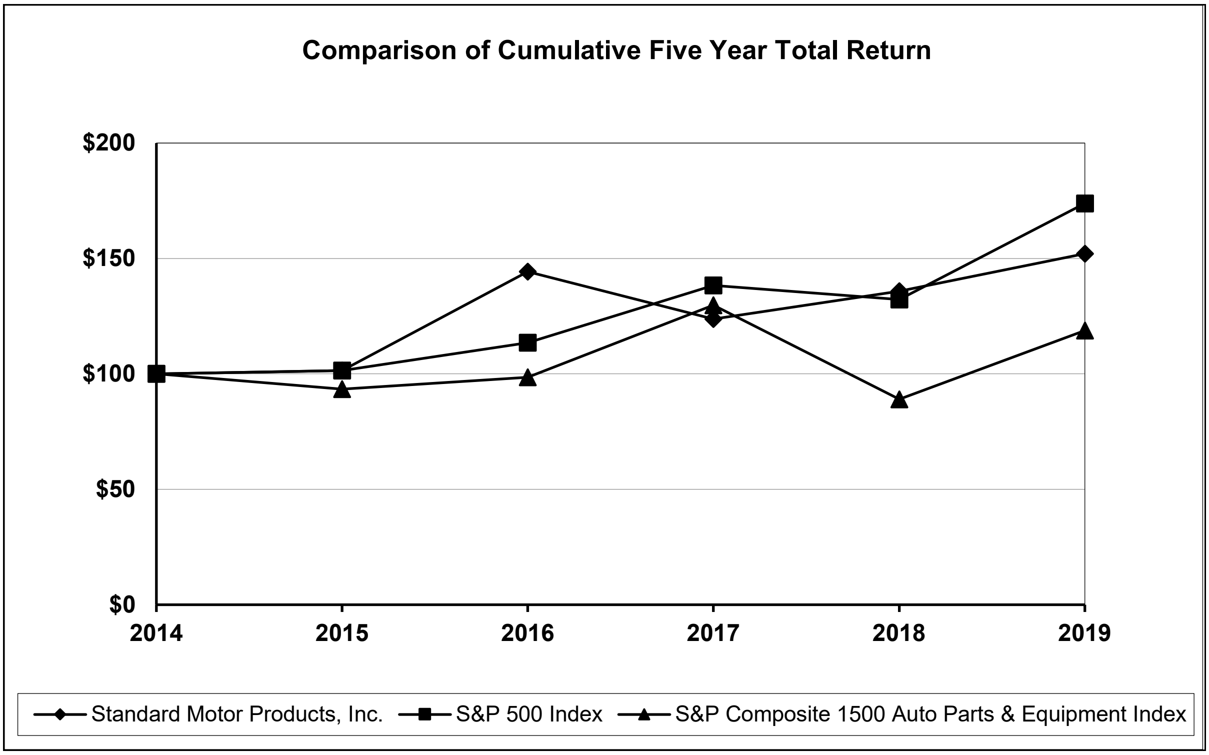
Our common stock trades publicly on the New York Stock Exchange ("NYSE") under the trading symbol "SMP." The last reported sale price of our common stock on the NYSE on February 18, 2020 was $50.59 per share. As of February 18, 2020, there were 445 holders of record of our common stock.

Dividends are declared and paid on the common stock at the discretion of our Board of Directors (the "Board") and depend on our profitability, financial condition, capital needs, future prospects, and other factors deemed relevant by our Board. Our revolving credit facility permits dividends and distributions by us provided specific conditions are met. For information related to our revolving credit facility, see Note 12, "Credit Facilities and Long-Term Debt," of the Notes to Consolidated Financial Statements in Item 8 of this Report.

There have been no unregistered offerings of our common stock during the fourth quarter of 2019.

Stock Performance Graph

The following graph compares the five year cumulative total return on the Company's Common Stock to the total returns on the Standard & Poor's 500 Stock Index and the S&P 1500 Auto Parts & Equipment Index, which is a combination of automotive parts and equipment companies within the S&P 400, the S&P 500 and the S&P 600. The graph shows the change in value of a $100 investment in the Company's Common Stock and each of the above indices on December 31, 2014 and the reinvestment of all dividends. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's Common Stock or the referenced indices.



	SMP	S&P 500	S&P 1500 Auto Parts & Equipment Index
2014	100	100	100
2015	101	101	93
2016	144	114	99
2017	124	138	130
2018	136	132	89
2019	152	174	119

*** Source: S&P Capital IQ**

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the five years ended December 31, 2019. 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. Certain prior period amounts have been reclassified to conform to the 2019 presentation.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Statement of Operations Data:					
Net sales	$ 1,137,913	$ 1,092,051	$ 1,116,143	$ 1,058,482	$ 971,975
Gross profit	331,800	312,787	326,656	322,487	280,988
Operating income (1)	94,495	81,268	97,521	98,789	79,764
Earnings from continuing operations (2)	69,051	56,854	43,630	62,412	48,120
Loss from discontinued operations, net of income tax benefit (3)	(11,134)	(13,851)	(5,654)	(1,982)	(2,102)
Net earnings (2) (3)	57,917	43,003	37,976	60,430	46,018
Per Share Data:					
Earnings from continuing operations (2):					
Basic	$ 3.09	$ 2.53	$ 1.92	$ 2.75	$ 2.11
Diluted	3.03	2.48	1.88	2.70	2.08
Earnings per common share (2) (3):					
Basic	2.59	1.91	1.67	2.66	2.02
Diluted	2.54	1.88	1.64	2.62	1.99
Cash dividends per common share	0.92	0.84	0.76	0.68	0.60
Other Data:					
Depreciation and amortization	$ 25,809	$ 24,104	$ 23,916	$ 20,457	$ 17,637
Capital expenditures	16,185	20,141	24,442	20,921	18,047
Dividends	20,593	18,854	17,287	15,447	13,697
Cash Flows Provided By (Used In):					
Operating activities	$ 76,928	$ 70,258	$ 64,617	$ 97,805	$ 65,171
Investing activities	(54,812)	(29,886)	(31,228)	(88,018)	(18,011)
Financing activities	(23,378)	(46,121)	(35,944)	(7,756)	(41,155)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 10,372	$ 11,138	$ 17,323	$ 19,796	$ 18,800
Working capital	239,969	233,638	210,194	190,380	195,198
Total assets (4)	912,730	843,132	787,567	768,697	681,064
Total debt	57,045	49,219	61,778	54,975	47,505
Long-term debt (excluding current portion)	129	153	79	120	62
Stockholders' equity	504,228	467,201	453,654	441,028	391,979

Notes to Selected Financial Data

(1) On January 1, 2018, we adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Pursuant to the adoption, net periodic benefit cost (credit) for the years ended December 31, 2017, 2016, and 2015 has been reclassified from selling, general and administrative expenses to other non-operating income (expense), net.

(2) During 2017, we recorded an increase of $17.5 million to the provision for income taxes resulting from the remeasurement of our deferred tax assets, and the tax on deemed repatriated earnings of our foreign subsidiaries as a result of the enactment of the Tax Cuts and Jobs Act.

(3) We recorded an after tax charge of $11.1 million, $13.9 million, $5.7 million, $2 million, and $2.1 million as loss from discontinued operations to account for legal expenses and potential costs associated with our asbestos-related liability for the years ended December 31, 2019, 2018, 2017, 2016 and 2015, respectively. Such costs were also separately disclosed in the operating activity section of the consolidated statements of cash flows for those same years.

(4) As of January 1, 2019 we adopted ASU 2016-02, *Leases*, which resulted in the recording of operating lease right-of-use assets and operating lease liabilities on our consolidated balance sheet. For information related to our adoption of ASU 2016-02, see Note 1 “Summary of Significant Accounting Policies” and Note 2 “Leases” of the notes to our consolidated financial statements.

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

The following discussion should be read in conjunction with our consolidated 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, 2019.

Overview

We are a leading independent manufacturer and distributor of premium replacement parts for the engine management and temperature control systems of motor vehicles in the automotive aftermarket industry with a complementary focus on the heavy duty, industrial equipment and original equipment markets.

We are organized into two operating segments. Each segment focuses on providing our customers with full-line coverage of its products, and a full suite of complimentary services that are tailored to our customers' business needs and driving end-user demand for our products. We sell our products primarily to automotive aftermarket retailers, program distribution groups, warehouse distributors, original equipment manufacturers and original equipment service part operations in the United States, Canada, Europe, Asia, Mexico and other Latin American countries.

Our Business Strategy

Our mission is to be the best full-line, full-service supplier of premium engine management and temperature control products.

The key elements of our strategy are as follows:

- *Maintain Our Strong Competitive Position in our Engine Management and Temperature Control Businesses.* We are a leading independent manufacturer and distributor 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 import vehicles, and our reputation for outstanding value-added services.

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

  - providing our customers with full-line coverage of high quality engine management and temperature control products, supported by the highest level of value-added services;
  - continuing to maximize our production, supply chain and distribution efficiencies;
  - continuing to improve our cost position through increased global sourcing, increased manufacturing at our low-cost plants, and strategic transactions with manufacturers in low-cost regions; and
  - focusing on our engineering development efforts including a focus on bringing more product manufacturing in-house.

- *Provide Superior Value-Added Services and Product Availability.* 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 offering a product portfolio that provides comprehensive coverage for all vehicle applications. In addition, our marketing support provides insightful customer category management, technical support and award-winning programs, and our technically skilled sales personnel provide our customers with product selection, assortment and application support, and technical training on diagnosing and repairing vehicles equipped with complex systems related to our products.

- *Expand Our Product Lines*. We intend to increase our sales by continuing to develop internally, or through potential acquisitions, 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 product lines that incorporate the latest technologies, including product lines relating to safety, advanced driver assistance and collision avoidance systems.
- *Broaden Our Customer Base*. Our goal is to increase our customer base by (a) leveraging our manufacturing capabilities to secure additional business globally with original equipment vehicle and equipment manufacturers and their service part operations, as well as our existing customer base of large retailers, program distribution groups, warehouse distributors, other manufacturers and export customers, and (b) supporting the service part operations of vehicle and equipment manufacturers with value-added services and product support for the life of the part.
- *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 intend to continue to improve our operating efficiency and cost position by:

  - increasing cost-effective vertical integration in key product lines through internal development;
  - focusing on integrated supply chain management, customer collaboration and vendor managed inventory initiatives;
  - evaluating additional opportunities to relocate manufacturing to our low-cost plants;
  - maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain materials and products from low cost regions such as those in Asia without compromising product quality;
  - enhancing company-wide programs geared toward manufacturing and distribution efficiency; and
  - focusing on company-wide overhead and operating expense cost reduction programs.
- *Cash Utilization*. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, expand our product lines by investing in new tooling and equipment, grow revenues through potential acquisitions and repurchase shares of our common stock.

The Automotive Aftermarket

The automotive aftermarket industry is comprised of a large number of diverse manufacturers varying in product specialization and size. In addition to manufacturing, aftermarket companies must allocate resources towards an efficient distribution process in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes, and must distribute, with rapid turnaround times, products for nearly all domestic and import vehicles on the road today.

The automotive aftermarket replacement parts business differs substantially from the OEM parts business. Unlike the OEM parts business that primarily follows trends in new car production, the automotive aftermarket replacement parts business primarily tends to follow different trends, such as:

- the number of vehicles on the road;
- the average age of vehicles on the road; and
- the total number of miles driven per year.

Seasonality. Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. For example, a warm summer, as we experienced in 2018, may increase the demand for our temperature control products, while a mild summer, as we experienced in 2017, may lessen such demand. As a result of this seasonality and variability in demand of our Temperature Control products, our working capital requirements typically peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowing from our revolving credit facility.

Inventory Management. We face inventory management issues as a result of overstock returns. We permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. In addition, 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. We accrue for overstock returns as a percentage of sales after giving consideration to recent returns history.

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

Impact of Changes in U.S. Trade Policy

Changes in U.S. trade policy, particularly as it relates to China, as with much of our industry, have resulted in the assessment of increased tariffs on goods that we import into the United States. Although our operating results in 2019 have been slightly impacted by the timing of Chinese sourced products, we have taken, and continue to take, several actions to mitigate the impact of the increased tariffs, including but not limited to, price increases to our customers. We do not anticipate that the increased tariffs will have a significant impact on our future operating results. Although we are confident that we will be able to pass along the impact of the increased tariffs to our customers, there can be no assurances that we will be able to pass on the entire increased costs imposed by the tariffs.

Comparison of Results of Operations For Fiscal Years 2019 and 2018

Sales. Consolidated net sales for 2019 were $1,137.9 million, an increase of $45.8 million, or 4.2%, compared to $1,092.1 million in the same period of 2018, with the majority of our net sales to customers located in the United States. Consolidated net sales increased in our Engine Management Segment and were essentially flat year-over-year in our Temperature Control Segment.

The following table summarizes consolidated net sales by segment and by major product group within each segment for the years ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31,	
	2019	**2018**
Engine Management:		
Ignition, Emission Control, Fuel & Safety Related System Products….	$ 705,994	$ 648,270
Wire and Cable….	143,167	155,217
Total Engine Management ….	849,161	803,487
Temperature Control:		
Compressors ….	160,485	148,416
Other Climate Control Parts….	117,870	130,040
Total Temperature Control ….	278,355	278,456
All Other….	10,397	10,108
Total ….	$ 1,137,913	$ 1,092,051

Engine Management's net sales increased $45.7 million, or 5.7%, to $849.2 million for the year ended December 31, 2019. Net sales in ignition, emission control, fuel and safety related system products for the year ended December 31, 2019 were $706 million, an increase of $57.7 million, or 8.9%, compared to $648.3 million in the same period of 2018. Net sales in the wire and cable product group for the year ended December 31, 2019 were $143.2 million, a decrease of $12 million, or 7.7%, compared to $155.2 million in the same period of 2018. Engine Management's increase in net sales for the year ended December 31, 2019 compared to the same period in 2018 primarily reflects the impact of incremental sales from our April 2019 acquisition of certain assets and liabilities of the Pollak business of Stoneridge, Inc., as well as pipeline orders from several customers, general price increases, tariff costs passed on to customers, and low single digit organic growth. Engine Management's year-over-year increase in net sales was offset, in part, by the general decline in our wire and cable business due to its product lifecycle. Incremental sales from our acquisition of the Pollak business of $28.2 million were included in the net sales of the ignition, emission control, fuel and safety related system products market from the date of acquisition through December 31, 2019. Compared to the year ended December 31, 2018, excluding the incremental net sales from the acquisition, net sales in the ignition, emission control, fuel and safety related system products market increased $29.5 million, or 4.6%, and Engine Management net sales increased $17.5 million, or 2.2%.

Temperature Control's net sales of $278.4 million for the year ended December 31, 2019 were essentially flat when compared to the same period in 2018. Net sales in the compressors product group for the year ended December 31, 2019 were $160.5 million, an increase of $12.1 million, or 8.1%, compared to $148.4 million in the same period of 2018. Net sales in the other climate control parts group for the year ended December 31, 2019 were $117.9 million, a decrease of $12.1 million, or 9.3%, compared to $130 million for the year ended December 31, 2018. Temperature Control's net sales for the year ending December 31, 2019 when compared to the same period in 2018, reflect the impact of (1) increased year-over-year net sales during the first six months of 2019 due to strong pre-season orders as customers rebuilt their inventory levels after a very strong 2018 selling season; (2) lower year-over-year net sales during the second half of 2019 as customer ordering patterns normalized in 2019 as compared to the same period in 2018, when customer orders strengthened in June and continued throughout the second half of 2018 after a slow start to the 2018 season; and (3) to a lesser extent incremental pricing for tariff costs passed on to customers. In addition, the decline in net sales in the other climate control parts product group results from the impact of the introduction of air conditioner repair kits, which are sold as a complete repair kit inclusive of the compressor and other climate control parts. These air conditioner repair kits are classified as sales under the compressor product group, resulting in a shift in reported sales from the other climate control parts product group into the compressor product group. Demand for our Temperature Control products may vary significantly with summer weather conditions and customer inventory levels.

Margins. Gross margins, as a percentage of consolidated net sales, increased to 29.2% for 2019, compared to 28.6% for 2018. The following table summarizes gross margins by segment for the years ended December 31, 2019 and 2018, respectively (in thousands):

Year Ended December 31,	Engine Management	Temperature Control	Other	Total
2019				
Net sales (a)	$ 849,161	$ 278,355	$ 10,397	$1,137,913
Gross margins	251,560	70,064	10,176	331,800
Gross margin percentage	29.6%	25.2%	—%	29.2%
2018				
Net sales (a)	$ 803,487	$ 278,456	$ 10,108	$1,092,051
Gross margins	229,949	70,561	12,277	312,787
Gross margin percentage	28.6%	25.3%	—%	28.6%

(a) Segment net sales include intersegment sales in our Engine Management and Temperature Control segments.

Compared to 2018, gross margins at Engine Management increased 1 percentage point from 28.6% to 29.6%, while gross margins at Temperature Control decreased 0.1 percentage point from 25.3% to 25.2%. The gross margin percentage increase in Engine Management compared to the prior year reflects our return to historical productivity in our Reynosa, Mexico wire plant after the lengthy integration of the General Cable wire business, a continued emphasis on cost reductions, as well as certain pricing actions, which more than offset the negative impact of tariff costs passed on to customers without any markup. The gross margin percentage decrease in Temperature Control compared to the prior year resulted primarily from the negative impact of tariffs passed on to customers without any markup.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") increased to $234.7 million, or 20.6% of consolidated net sales in 2019, as compared to $231.3 million, or 21.2% of consolidated net sales in 2018. The $3.4 million increase in SG&A expenses as compared to 2018 reflects the impact of (1) incremental expenses of $4.3 million from our acquisition of certain assets and liabilities of the Pollak business of Stoneridge, Inc., including amortization of intangible assets acquired; and (2) higher selling and marketing expenses, and other general and administrative costs, which were offset by lower distribution expenses primarily at Temperature Control and lower costs incurred related to our accounts receivable supply chain financing arrangements. Higher than usual distribution expenses at Temperature Control in 2018 were due to a combination of significant additional labor costs to meet the surge in sales in the third and fourth quarters of 2018, as well as start-up costs related to the installation of a new automation project in our distribution center. The automation project has yielded significant savings in 2019 compared to 2018.

Restructuring and Integration Expenses. Restructuring and integration expenses were $2.6 million in 2019 compared to restructuring and integration expenses of $4.5 million in 2018. Restructuring and integration expenses incurred in 2019 of $2.6 million consisted of $2.2 million of expenses related to relocation of certain inventory, machinery and equipment acquired in our April 2019 acquisition of the Pollak business of Stoneridge, Inc. to our existing facilities and the $0.4 million increase in environmental cleanup costs for the ongoing monitoring and remediation at our Long Island City, New York former manufacturing facility; while restructuring and integration expenses incurred in 2018 of $4.5 million consisted of $3.2 million of expenses related to the Plant Rationalization Program that commenced in February 2016, the Orlando Plant Rationalization Program that commenced in January 2017, and the wire and cable relocation program announced in October 2016, all of which were substantially completed as of December 31, 2018, and the $1.3 million increase in environmental cleanup costs for the ongoing monitoring and remediation in connection at our Long Island City, New York former manufacturing facility.

Other Income (Expense), Net. Other expense, net was $5,000 in 2019 compared to other income, net of $4.3 million in 2018. During the year ended December 31, 2018, we recognized a $3.9 million gain on the sale of our property located in Grapevine, Texas, and a $0.2 million deferred gain related to the sale-leaseback of our Long Island City, New York facility. The recognition of the deferred gain related to the sale-leaseback of our Long Island City, New York facility ended in the first quarter of 2018 upon the termination of the initial 10-year lease term for the facility.

Operating Income. Operating income was $94.5 million in 2019, compared to $81.3 million in 2018. The year-over-year increase in operating income of $13.2 million is the result of the impact of higher consolidated net sales, higher gross margins as a percentage of consolidated net sales, and lower restructuring and integration expenses offset, in part, by higher SG&A expenses and lower other income (expense), net.

Other Non-Operating Income (Expense), Net. Other non-operating income, net was $2.6 million in 2019, compared to other non-operating expense, net of $0.4 million in 2018. Included in other non-operating expense, net in 2018 is a noncash impairment charge of approximately $1.7 million related to our minority interest investment in Orange Electronics Co., Ltd. Excluding the year-over-year impact of the noncash impairment charge, the year-over-year increase in other non-operating income (expense), net of $1.3 million resulted primarily from the increase in year-over-year equity income from our joint ventures offset, in part, by the unfavorable impact of changes in foreign currency exchange rates.

Interest Expense. Interest expense was $5.3 million in 2019 compared to $4 million in 2018. The year-over-year increase in interest expense reflects the impact of both higher average outstanding borrowings during 2019 when compared to 2018, and the higher year-over-year average interest rates on our revolving credit facility. The higher year-over-year average outstanding borrowings during 2019 resulted primarily from the timing of the acquisition of the Pollak business of Stoneridge, Inc.

Income Tax Provision. The income tax provision for 2019 was $22.7 million at an effective tax rate of 24.8%, compared to $20 million at an effective tax rate of 26% in 2018. The lower effective tax rate in 2019 compared to 2018 results primarily from a change in the mix of U.S. and foreign income.

Loss from Discontinued Operations. Loss from discontinued operations, net of income tax, reflects information contained in the actuarial studies performed as of August 31, 2019, and as of August 31, 2018 (which was revised to reflect the events occurring through November 30, 2018), other information available and considered by us, and legal expenses and other costs associated with our asbestos-related liability. During the years ended December 31, 2019 and 2018, we recorded a net loss of $11.1 million and $13.9 million from discontinued operations, respectively. The loss from discontinued operations for the year ended December 31, 2019 and 2018 includes a $9.7 million and $13.6 million pre-tax provision, respectively, to increase our indemnity liability in line with the 2019 and 2018 actuarial studies; and legal expenses, before taxes, of $4.7 million and $5.1 million during 2019 and 2018, respectively. As discussed more fully in Note 22 "*Commitments and Contingencies*" in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

Comparison of Results of Operations For Fiscal Years 2018 and 2017

For a detailed discussion on the comparison of fiscal year 2018 to fiscal year 2017, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Restructuring and Integration Programs

The Plant Rationalization Program that commenced in February 2016, the Wire and Cable Relocation Program announced in October 2016, and the Orlando Plant Rationalization Program that commenced in January 2017, were all substantially completed as of December 31, 2018. As a result of our April 2019 acquisition of the Pollak business of Stoneridge, Inc., we incurred $2.2 million of integration expenses related to the relocation of certain inventory, machinery, and equipment from Pollak's distribution and manufacturing facilities to our existing facilities. The Pollak relocation was substantially completed as of December 31, 2019.

For a detailed discussion on the restructuring and integration costs, see Note 5, "Restructuring and Integration Expense," of the notes to our consolidated financial statements.

Liquidity and Capital Resources

Operating Activities. During 2019, cash provided by operating activities was $76.9 million compared to $70.3 million in 2018. The year-over-year increase in operating cash flow is primarily the result of the increase in net earnings, the year-over-year decrease in accounts receivable compared to the year-over-year increase in accounts receivable in 2018, and the smaller year-over-year increase in inventories, offset, in part, by the year-over-year increase in prepaid expenses and other current assets compared to the year-over-year decrease in prepaid expenses and other current assets in 2018, the year-over-year decrease in accounts payable compared to the year-over-year increase in accounts payable in 2018, and the year-over-year decrease in sundry payables and accrued expenses compared to the year-over-year increase in sundry payables and accrued expenses in 2018.

Net earnings during 2019, were $57.9 million compared to $43 million in 2018. During 2019, (1) the decrease in accounts receivable was $17.9 million compared to the year-over-year increase in accounts receivable of $13.7 million in 2018; (2) the increase in inventories was $17.9 million compared to the year-over-year increase in inventories of $30.2 million in 2018; (3) the increase in prepaid expenses and other current assets was $8.3 million compared to the year-over-year decrease in prepaid expenses and other current assets of $4.9 million in 2018; (4) the decrease in accounts payable was $2 million compared to the year-over-year increase in accounts payable of $16.9 million in 2018; and (5) the decrease in sundry payables and accrued expenses was $18.1 million compared to the year-over-year increase in sundry payables and accrued expenses of $8.4 million in 2018. The cash impact of the changes in sundry payables and accrued expenses relates primarily to the timing of defective and overstock customer returns, and customer core returns used in our future remanufacturing activities. We continue to actively manage our working capital to maximize our operating cash flow.

Investing Activities. Cash used in investing activities was $54.8 million in 2019 compared to $29.9 million in 2018. Investing activities in 2019 consisted of (1) net cash proceeds of $4.8 million received in January 2019 from the December 2018 sale of our property in Grapevine, Texas; (2) the payment of $38.4 million for our acquisition of certain assets and liabilities of the Pollak business of Stoneridge, Inc.; (3) the payment of $5.1 million for our acquisition of an approximate 29% minority interest in Jiangsu Che Yijia New Energy Technology Co., Ltd.; and (4) capital expenditures of $16.2 million.

Investing activities in 2018 consisted of (1) the payment of the third and final contribution of $5.7 million for our November 2017 acquisition of a 50% interest in Foshan FGD SMP Automotive Compressor Co., Ltd., a China-based joint venture that manufactures air conditioning compressors for the automotive aftermarket and the Chinese OE market; (2) the payment of $4.2 million for our 15% increase in equity ownership in Foshan GWO YNG SMP Vehicle Climate Control & Cooling Products Co. Ltd., a China-based joint venture that manufactures air conditioner accumulators, filter driers, hose assemblies and switches for the automotive aftermarket and OEM/OES markets; and (3) capital expenditures of $20.1 million.

Financing Activities. Cash used in financing activities was $23.4 million in 2019 compared to $46.1 million in 2018. During 2019, (1) we increased borrowings under our revolving credit facility by $8.8 million; (2) we made cash payments for the repurchase of shares of our common stock of $10.7 million; and (3) we paid dividends of $20.6 million. Borrowings under our revolving credit facility in 2019, along with cash provided by operating activities, were used to fund our investing activities, purchase shares of our common stock and pay dividends.

Cash used by finance activities was $46.1 million in 2018. During 2018, (1) we increased our borrowings under the Polish overdraft facility, net of payments under our capital lease obligations of $1.1 million; (2) we paid down borrowings under our revolving credit facility of $13.3 million; (3) we made cash payments of $14.9 million for the repurchase of our common stock; and (4) we paid dividends of $18.9 million. Cash provided by operating activities, along with borrowings under our Polish overdraft facility, net of payments under our capital lease obligations, were used to fund our investing activities, pay down borrowings under our revolving credit facility, purchase shares of our common stock and pay dividends.

Dividends of $20.6 million and $18.9 million were paid in 2019 and 2018, respectively. Quarterly dividends were paid at a rate of $0.23 per share in 2019 and $0.21 per share in 2018. In January 2020, our Board of Directors voted to increase our quarterly dividend from $0.23 per share in 2019 to $0.25 per share in 2020.

Comparison of Liquidity and Capital Resources For Fiscal Years 2018 and 2017

For a detailed discussion of our Liquidity and Capital Resources comparison of fiscal year 2018 to fiscal year 2017, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Liquidity

Our primary cash requirements include working capital, capital expenditures, regular quarterly dividends, stock repurchases, principal and interest payments on indebtedness and acquisitions. Our primary sources of funds are ongoing net cash flows from operating activities and availability under our secured revolving credit facility (as detailed below).

In December 2018, we amended our Credit Agreement with JPMorgan Chase Bank, N.A., as agent, and a syndicate of lenders. The amended credit agreement provides for a senior secured revolving credit facility with a line of credit of up to $250 million (with an additional $50 million accordion feature) and extends the maturity date to December 2023. The line of credit under the amended agreement also allows for a $10 million line of credit to Canada as part of the $250 million available for borrowing. Direct borrowings under the amended credit agreement bear interest at LIBOR plus a margin ranging from 1.25% to 1.75% based on our borrowing availability, or floating at the alternate base rate plus a margin ranging from 0.25% to 0.75% based on our borrowing availability, at our option. The amended credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

Borrowings under the amended credit agreement are secured by substantially all of our assets, including accounts receivable, inventory and certain fixed assets, and those of certain of our subsidiaries. Availability under the amended credit agreement is based on a formula of eligible accounts receivable, eligible drafts presented to the banks under our supply chain financing arrangements, eligible inventory, eligible equipment and eligible fixed assets. After taking into account outstanding borrowings under the amended credit agreement, there was an additional $194.3 million available for us to borrow pursuant to the formula at December 31, 2019. Outstanding borrowings under the credit agreement, which are classified as current liabilities, were $52.5 million and $43.7 million at December 31, 2019 and 2018, respectively; while letters of credit outstanding under the credit agreement were $3.1 million at both December 31, 2019 and 2018. Borrowings under the credit agreement have been classified as current liabilities based upon accounting rules and certain provisions in the agreement.

At December 31, 2019, the weighted average interest rate on our amended credit agreement was 3.5%, which consisted of $40 million in direct borrowings at 2.3% and an alternative base rate loan of $12.5 million at 5%. At December 31, 2018, the weighted average interest rate on our amended credit agreement was 3.9%, which consisted of $40 million in direct borrowings at 3.4% and an alternative base rate loan of $3.7 million at 5.8%. Our average daily alternative base rate loan balance was $1.7 million and $1.8 million during 2019 and 2018, respectively.

At any time that our borrowing availability is less than the greater of either (a) $25 million, or 10% of the commitments if fixed assets are not included in the borrowing base, or (b) $31.25 million, or 12.5% of the commitments if fixed assets are included in the borrowing base, the terms of the amended credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain a fixed charge coverage ratio of 1:1 at the end of each fiscal quarter (rolling four quarters). As of December 31, 2019, we were not subject to these covenants. The amended credit agreement permits us to pay cash dividends of $20 million and make stock repurchases of $20 million in any fiscal year subject to a minimum availability of $25 million. Provided specific conditions are met, the amended credit agreement also permits acquisitions, permissible debt financing, capital expenditures, and cash dividend payments and stock repurchases of greater than $20 million.

Our Polish subsidiary, SMP Poland sp. z.o.o., has entered into an overdraft facility with HSBC France (Spolka Akcyjna) Oddzial w Polsce, formerly HSBC Bank Polska S.A., for Zloty 30 million (approximately $7.9 million). The facility, as amended, expires in December 2020. Borrowings under the overdraft facility will bear interest at a rate equal to WIBOR + 0.75% and are guaranteed by Standard Motor Products, Inc., the ultimate parent company. At December 31, 2019 and 2018, borrowings under the overdraft facility were Zloty 16.7 million (approximately $4.4 million) and Zloty 19.9 million (approximately $5.3 million), respectively.

In order to reduce our accounts receivable balances and improve our cash flow, we are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable to such customers' financial institutions. We sell our undivided interests in certain of these receivables at our discretion when we determine that the cost of these arrangements is less than the cost of servicing our receivables with existing debt. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale.

Pursuant to these agreements, we sold $719 million and $720 million of receivables for the years ended December 31, 2019 and 2018, respectively, which was reflected as a reduction of accounts receivable in the consolidated balance sheet at the time of sale. A charge in the amount of $22 million, $24.4 million and $22.6 million related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively.

To the extent that these arrangements are terminated, our financial condition, results of operations, cash flows and liquidity could be adversely affected by extended payment terms, delays or failures in collecting trade accounts receivables. The utility of the supply chain financing arrangements also depends upon the LIBOR rate, as it is a component of the discount rate applicable to each arrangement. If the LIBOR rate increases significantly, we may be negatively impacted as we may not be able to pass these added costs on to our customers, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

During 2017, our Board of Directors authorized the purchase of up to $30 million of our common stock under stock repurchase programs. Under these programs, during the years ended December 31, 2017 and 2018, we repurchased 539,760 and 112,307 shares of our common stock, respectively, in the open market at a total cost of $24.8 million and $5.2 million, respectively, thereby completing the 2017 Board of Directors' authorizations.

In May 2018, our Board of Directors authorized the purchase of up to an additional $20 million of our common stock under a new stock repurchase program. Under this program, during the year ended December 31, 2018 and 2019, we repurchased 201,484 and 221,748 shares of our common stock, respectively, at a total cost of $9.3 million and $10.7 million, respectively, thereby completing the 2018 Board of Directors authorization.

We anticipate that our cash flow from operations, available cash and available borrowings under our revolving credit facility will be adequate to meet our future liquidity needs for at least the next twelve months. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements. If material adverse developments were to occur in any of these areas, there can be no assurance that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our revolving credit facility in amounts sufficient to enable us to pay the principal and interest on our indebtedness, or to fund our other liquidity needs. In addition, if we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected.

The following table summarizes our contractual commitments as of December 31, 2019 and expiration dates of commitments through 2028 (a) (b):

(In thousands)	2020	2021	2022	2023	2024	2025-2028	Total
Operating lease obligations	$ 8,994	$ 8,245	$ 6,882	$ 5,682	$ 3,881	$ 7,844	$ 41,528
Postretirement benefits	36	32	29	25	25	50	197
Severance payments related to restructuring and integration	205	106	25	—	—	—	336
Total commitments	$ 9,235	$ 8,383	$ 6,936	$ 5,707	$ 3,906	$ 7,894	$ 42,061

(a) Indebtedness under our revolving credit facilities is not included in the table above as it is reported as a current liability in our consolidated balance sheets. As of December 31, 2019, amounts outstanding under our revolving credit facility was $52.5 million.

(b) As of January 1, 2019 we adopted ASU 2016-02, *Leases*, which resulted in the recording of the lease obligations on our consolidated balance sheet. For information related to our adoption of ASU 2016-02, see Note 1 "Summary of Significant Accounting Policies" and Note 2 "Leases" of the notes to our consolidated financial statements.

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 financial statements. You should be aware that 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 consolidated 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. Although we do not believe that there is a reasonable likelihood that there will be a material change in the future estimate or in the assumptions that we use in calculating the estimate, unforeseen changes in the industry, or business could materially impact the estimate and may have a material adverse effect on our business, financial condition and results of operations.

Revenue Recognition. We derive our revenue primarily from sales of replacement parts for motor vehicles from both our Engine Management and Temperature Control Segments. We recognize revenues when our performance obligation has been satisfied and the control of products has been transferred to a customer which typically occurs upon shipment. Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of goods or providing services. The amount of consideration we receive and revenue we recognize depends on the marketing incentives, product warranty and overstock returns we offer to our customers. For certain of our sales of remanufactured products, we also charge our customers a deposit for the return of a used core component which we can use in our future remanufacturing activities. Such deposit is not recognized as revenue at the time of the sale but rather carried as a core liability. At the same time, we estimate the core expected to be returned from the customer and record the estimated return as unreturned customer inventory. The liability is extinguished when a core is actually returned to us, or at period end when we estimate and recognize revenue for the core deposits not expected to be returned. We estimate and record provisions for cash discounts, quantity rebates, sales returns and warranties in the period the sale is recorded, based upon our prior experience and current trends. Significant management judgments and estimates must be made and used in estimating sales returns and allowances relating to revenue recognized in any accounting period.

Sales Returns and Other Allowances and Allowance for Doubtful Accounts. 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 and/or the result of installation error. In addition to warranty returns, we also permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. At the time products are sold, we accrue a liability for product warranties and overstock returns as a percentage of sales based upon estimates established using historical information on the nature, frequency and average cost of the claim and the probability of the customer return. At the same time, we record an estimate of anticipated customer returns as unreturned customer inventory. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims. At December 31, 2019 and 2018, the allowance for sales returns was $44.1 million and $57.4 million, respectively.

Similarly, we must make estimates of the uncollectability of our accounts receivable. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At December 31, 2019, the allowance for doubtful accounts and for discounts was $5.2 million.

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

Inventory Valuation. Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost and net realizable value of inventory are determined by comparing the actual cost of the product to the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation of the inventory.

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. Future projected demand requires management judgment and is based upon (a) our review of historical trends and (b) our estimate of projected customer specific buying patterns and trends in the industry and markets in which we do business. Using rolling twelve month historical information, we estimate future demand on a continuous basis. As such, the historical volatility of such estimates has been minimal.

We utilize cores (used parts) in our remanufacturing processes for air conditioning compressors, diesel injectors, and diesel pumps. The production of air conditioning compressors, diesel injectors, and diesel pumps involves the rebuilding of used cores, which we acquire either in outright purchases from used parts brokers or from returns pursuant to an exchange program with customers. Under such exchange programs, at the time of sale of air conditioning compressors, diesel injectors, and diesel pumps, we estimate the core expected to be returned from the customer and record the estimated return as unreturned customer inventory.

In addition, many of our customers can return inventory to us based upon customer warranty and overstock arrangements within customer specific limits. At the time products are sold, we accrue a liability for product warranties and overstock returns and record as unreturned customer inventory our estimate of anticipated customer returns. Estimates are based upon historical information on the nature, frequency and probability of the customer return. Unreturned core, warranty and overstock customer inventory is recorded at standard cost. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims.

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

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

The valuation allowance of $0.8 million as of December 31, 2019 is intended to provide for the uncertainty regarding the ultimate realization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income in these jurisdictions and the period over which our deferred tax assets will be recoverable. Based on these considerations, we believe it is more likely than not that we will realize the benefit of the net deferred tax asset of $37.3 million as of December 31, 2019, which is net of the remaining valuation allowance.

In the event that actual results differ from these estimates, or we adjust these estimates in future periods for current trends or expected changes in our estimating assumptions, we may need to modify the level of the valuation allowance which could materially impact our business, financial condition and results of operations.

In accordance with generally accepted accounting practices, we recognize in our financial statements only those tax positions that meet the more-likely-than-not recognition threshold. We establish tax reserves for uncertain tax positions that do not meet this threshold. During the years ended December 31, 2019, 2018 and 2017, we did not establish a liability for uncertain tax positions. Penalties associated with income tax matters are included in the provision for income taxes in our consolidated statement of operations.

Leases. We determine if an arrangement is a lease at inception. For operating leases, we include and report operating lease right-of-use (“ROU”) assets, sundry payables and accrued expenses, and noncurrent operating lease liabilities on our consolidated balance sheet for leases with a term longer than twelve months. Finance leases are reported on our consolidated balance sheets in property, plant and equipment, current portion of other debt, and long-term debt.

Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of the total lease payments over the lease term. Our ROU assets represent the right to use an underlying leased asset over the existing lease term, and the corresponding lease liabilities represent our obligation to make lease payments arising from the lease agreement. As most of our leases do not provide for an implicit rate, we use our secured incremental borrowing rate based on the information available when determining the present value of our lease payments. Our lease terms may include options to terminate, or extend, our lease when it is reasonably certain that we will execute the option. Lease agreements may contain lease and non-lease components, which are generally accounted for separately. Operating lease expense is recognized on a straight-line basis over the lease term.

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

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

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, than the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. Initially, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill and recognize a charge for impairment to the extent the carrying value exceeds the implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. On January 1, 2020, we will adopt Accounting Standards Update ("ASU") 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 removes the second step of the impairment test, which requires a hypothetical purchase price allocation to determine the implied fair value of the reporting unit goodwill. Instead, under ASU 2017-04, goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 will be applied prospectively.

Identifiable intangible assets having indefinite lives are reviewed for impairment on an annual basis using a methodology similar with that used to evaluate goodwill. Intangible assets having definite lives 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, we compare the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets fair value and their carrying value.

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

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

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

Asbestos Litigation. In evaluating our potential asbestos-related liability, we use an actuarial study that is prepared by a leading actuarial firm with expertise in assessing asbestos-related liabilities. We evaluate the estimate of the range of undiscounted liability to determine which amount to accrue. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required. Legal costs are expensed as incurred. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future, and whenever events or changes in circumstances indicate that additional provisions may be necessary. Based on the actuarial studies and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a loss or gain from discontinued operations. See Note 22, “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information.

Other Loss Reserves. We have other loss exposures, for such matters as legal claims and legal proceedings. Establishing loss reserves for these matters requires estimates, judgment of risk exposure, and ultimate liability. We record provisions when the liability is considered probable and reasonably estimable. Significant judgment is required in both the determination of probability and the determination as to whether an exposure can be reasonably estimated. As additional information becomes available, we reassess our potential liability related to these matters. Such revisions of the potential liabilities could have a material adverse effect on our business, financial condition or results of operations.

Recently Issued Accounting Pronouncements

For a detailed discussion on recently issued accounting pronouncements and their impact on our consolidated financial statements, see Note 1, “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in Item 8 of this Report.

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. As of December 31, 2019, we did not have any derivative financial instruments.

Exchange Rate Risk

We have exchange rate exposure, primarily, with respect to the Canadian Dollar, the Euro, the British Pound, the Polish Zloty, the Mexican Peso, the Taiwan Dollar, the Chinese Yuan Renminbi and the Hong Kong Dollar. As of December 31, 2019, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore, the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the incremental effect of such a change on our foreign currency denominated revenues.

Interest Rate Risk

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Substantially all of our debt is variable rate debt as of December 31, 2019 and 2018. Depending upon the level of borrowings under our revolving credit facility and our Polish overdraft facility, and our excess cash, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate may have an approximate $0.7 million negative impact on our earnings or cash flows.

In addition, we are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable to such customers' financial institutions. We sell our undivided interests in certain of these receivables at our discretion when we determine that the cost of these arrangements is less than the cost of servicing our receivables with existing debt. During the year ended December 31, 2019, we sold $719 million of receivables. Depending upon the level of sales of receivables pursuant these agreements, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the margin rate may have an approximate $7.2 million negative impact on our earnings or cash flows. The charge related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Page No.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 *Internal Control - Integrated Framework.* Based on our assessment using those criteria, we concluded that, as of December 31, 2019, our internal control over financial reporting is effective.

Our independent registered public accounting firm, KPMG LLP, has audited our consolidated financial statements as of and for the year ended December 31, 2019 and has also audited the effectiveness of our internal control over financial reporting as of December 31, 2019. KPMG's report appears on the following pages of this "Item 8. Financial Statements and Supplementary Data."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Opinion on Internal Control Over Financial Reporting

We have audited Standard Motor Products, Inc.'s and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule II, Valuation and Qualifying Accounts (collectively, the consolidated financial statements), and our report dated February 20, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

New York, New York
February 20, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – CONSOLIDATED FINANCIAL STATEMENTS

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Standard Motor Products, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule II, Valuation and Qualifying Accounts (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 20, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of Asbestos Liability and Litigation

As discussed in Notes 1 and 22 to the consolidated financial statements, the Company is involved in asbestos litigation and has potential asbestos liability. The Company's asbestos liability represents the actuarially determined estimate of the undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs and any potential recovery from insurance carriers. The Company's asbestos liability includes key assumptions regarding disease distribution, future claim filings, payment rates, settlement values, large claims, and ratios of allocated loss adjustment expense (ALAE) to indemnity.

We identified the assessment of the asbestos liability recorded and related disclosure for these legal proceedings as a critical audit matter. This required subjective auditor judgment, due to the nature of the estimate and assumptions, including the applicability of those assumptions to the current facts and circumstances, as well as judgments about future events and uncertainties. Specialized skills were needed to evaluate the Company's key assumptions. Minor changes to these key assumptions could have a significant effect on the Company's assessment of the accrual for the asbestos liability.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's asbestos liability and asbestos litigation process, including controls related to the key assumptions and the underlying data utilized in the process, and the potential need for an updated actuarial evaluation. We read letters received directly from the Company's external and internal legal counsel confirming the asbestos related legal cases settled during the year and the number of open cases as of year-end. We involved an actuarial professional with specialized skills and knowledge, who:

- assessed the actuarial model used by the Company's asbestos actuary in preparing their annual report which contained an analysis of the Company's asbestos exposure;
- assessed the annual report prepared by the Company's asbestos actuary for consistency with generally accepted actuarial standards; and
- evaluated the key assumptions and judgments, including consideration of changes of assumptions from those used in the prior year, underlying the actuarial estimates contained within the Company's asbestos report prepared by the Company's asbestos actuary.

We tested a sample of claims data used in the actuarial model by comparing the sampled items to underlying claims documentation. We evaluated the activity of legal claims since the most recent actuarial evaluation to determine if an updated actuarial evaluation is necessary. We compared the Company's related disclosure to the data utilized in the process and the Company's asbestos report.

Initial measurement of the customer relationship intangible assets acquired in the Pollak business combination

As discussed in Notes 3 and 9 to the consolidated financial statements, on April 1, 2019, the Company acquired the Pollak business from Stoneridge, Inc. (Pollak) in a business combination. As a result of the transaction, the Company acquired customer relationship intangible assets associated with the generation of future income from Pollak's existing customers. The acquisition-date fair value for the customer relationship assets was $24.4 million.

We identified the evaluation of the initial measurement of the customer relationship intangible assets acquired in the Pollak transaction as a critical audit matter. There was a high degree of subjectivity in evaluating the multi-period excess earnings method (a form of the income approach) used to calculate the acquisition-date fair value of the customer relationship assets. The multi-period excess earnings method included the following internally-developed assumptions for which there was limited observable market information, and the calculated fair value of such assets was sensitive to possible changes to these assumptions:

- Forecasted revenues attributable to existing customers
- Estimated annual attrition
- Forecasted earnings before interest, and taxes (EBIT) margins for the acquired business
- Discount rates

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's process to develop the key acquisition-date assumptions. We compared the Company's year one forecasted revenues attributable to existing customers to the acquired business's historical information. We evaluated the Company's forecasted revenues attributable to existing customers and EBIT margins by comparing these forecasted assumptions to historical Company information. In addition, valuation professionals with specialized skills and knowledge, assisted us to:

- evaluate the Company's discount rates by comparing these rates against a discount rate range that was independently developed using publicly available market data for comparable companies,
- evaluate the estimated annual attrition rate by comparing the selected attrition rates against the realized range of attrition rates in prior company specific acquisitions, and
- compare the Company's fair value estimate of the customer relationship assets acquired, using the significant assumptions utilized by the Company and our independently developed discount rate range, to an independent calculation of the multi-period excess earnings model.

/s/ KPMG LLP

We have served as the Company's auditor since 2010.

New York, New York
February 20, 2020

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands, except share and per share data)		
Net sales	$ 1,137,913	$ 1,092,051	$ 1,116,143
Cost of sales	806,113	779,264	789,487
Gross profit	331,800	312,787	326,656
Selling, general and administrative expenses	234,715	231,336	224,237
Restructuring and integration expenses	2,585	4,510	6,173
Other income (expense), net	(5)	4,327	1,275
Operating income	94,495	81,268	97,521
Other non-operating income (expense), net	2,587	(411)	1,250
Interest expense	5,286	4,026	2,329
Earnings from continuing operations before taxes	91,796	76,831	96,442
Provision for income taxes	22,745	19,977	52,812
Earnings from continuing operations	69,051	56,854	43,630
Loss from discontinued operations, net of income tax benefit of $3,912, $4,866 and $3,769	(11,134)	(13,851)	(5,654)
Net earnings	$ 57,917	$ 43,003	$ 37,976
Net earnings per common share – Basic:			
Earnings from continuing operations	$ 3.09	$ 2.53	$ 1.92
Discontinued operations	(0.50)	(0.62)	(0.25)
Net earnings per common share – Basic	$ 2.59	$ 1.91	$ 1.67
Net earnings per common share – Diluted:			
Earnings from continuing operations	$ 3.03	$ 2.48	$ 1.88
Discontinued operations	(0.49)	(0.60)	(0.24)
Net earnings per common share – Diluted	$ 2.54	$ 1.88	$ 1.64
Dividends declared per share	$ 0.92	$ 0.84	$ 0.76
Average number of common shares	22,378,414	22,456,480	22,726,491
Average number of common shares and dilutive common shares	22,818,451	22,931,723	23,198,392

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Net earnings	$ 57,917	$ 43,003	$ 37,976
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	1,024	(5,473)	7,027
Pension and postretirement plans	(19)	(12)	(108)
Total other comprehensive income (loss), net of tax	1,005	(5,485)	6,919
Comprehensive income	$ 58,922	$ 37,518	$ 44,895

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(Dollars in thousands, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,372	$ 11,138
Accounts receivable, less allowances for discounts and doubtful accounts of $5,212 and $5,687 in 2019 and 2018, respectively	135,516	157,535
Inventories	368,221	349,811
Unreturned customer inventories	19,722	20,484
Prepaid expenses and other current assets	15,602	7,256
Total current assets	549,433	546,224
Property, plant and equipment, net	89,649	90,754
Operating lease right-of-use assets	36,020	—
Goodwill	77,802	67,321
Other intangibles, net	64,861	48,411
Deferred incomes taxes	37,272	42,334
Investments in unconsolidated affiliates	38,858	32,469
Other assets	18,835	15,619
Total assets	$ 912,730	$ 843,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 52,460	$ 43,689
Current portion of other debt	4,456	5,377
Accounts payable	92,535	94,357
Sundry payables and accrued expenses	38,819	31,033
Accrued customer returns	44,116	57,433
Accrued core liability	24,357	31,263
Accrued rebates	26,072	28,870
Payroll and commissions	26,649	20,564
Total current liabilities	309,464	312,586
Long-term debt	129	153
Noncurrent operating lease liabilities	28,376	—
Other accrued liabilities	20,837	18,075
Accrued asbestos liabilities	49,696	45,117
Total liabilities	408,502	375,931
Commitments and contingencies		
Stockholders' equity:		
Common Stock - par value $2.00 per share: Authorized 30,000,000 shares, issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	102,742	102,470
Retained earnings	417,437	380,113
Accumulated other comprehensive income	(8,589)	(9,594)
Treasury stock - at cost (1,477,594 shares and 1,503,284 shares in 2019 and 2018, respectively)	(55,234)	(53,660)
Total stockholders' equity	504,228	467,201
Total liabilities and stockholders' equity	$ 912,730	$ 843,132

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 57,917	$ 43,003	$ 37,976
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	25,809	24,104	23,916
Amortization of deferred financing cost	225	333	343
Increase (decrease) to allowance for doubtful accounts	(295)	330	972
Increase to inventory reserves	4,858	3,978	3,300
Amortization of deferred gain on sale of buildings	—	(218)	(1,048)
Gain on sale of property, plant and equipment	—	(3,997)	(15)
Equity (income) loss from joint ventures	(2,865)	768	602
Employee Stock Ownership Plan allocation	2,519	2,557	2,159
Stock-based compensation	6,917	7,998	7,638
(Increase) decrease in deferred income taxes	4,736	(10,046)	19,059
Increase (decrease) in tax valuation allowance	358	22	(128)
Loss on discontinued operations, net of tax	11,134	13,851	5,654
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	17,929	(13,699)	(5,100)
Increase in inventories	(17,901)	(30,199)	(13,901)
(Increase) decrease in prepaid expenses and other current assets	(8,296)	4,926	(4,869)
Increase (decrease) in accounts payable	(1,950)	16,894	(7,186)
Increase (decrease) in sundry payables and accrued expenses	(18,097)	8,407	(6,015)
Net changes in other assets and liabilities	(6,070)	1,246	1,260
Net cash provided by operating activities	76,928	70,258	64,617
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of and investments in businesses	(43,490)	(9,852)	(6,808)
Net proceeds from sale of Grapevine, Texas facility	4,801	—	—
Capital expenditures	(16,185)	(20,141)	(24,442)
Other investing activities	62	107	22
Net cash used in investing activities	(54,812)	(29,886)	(31,228)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under line-of-credit agreements	8,771	(13,311)	2,188
Net borrowings (repayments) of other debt and lease obligations	(911)	1,115	4,065
Purchase of treasury stock	(10,738)	(14,886)	(24,376)
Increase (decrease) in overdraft balances	93	275	(534)
Payments of debt issuance costs	—	(460)	—
Dividends paid	(20,593)	(18,854)	(17,287)
Net cash used in financing activities	(23,378)	(46,121)	(35,944)
Effect of exchange rate changes on cash	496	(436)	82
Net decrease in cash and cash equivalents	(766)	(6,185)	(2,473)
CASH AND CASH EQUIVALENTS at beginning of year	11,138	17,323	19,796
CASH AND CASH EQUIVALENTS at end of year	$ 10,372	$ 11,138	$ 17,323
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 5,030	$ 3,738	$ 1,944
Income taxes	$ 22,267	$ 15,353	$ 34,543
Noncash investing activity:			
Accrual for final contribution of acquired investment	$ —	$ —	$ 5,740
Receivable related to net proceeds from sale of Grapevine, Texas facility	$ —	$ 4,801	$ —

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2019, 2018 and 2017

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE AT DECEMBER 31, 2016	$ 47,872	$ 96,850	$ 336,464	$ (11,028)	$ (29,130)	$ 441,028
Net earnings	—	—	37,976	—	—	37,976
Other comprehensive income, net of tax	—	—	—	6,919	—	6,919
Cash dividends paid ($0.76 per share)	—	—	(17,287)	—	—	(17,287)
Purchase of treasury stock	—	—	—	—	(24,779)	(24,779)
Stock-based compensation	—	2,193	—	—	5,445	7,638
Employee Stock Ownership Plan	—	1,014	—	—	1,145	2,159
BALANCE AT DECEMBER 31, 2017	47,872	100,057	357,153	(4,109)	(47,319)	453,654
Cumulative effect adjustment	—	—	(1,189)	—	—	(1,189)
Net earnings	—	—	43,003	—	—	43,003
Other comprehensive loss, net of tax	—	—	—	(5,485)	—	(5,485)
Cash dividends paid ($0.84 per share)	—	—	(18,854)	—	—	(18,854)
Purchase of treasury stock	—	—	—	—	(14,483)	(14,483)
Stock-based compensation	—	1,648	—	—	6,350	7,998
Employee Stock Ownership Plan	—	765	—	—	1,792	2,557
BALANCE AT DECEMBER 31, 2018	47,872	102,470	380,113	(9,594)	(53,660)	467,201
Net earnings	—	—	57,917	—	—	57,917
Other comprehensive loss, net of tax	—	—	—	1,005	—	1,005
Cash dividends paid ($0.92 per share)	—	—	(20,593)	—	—	(20,593)
Purchase of treasury stock	—	—	—	—	(10,738)	(10,738)
Stock-based compensation	—	(473)	—	—	7,390	6,917
Employee Stock Ownership Plan	—	745	—	—	1,774	2,519
BALANCE AT DECEMBER 31, 2019	$ 47,872	$ 102,742	$ 417,437	$ (8,589)	$ (55,234)	$ 504,228

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation

Standard Motor Products, Inc. and subsidiaries (referred to hereinafter in these notes to the consolidated financial statements as "we," "us," "our" or the "Company") is engaged in the manufacture and distribution of replacement parts for motor vehicles in the automotive aftermarket industry with a complementary focus on the heavy duty, industrial equipment and original equipment service markets. The consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership, except in instances where the minority shareholder maintains substantive participating rights, in which case we follow the equity method of accounting. Investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest but have the ability to exercise significant influence. All significant inter-company items have been eliminated.

Use of Estimates

In conformity with generally accepted accounting principles, we have 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, cash discounts, valuation of inventory, valuation of long-lived assets, goodwill and other intangible assets, depreciation and amortization of long-lived assets, product liability exposures, asbestos, environmental and litigation matters, valuation of deferred tax assets, share based compensation and sales returns and other allowances. We can give no assurances that actual results will not differ from those estimates. Although we do not believe that there is a reasonable likelihood that there will be a material change in the future estimate or in the assumptions that we use in calculating the estimate, unforeseen changes in the industry, or business could materially impact the estimate and may have a material adverse effect on our business, financial condition and results of operations.

Reclassification

Certain prior period amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2019 presentation.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts and Cash Discounts

We do not generally require collateral for our trade accounts receivable. Accounts receivable have been reduced by an allowance for amounts that may become uncollectible in the future. These allowances are established based on a combination of write-off history, aging analysis, and specific account evaluations. When a receivable balance is known to be uncollectible, it is written off against the allowance for doubtful accounts. Cash discounts are provided based on an overall average experience rate applied to qualifying accounts receivable balances.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in first-out basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost and net realizable value of inventory are determined by comparing the actual cost of the product to the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation of the inventory.

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. Future projected demand requires management judgment and is based upon (a) our review of historical trends and (b) our estimate of projected customer specific buying patterns and trends in the industry and markets in which we do business. Using rolling twelve month historical information, we estimate future demand on a continuous basis. As such, the historical volatility of such estimates has been minimal. We maintain provisions for inventory reserves of $45.8 million and $44 million as of December 31, 2019 and 2018, respectively.

We utilize cores (used parts) in our remanufacturing processes for air conditioning compressors, diesel injectors, and diesel pumps. The production of air conditioning compressors, diesel injectors, and diesel pumps involves the rebuilding of used cores, which we acquire either in outright purchases from used parts brokers, or from returns pursuant to an exchange program with customers. Under such exchange programs, at the time of sale of air conditioning compressors, diesel injectors, and diesel pumps, we estimate the core expected to be returned from the customer and record the estimated return as unreturned customer inventory.

In addition, many of our customers can return inventory to us based upon customer warranty and overstock arrangements within customer specific limits. At the time products are sold, we accrue a liability for product warranties and overstock returns and record as unreturned customer inventory our estimate of anticipated customer returns. Estimates are based upon historical information on the nature, frequency and probability of the customer return. Unreturned core, warranty and overstock customer inventory is recorded at standard cost. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost and are depreciated using the straight-line method of depreciation over the estimated useful lives as follows:

	Estimated Life
Buildings	25 to 33-1/2 years
Building improvements	10 to 25 years
Machinery and equipment	5 to 12 years
Tools, dies and auxiliary equipment	3 to 8 years
Furniture and fixtures	3 to 12 years

Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease. Costs related to maintenance and repairs which do not prolong the assets useful lives are expensed as incurred. We assess our property, plant and equipment to be held and used for impairment when indicators are present that the carrying value may not be recoverable.

Leases

We determine if an arrangement is a lease at inception. For operating leases, we include and report operating lease right-of-use ("ROU") assets, sundry payables and accrued expenses, and noncurrent operating lease liabilities on our consolidated balance sheet for leases with a term longer than twelve months. Finance leases are reported on our consolidated balance sheets in property, plant and equipment, current portion of other debt, and long-term debt.

Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of the total lease payments over the lease term. Our ROU assets represent the right to use an underlying leased asset over the existing lease term, and the corresponding lease liabilities represent our obligation to make lease payments arising from the lease agreement. As most of our leases do not provide for an implicit rate, we use our secured incremental borrowing rate based on the information available when determining the present value of our lease payments. Our lease terms may include options to terminate, or extend, our lease when it is reasonably certain that we will execute the option. Lease agreements may contain lease and non-lease components, which are generally accounted for separately. Operating lease expense is recognized on a straight-line basis over the lease term.

Valuation of Long-Lived and Intangible Assets and Goodwill

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

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

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. Initially, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill and recognize a charge for impairment to the extent the carrying value exceeds the implied fair value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. On January 1, 2020, we will adopt Accounting Standards Update ("ASU") 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 removes the second step of the impairment test, which requires a hypothetical purchase price allocation to determine the implied fair value of the reporting unit goodwill. Instead, under ASU 2017-04, goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 will be applied prospectively.

Identifiable intangible assets having indefinite lives are reviewed for impairment on an annual basis using a methodology similar with that used to evaluate goodwill. Intangible assets having definite lives 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 intangible assets having definite lives and other long-lived assets for impairment, we compare the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets fair value and their carrying value.

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

Foreign Currency Translation

Assets and liabilities of our foreign operations are translated into U.S. dollars at year-end exchange rates. Income statement accounts are translated using the average exchange rates prevailing 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. Foreign currency transaction gains or losses are recorded in the statement of operations under the caption "other non-operating income (expense), net."

Revenue Recognition

We derive our revenue primarily from sales of replacement parts for motor vehicles from both our Engine Management and Temperature Control Segments. We recognize revenues when our performance obligation has been satisfied and the control of products has been transferred to a customer which typically occurs upon shipment. Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of goods or providing services. The amount of consideration we receive and revenue we recognize depends on the marketing incentives, product warranty and overstock returns we offer to our customers. For certain of our sales of remanufactured products, we also charge our customers a deposit for the return of a used core component which we can use in our future remanufacturing activities. Such deposit is not recognized as revenue at the time of the sale but rather carried as a core liability. At the same time, we estimate the core expected to be returned from the customer and record the estimated return as unreturned customer inventory. The liability is extinguished when a core is actually returned to us, or at period end when we estimate and recognize revenue for the core deposits not expected to be returned. We estimate and record provisions for cash discounts, quantity rebates, sales returns and warranties in the period the sale is recorded, based upon our prior experience and current trends. Significant management judgments and estimates must be made and used in estimating sales returns and allowances relating to revenue recognized in any accounting period.

Product 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 and/or the result of installation error. In addition to warranty returns, we also permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. At the time products are sold, we accrue a liability for product warranties and overstock returns as a percentage of sales based upon estimates established using historical information on the nature, frequency and average cost of the claim and the probability of the customer return. At the same time, we record an estimate of anticipated customer returns as unreturned customer inventory. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims.

New Customer Acquisition Costs

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

Selling, General and Administration Expenses

Selling, general and administration expenses include shipping costs and advertising, which are expensed as incurred. Shipping and handling charges, as well as freight to customers, are included in distribution expenses as part of selling, general and administration expenses.

Deferred Financing Costs

Deferred financing costs represent costs incurred in conjunction with our debt financing activities. Deferred financing costs related to our revolving credit facility are capitalized and amortized over the life of the related financing arrangement. If the debt is retired early, the related unamortized deferred financing costs are written off in the period the debt is retired and are recorded in the statement of operations under the caption other non-operating income (expense), net.

Accounting for Income Taxes

Income taxes are calculated using the asset and liability method. 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.

We maintain valuation allowances when it is more likely than not that all or a portion of a deferred asset will not be realized. The valuation allowance is intended to provide for the uncertainty regarding the ultimate utilization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. In determining whether a valuation allowance is warranted, we consider all positive and negative evidence and all sources of taxable income such as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies to estimate if sufficient future taxable income will be generated to realize the deferred tax asset. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or we adjust these estimates in future periods for current trends or expected changes in our estimating assumptions, we may need to modify the level of valuation allowance which could materially impact our business, financial condition and results of operations.

The valuation allowance of $0.8 million as of December 31, 2019 is intended to provide for the uncertainty regarding the ultimate realization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. Based on these considerations, we believe it is more likely than not that we will realize the benefit of the net deferred tax asset of $37.3 million as of December 31, 2019, which is net of the remaining valuation allowance.

Tax benefits are recognized for an uncertain tax position when, in management's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances and when new information becomes available. Such adjustments are recognized entirely in the period in which they are identified. During the years ended December 31, 2019, 2018 and 2017, we did not establish a liability for uncertain tax positions.

Environmental Reserves

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

Asbestos Litigation

In evaluating our potential asbestos-related liability, we use an actuarial study that is prepared by a leading actuarial firm with expertise in assessing asbestos-related liabilities. We evaluate the estimate of the range of undiscounted liability to determine which amount to accrue. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required. Legal costs are expensed as incurred.

Loss Contingencies

We have loss contingencies, for such matters as legal claims and legal proceedings. Establishing loss reserves for these matters requires estimates, judgment of risk exposure and ultimate liability. We record provisions when the liability is considered probable and reasonably estimable. Significant judgment is required for both the determination of probability and the determination as to whether an exposure can be reasonably estimated. We maintain an ongoing monitoring and identification process to assess how the activities are progressing against the accrued estimated costs. As additional information becomes available, we reassess our potential liability related to these matters. Adjustments to the liabilities are recorded in the statement of operations in the period when additional information becomes available. Such revisions of the potential liabilities could have a material adverse effect on our business, financial condition or results of operations.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash investments and accounts receivable. We place our cash investments with high quality financial institutions and limit the amount of credit exposure to any one institution. Although we are directly affected by developments in the vehicle parts industry, management does not believe significant credit risk exists.

With respect to accounts receivable, such receivables are primarily from warehouse distributors and major retailers in the automotive aftermarket industry located in the U.S. We perform ongoing credit evaluations of our customers' financial conditions. Our five largest individual customers accounted for approximately 69% of our consolidated net sales in 2019, and approximately 70% of our consolidated net sales in 2018 and 2017. During 2019, O'Reilly, Advance, NAPA, and AutoZone accounted for 22%, 16%, 15% and 11% of our consolidated net sales, respectively. Net sales from each of the customers were reported in both our Engine Management and Temperature Control Segments. The loss of one or more of these customers or, a significant reduction in purchases of our products from any one of them, could have a materially adverse impact on our business, financial condition and results of operations.

Foreign Cash Balances

Substantially all of the cash and cash equivalents, including foreign cash balances, at December 31, 2019 and 2018 were uninsured. Foreign cash balances at December 31, 2019 and 2018 were $8.5 million and $11.1 million, respectively.

Recently Issued Accounting Pronouncements

Standards that were adopted

<u>Leases</u>

Effective January 1, 2019, we adopted ASU 2016-02, *Leases,* ("ASU 2016-02") using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption. The most significant impact in adopting the new standard was the recognition of right-of-use ("ROU") assets and lease liabilities on our consolidated balance sheet for operating leases, while the accounting for finance leases remained substantially unchanged. The adoption of the new standard did not materially impact our consolidated statements of operations or cash flows.

In adopting ASU 2016-02, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward our historical lease identification and lease classifications. In addition, upon adoption, we evaluated all of our leases, and in particular our real estate leases, to determine the appropriate lease term. In evaluating our leases, we determined that the lease term for one of our leases should be lengthened, as we concluded that it is reasonably certain that we will exercise the five-year renewal option in the lease. The lease term for all of our other leases remained unchanged.

Additionally, we elected to apply the provisions of ASU 2018-11, *Targeted Improvements*, which allows us to initially apply the new lease requirements as of the effective date. Comparative financial information for the prior periods presented were not restated but instead are reported under the accounting standards in effect in those prior periods.

Adoption of the new standard resulted in the following changes in our consolidated balance sheet as of January 1, 2019 (in thousands):

	Balance at December 31, 2018	Adjustments Due to Adoption of ASU 2016-02	Balance at January 1, 2019
Balance Sheet			
Operating lease right-of-use asset	$ —	$ 38,580	$ 38,580
Sundry payables and accrued expenses	31,033	7,232	38,265
Noncurrent operating lease liabilities	—	31,348	31,348

See Note 2 for further information regarding our adoption of ASU 2016-02.

Standards that are not yet adopted as of December 31, 2019

The following table provides a brief description of recently issued accounting pronouncements that have not yet been adopted as of December 31, 2019, and that could have an impact on our financial statements:

Standard	Description	Date of adoption	Effects on the financial statements or other significant matters
ASU 2017-04, *Simplifying the Test for Goodwill Impairment*	This standard is intended to simplify the accounting for goodwill impairment. ASU 2017-04 removes Step 2 of the test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	January 1, 2020, with early adoption permitted	We will adopt the new standard on January 1, 2020. The new standard will be applied prospectively. We anticipate that the adoption of this standard will not materially impact the amount of goodwill impairment, if any, when performing our annual impairment test.
ASU 2016-13, *Financial Instruments – Credit Losses*	This standard creates a single model to measure impairment on financial assets, which includes trade accounts receivable. An estimate of expected credit losses on trade accounts receivable over their contractual life will be required to be recorded at inception, based on historical information, current conditions, and reasonable and supportable forecasts.	January 1, 2020, with early adoption permitted	We will adopt the new standard on January 1, 2020. We anticipate that the adoption of this standard will not have a material impact on the manner in which we estimate our allowance for doubtful accounts on trade accounts receivable, or on our consolidated financial statements.

2. Leases

Quantitative Lease Disclosures

We have operating and finance leases for our manufacturing facilities, warehouses, office space, automobiles, and certain equipment. Our leases have remaining lease terms of up to ten years, some of which may include one or more five-year renewal options. We have included the five-year renewal option for one of our leases in our operating lease payments as we concluded that it is reasonably certain that we will exercise the option. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term. Finance leases are not material.

The following tables provide quantitative disclosures related to our operating leases (in thousands):

Balance Sheet Information	**December 31, 2019**
Assets	
Operating lease right-of-use assets	$ 36,020
Liabilities	
Sundry payables and accrued expenses	$ 8,739
Noncurrent operating lease liabilities	28,376
Total operating lease liabilities	$ 37,115
Weighted Average Remaining Lease Term	
Operating leases	5.6 Years
Weighted Average Discount Rate	
Operating leases	3.7%

Expense and Cash Flow Information	**Year Ended December 31, 2019**
Lease Expense	
Operating lease expense (a)	$ 8,940
Supplemental Cash Flow Information	
Cash Paid for the amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 8,758
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	$ 4,663

(a) Excludes expenses of approximately $2.4 million related to non-lease components such as maintenance, property taxes, etc., and operating lease expense for leases with an initial term of 12 months or less, which is not material.

Minimum Lease Payments

At December 31, 2019, we are obligated to make minimum lease payments through 2028, under operating leases, which are as follows (in thousands):

2020	$ 8,994
2021	8,245
2022	6,882
2023	5,682
2024	3,881
Thereafter	7,844
Total lease payments	$ 41,528
Less: Interest	(4,413)
Present value of lease liabilities	$ 37,115

3. Business Acquisitions and Investments

2019 Business Acquisition and Investment

Jiangsu Che Yijia New Energy Technology Co., Ltd. Equity Investment

In August 2019, we acquired an approximate 29% minority interest in Jiangsu Che Yijia New Energy Technology Co., Ltd. ("CYJ") for approximately $5.1 million. Our investment in CYJ was funded through borrowings under our revolving credit facility with JPMorgan Chase Bank, N.A. CYJ is a manufacturer of air conditioning compressors for electric vehicles and is located in China. Our minority interest in CYJ is accounted for using the equity method of accounting.

Pollak Business of Stoneridge, Inc. Acquisition

In April 2019, we acquired certain assets and liabilities of the Pollak business of Stoneridge, Inc. for approximately $40 million, subject to post-closing adjustments. In May 2019, the post-closing adjustments were finalized at $1.6 million, reducing the purchase price to $38.4 million. The acquisition was funded through borrowings under our revolving credit facility with JPMorgan Chase Bank, N.A. Stoneridge's Pollak business had manufacturing and distribution facilities in Canton, Massachusetts, El Paso, Texas, and Juarez, Mexico, and distributed a range of engine management products including sensors, switches, and connectors. The acquisition, reported as part of our Engine Management Segment, enhanced our growth opportunities in the OE/OES, heavy duty and commercial vehicle markets and added to our existing expertise in aftermarket distribution, product management and service. We have not acquired any of the Pollak facilities or employees, and have relocated all production to our existing facilities. Revenues generated from the acquired business were approximately $45 million for the year ended December 31, 2018.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed, based on their fair values (in thousands):

Purchase Price		$ 38,427
Assets acquired and liabilities assumed:		
Inventory	$ 3,331	
Property, plant and equipment, net	45	
Intangible assets	24,650	
Goodwill	10,401	
Net assets acquired		$ 38,427

Intangible assets acquired of $24.7 million consist of customer relationships related to the acquired OE/OES business of $17.2 million that will be amortized on a straight-line basis over the estimated useful life of 10 years; customer relationships related to the acquired aftermarket business of $7.2 million that will be amortized on a straight-line basis over the estimated useful life of 15 years; a trademark of $0.2 million that will be amortized on a straight-line basis over the estimated useful life of 10 years; and a non-compete agreement of $0.1 million that will be amortized on a straight-line basis over the estimated useful life of 5 years. Goodwill of $10.4 million was allocated to the Engine Management Segment and is deductible for income tax purposes. The goodwill reflects relationships, business specific knowledge and the replacement cost of an assembled workforce associated with personal reputations, as well as the value of expected synergies.

Revenues included in our consolidated statements of operations for the acquisition were $28.2 million from the date of acquisition through December 31, 2019.

2018 Increase in Equity Investment

Foshan GWO YNG SMP Vehicle Climate Control & Cooling Products Co. Ltd.

In April 2014, we formed a 50/50 joint venture with Gwo Yng Enterprise Co., Ltd. ("Gwo Yng"), a China-based manufacturer of air conditioner accumulators, filter driers, hose assemblies and switches for the automotive aftermarket and OEM/OES markets. We acquired our 50% interest in the joint venture for approximately $14 million. We determined, at that time, that due to a lack of a voting majority and other qualitative factors, we do not control the operations of the joint venture and accordingly, our investment in the joint venture was accounted for under the equity method of accounting.

In March 2018, we acquired an additional 15% equity interest in the joint venture for approximately $4.2 million, thereby increasing our equity interest in the joint venture to 65%. The $4.2 million payment for our additional 15% investment was made in cash installments throughout 2018. Although we have increased our equity interest in the joint venture to 65%, the minority shareholder will maintain participating rights that will allow it to participate in certain significant financial and operating decisions that occur in the ordinary course of business. As a result of the existence of these substantive participating rights of the minority shareholder, we will continue to account for our investment in the joint venture under the equity method of accounting.

4. Sale of Grapevine, Texas Property

In December 2018, we completed the sale of our property located in Grapevine, Texas. The net proceeds from the sale of the property of $4.8 million was received in January 2019 and was used to reduce borrowings under our revolving credit facility. The gain on the sale of the property of $3.9 million is included in other income (expense), net in operating income on our consolidated statement of operations.

5. Restructuring and Integration Expense

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of and for the years ended December 31, 2019 and 2018, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2017	$ 2,854	$ —	$ 2,854
Restructuring and integration costs:			
Amounts provided for during 2018 (1)	9	4,501	4,510
Non-cash usage, including asset write-downs	—	(181)	(181)
Cash payments	(2,148)	(3,036)	(5,184)
Reclassification of environmental liability (1)	—	(1,284)	(1,284)
Foreign currency exchange rate changes	27	—	27
Exit activity liability at December 31, 2018	$ 742	$ —	$ 742
Restructuring and integration costs:			
Amounts provided for during 2019 (1)	—	2,585	2,585
Cash payments	(406)	(1,688)	(2,094)
Reclassification of environmental liability (1)	—	(386)	(386)
Reclassification of inventory reserves	—	(511)	(511)
Exit activity liability at December 31, 2019	$ 336	$ —	$ 336

(1) Included in restructuring and integration costs in 2019 and 2018 is a $0.4 million and $1.3 million increase, respectively, in environmental cleanup costs related to ongoing monitoring and remediation in connection with the prior closure of our manufacturing operations at our Long Island City, New York location. The environmental liability has been reclassed to accrued liabilities as of December 31, 2019 and 2018, respectively.

Restructuring Costs

Plant Rationalization Program

In February 2016, in connection with our ongoing efforts to improve operating efficiencies and reduce costs, we finalized our intention to implement a plant rationalization initiative. As part of the plant rationalization, all of our Grapevine, Texas production activities have been relocated to facilities in Greenville, South Carolina and Reynosa, Mexico, and certain production activities were relocated from our Greenville, South Carolina manufacturing facility to our manufacturing facility in Bialystok, Poland. In addition, certain service functions were relocated from Grapevine, Texas to our administrative offices in Lewisville, Texas and our Grapevine, Texas facility was closed. In December 2018, we completed the sale of the property located in Grapevine, Texas. Net proceeds from the sale of $4.8 million were received in January 2019. See Note 4, "Sale of Grapevine, Texas Property," for additional information.

The Plant Rationalization Program has been completed. Cash payments made during 2019 and the remaining aggregate liability related to the program as of December 31, 2019 consists of severance payments to former employees.

Activity, by segment, for the year ended December 31, 2019 and 2018 related to our Plant Rationalization Program consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2017.....	$ —	$ 1,476	$ —	$ 1,476
Restructuring and integration costs:				
Amounts provided for during 2018	—	353	—	353
Cash payments..	—	(1,525)	—	(1,525)
Exit activity liability at December 31, 2018.....	$ —	$ 304	$ —	$ 304
Restructuring and integration costs:				
Amounts provided for during 2019	—	—	—	—
Cash payments..	—	(128)	—	(128)
Exit activity liability at December 31, 2019.....	$ —	$ 176	$ —	$ 176

Orlando Plant Rationalization Program

In January 2017, to further our ongoing efforts to improve operating efficiencies and reduce costs, we finalized our intention to implement a plant rationalization initiative at our Orlando, Florida facility. As part of the Orlando plant rationalization, all of our Orlando, Florida production activities have been relocated to our Independence, Kansas manufacturing facility. In addition, certain production activities were relocated from our Independence, Kansas manufacturing facility to our Reynosa, Mexico manufacturing facility and our Orlando, Florida facility was closed.

The Orlando Plant Rationalization Program has been completed. Cash payments made during 2019 and the remaining aggregate liability related to the program as of December 31, 2019 consists of severance payments to former employees.

Activity, by segment, for the year ended December 31, 2019 and 2018 related to our Orlando Plant Rationalization Program consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2017	$ 986	$ —	$ —	$ 986
Restructuring and integration costs:				
Amounts provided for during 2018	1,479	—	—	1,479
Non-cash usage, including asset writedowns	(12)	—	—	(12)
Cash payments	(2,015)	—	—	(2,015)
Exit activity liability at December 31, 2018	$ 438	$ —	$ —	$ 438
Restructuring and integration costs:				
Amounts provided for during 2019	—	—	—	—
Cash payments	(278)	—	—	(278)
Exit activity liability at December 31, 2019	$ 160	$ —	$ —	$ 160

Integration Costs

Pollak Relocation

In connection with our April 2019 acquisition of certain assets and liabilities of the Pollak business of Stoneridge, Inc., we incurred certain integration expenses in connection with the relocation of certain inventory, machinery, and equipment from Pollak's distribution and manufacturing facilities in El Paso, Texas, Canton, Massachusetts, and Juarez, Mexico, to our existing facilities in Disputanta, Virginia, Reynosa, Mexico and Independence, Kansas. Total integration expenses related to the relocation of $2.2 million were recognized during the year ended December 31, 2019. The Pollak relocation is substantially completed.

Activity, by segment, for the year ended December 31, 2019 related to the Pollak relocation consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2018	$ —	$ —	$ —	$ —
Restructuring and integration costs:				
Amounts provided for during 2019	2,199	—	—	2,199
Cash payments	(1,688)	—	—	(1,688)
Reclassification of inventory reserves	(511)	—	—	(511)
Exit activity liability at December 31, 2019	$ —	$ —	$ —	$ —

Wire and Cable Relocation

In connection with our acquisition of the North American automotive ignition wire business of General Cable Corporation in May 2016, we incurred certain integration expenses, including costs incurred in connection with the consolidation of the General Cable Corporation Altoona, Pennsylvania wire distribution center into our existing wire distribution center in Edwardsville, Kansas and the relocation of certain machinery and equipment. In October 2016, we further announced our plan to relocate all production from the acquired Nogales, Mexico wire set assembly operation to our existing wire assembly facility in Reynosa, Mexico and to close the Nogales, Mexico plant. As of December 31, 2018, the wire and cable relocation program has been completed. All of our Nogales, Mexico production activities have been relocated to our Reynosa, Mexico assembly facility and our Nogales, Mexico plant was closed.

Activity, by segment, for the year ended December 31, 2018 related to our wire and cable relocation program consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2017	$ 392	$ —	$ —	$ 392
Restructuring and integration costs:				
Amounts provided for during 2018	1,394	—	—	1,394
Non-cash usage, including asset write-downs	(169)	—	—	(169)
Cash payments	(1,644)	—	—	(1,644)
Foreign currency exchange rate changes	27	—	—	27
Exit activity liability at December 31, 2018	$ —	$ —	$ —	$ —

6. Sale of Receivables

We are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable to such customers' financial institutions. We sell our undivided interests in certain of these receivables at our discretion when we determine that the cost of these arrangements is less than the cost of servicing our receivables with existing debt. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale.

Pursuant to these agreements, we sold $719 million and $720 million of receivables for the years ended December 31, 2019 and 2018, respectively, which was reflected as a reduction of accounts receivable in the consolidated balance sheet at the time of sale. A charge in the amount of $22 million, $24.4 million and $22.6 million related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017, respectively.

To the extent that these arrangements are terminated, our financial condition, results of operations, cash flows and liquidity could be adversely affected by extended payment terms, delays or failures in collecting trade accounts receivables. The utility of the supply chain financing arrangements also depends upon the LIBOR rate, as it is a component of the discount rate applicable to each arrangement. If the LIBOR rate increases significantly, we may be negatively impacted as we may not be able to pass these added costs on to our customers, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

7. Inventories

	December 31, 2019	December 31, 2018
	(In thousands)	
Finished goods	$ 241,472	$ 226,802
Work-in-process	11,138	10,527
Raw materials	115,611	112,482
Subtotal	368,221	349,811
Unreturned customer inventories	19,722	20,484
Total inventories	$ 387,943	$ 370,295

8. Property, Plant and Equipment

	December 31,	
	2019	2018
	(In thousands)	
Land, buildings and improvements	$ 38,299	$ 40,126
Machinery and equipment	142,531	136,526
Tools, dies and auxiliary equipment	54,843	49,365
Furniture and fixtures	30,470	29,169
Leasehold improvements	11,711	11,386
Construction-in-progress	11,271	10,317
Total property, plant and equipment	289,125	276,889
Less accumulated depreciation	199,476	186,135
Total property, plant and equipment, net	$ 89,649	$ 90,754

Depreciation expense was $17.4 million in 2019, $16.1 million in 2018 and $15.4 million in 2017.

9. Goodwill and Other Intangible Assets

Goodwill

We assess the impairment of long-lived and identifiable intangibles assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. With respect to goodwill, we test for impairment on an annual basis or in interim periods if an event occurs or circumstances change that may indicate the fair value of a reporting unit is below its carrying amount. We completed our annual impairment test of goodwill as of December 31, 2019.

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. In the first step, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill and recognize a charge for impairment to the extent the carrying value exceeds the implied fair value.

As of December 31, 2019, we performed a qualitative assessment of the likelihood of a goodwill impairment for both the Engine Management and Temperature Control reporting units. Based upon our qualitative assessment, we determined that it was not more likely than not that the fair value of the each of the Engine Management and Temperature Control reporting units were less than their respective carrying amounts. As such, we concluded that the two-step impairment test would not be required, and that there would be no required goodwill impairment charge as of December 31, 2019 at each of the Engine Management and Temperature Control reporting units. We did not have a goodwill impairment charge as of December 31, 2019, and we do not believe that future impairments are probable.

Changes in the carrying values of goodwill by operating segment during the years ended December 31, 2019 and 2018 are as follows (in thousands):

	Engine Management	Temperature Control	Total
Balance as of December 31, 2017:			
Goodwill	$ 91,631	$ 14,270	$ 105,901
Accumulated impairment losses	(38,488)	—	(38,488)
	$ 53,143	$ 14,270	$ 67,413
Activity in 2018			
Foreign currency exchange rate change	(92)	—	(92)
Balance as of December 31, 2018:			
Goodwill	91,539	14,270	105,809
Accumulated impairment losses	(38,488)	—	(38,488)
	$ 53,051	$ 14,270	$ 67,321
Activity in 2019			
Acquisition of Pollak Business of Stoneridge, Inc.	10,401	—	10,401
Foreign currency exchange rate change	80	—	80
Balance as of December 31, 2019:			
Goodwill	102,020	14,270	116,290
Accumulated impairment losses	(38,488)	—	(38,488)
	$ 63,532	$ 14,270	$ 77,802

Acquired Intangible Assets

Acquired identifiable intangible assets as of December 31, 2019 and 2018 consist of:

	December 31,	
	2019	2018
	(In thousands)	
Customer relationships	$ 111,692	$ 87,195
Trademarks and trade names	6,980	6,800
Non-compete agreements	3,276	3,193
Patents	723	723
Supply agreements	800	800
Leaseholds	160	160
Total acquired intangible assets	123,631	98,871
Less accumulated amortization (1)	(59,431)	(51,391)
Net acquired intangible assets	$ 64,200	$ 47,480

(1) Applies to all intangible assets, except for related trademarks and trade names totaling $5.2 million, which have indefinite useful lives and, as such, are not being amortized.

In April 2019, we acquired certain assets and liabilities of the Pollak business of Stoneridge, Inc. Intangible assets acquired of $24.7 million consist of customer relationships related to the acquired OE/OES business of $17.2 million that will be amortized on a straight-line basis over the estimated useful life of 10 years; customer relationships related to the acquired aftermarket business of $7.2 million that will be amortized on a straight-line basis over the estimated useful life of 15 years; a trademark of $0.2 million that will be amortized on a straight-line basis over the estimated useful life of 10 years; and a non-compete agreement of $0.1 million that will be amortized on a straight-line basis over the estimated useful life of 5 years.

Total amortization expense for acquired intangible assets was $8 million for the year ended December 31, 2019, $7.6 million for the year ended December 31, 2018, and $8 million for the year ended December 31, 2017. Based on the current estimated useful lives assigned to our intangible assets, amortization expense is estimated to be $8.2 million for 2020, $6.8 million in 2021, $5.2 million in 2022, $5 million in 2023 and $33.8 million in the aggregate for the years 2024 through 2034.

Other Intangible Assets

Other intangible assets include computer software. Computer software as of December 31, 2019 and 2018 totaled $16.9 million and $17.2 million, respectively. Total accumulated computer software amortization as of December 31, 2019 and 2018 was $16.2 million and $16.3 million, respectively. Computer software is amortized over its estimated useful life of 3 to 10 years. Amortization expense for computer software was $0.4 million, $0.4 million and $0.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Fully amortized computer software, no longer in use, of $0.5 million was written-off during the year ended December 31, 2019.

10. Investments in Unconsolidated Affiliates

	December 31,	
	2019	2018
	(In thousands)	
Foshan GWOYNG SMP Vehicle Climate Control & Cooling Products Co. Ltd.	$ 18,099	$ 17,764
Foshan FGD SMP Automotive Compressor Co. Ltd	13,633	12,547
Jiangsu Che Yijia New Energy Technology Co., Ltd.	4,883	—
Orange Electronic Co. Ltd.	2,243	2,158
Total	$ 38,858	$ 32,469

Investment in Jiangsu Che Yijia New Energy Technology Co., Ltd.

In August 2019, we acquired an approximate 29% minority interest in Jiangsu Che Yijia New Energy Technology Co., Ltd. (“CYJ”) for approximately $5.1 million. Our investment in CYJ was funded through borrowings under our revolving credit facility with JPMorgan Chase, N.A. CYJ is a manufacturer of air conditioning compressors for electric vehicles and is located in China. Our minority interest in CYJ is accounted for using the equity method of accounting. We did not make any purchases from CYJ from the date of acquisition through December 31, 2019.

Investment in Foshan FGD SMP Automotive Compressor Co. Ltd.

In November 2017, we formed a 50/50 joint venture with Foshan Guangdong Automotive Air Conditioning Co., Ltd. (“FGD”), a China-based manufacturer of air conditioning compressors for the automotive aftermarket and the Chinese OE market. We acquired our 50% interest in the joint venture for approximately $12.5 million. Payment for our acquired interest in the joint venture was made in installments with approximately $6.8 million paid in 2017 and the balance of $5.7 million paid in January 2018. We determined that due to a lack of a voting majority, and other qualitative factors, we do not control the operations of the joint venture and accordingly, our investment in the joint venture is accounted for under the equity method of accounting. During the years ended December 31, 2019 and 2018, we made purchases from FGD of approximately $12.8 million and $5.2 million, respectively.

Investment in Foshan GWOYNG SMP Vehicle Climate Control & Cooling Products Co. Ltd.

In April 2014, we formed a 50/50 joint venture with Gwo Yng Enterprise Co., Ltd. ("Gwo Yng"), a China-based manufacturer of air conditioner accumulators, filter driers, hose assemblies and switches for the automotive aftermarket and OEM/OES markets. We acquired our 50% interest in the joint venture for $14 million. We determined, at that time, that due to a lack of a voting majority and other qualitative factors, we do not control the operations of the joint venture and accordingly, our investment in the joint venture was accounted for under the equity method of accounting.

In March 2018, we acquired an additional 15% equity interest in the joint venture for approximately $4.2 million, thereby increasing our equity interest in the joint venture to 65%. The $4.2 million payment for our additional 15% investment was made in cash installments throughout 2018. Although we have increased our equity interest in the joint venture to 65%, the minority shareholder will maintain participating rights that will allow it to participate in certain significant financial and operating decisions that occur in the ordinary course of business. As a result of the existence of these substantive participating rights of the minority shareholder, we will continue to account for our investment in the joint venture under the equity method of accounting. During the years ended December 31, 2019 and 2018, we made purchases from Gwo Yng of approximately $12.7 million and $14.9 million, respectively.

Investment in Orange Electronic Co. Ltd.

In January 2013, we acquired an approximate 25% minority interest in Orange Electronic Co., Ltd. ("Orange") for $6.3 million. Orange is a manufacturer of tire pressure monitoring system sensors and is located in Taiwan. As of December 31, 2019, our minority interest in Orange of 19.4% is accounted for using the equity method of accounting as we have the ability to exercise significant influence. During each of the fourth quarters of 2018 and 2017, after a review of the recent financial performance and near term prospects for Orange, we determined that the decline in quoted market prices below the carrying amount of our investment in Orange was other than temporary and, as such, recognized a noncash impairment charge of approximately $1.7 million and $1.8 million, respectively, in each quarter. The impairment charge has been reported in our Engine Management Segment and is included in other non-operating income (expense), net in our consolidated statements of operations. Purchases from Orange during the years ended December 31, 2019 and 2018 were approximately $3.5 million and $4.9 million, respectively.

11. Other Assets

	December 31, 2019	December 31, 2018
	(In thousands)	
Deferred compensation	$ 17,519	$ 14,020
Deferred financing costs, net	656	876
Other	660	723
Total other assets, net	$ 18,835	$ 15,619

Deferred compensation consists of assets held in a nonqualified defined contribution pension plan as of December 31, 2019 and 2018, respectively.

12. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Revolving credit facilities	$ 52,460	$ 43,689
Other (1)	4,585	5,530
Total debt	$ 57,045	$ 49,219
Current maturities of debt	$ 56,916	$ 49,066
Long-term debt	129	153
Total debt	$ 57,045	$ 49,219

(1) Other includes borrowings under our Polish overdraft facility of Zloty 16.7 million (approximately $4.4 million) and Zloty 19.9 million (approximately $5.3 million) as of December 31, 2019 and 2018, respectively.

Maturities of long-term debt are not material for the year ended December 31, 2019 and beyond.

Revolving Credit Facility

In December 2018, we amended our Credit Agreement with JPMorgan Chase Bank, N.A., as agent, and a syndicate of lenders. The amended credit agreement provides for a senior secured revolving credit facility with a line of credit of up to $250 million (with an additional $50 million accordion feature) and extends the maturity date to December 2023. The line of credit under the amended credit agreement also allows for a $10 million line of credit to Canada as part of the $250 million available for borrowing. Direct borrowings under the amended credit agreement bear interest at LIBOR plus a margin ranging from 1.25% to 1.75% based on our borrowing availability, or floating at the alternate base rate plus a margin ranging from 0.25% to 0.75% based on our borrowing availability, at our option. The amended credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

Borrowings under the amended credit agreement are secured by substantially all of our assets, including accounts receivable, inventory and certain fixed assets, and those of certain of our subsidiaries. Availability under the amended credit agreement is based on a formula of eligible accounts receivable, eligible drafts presented to the banks under our supply chain financing arrangements, eligible inventory, eligible equipment and eligible fixed assets. After taking into account outstanding borrowings under the amended credit agreement, there was an additional $194.3 million available for us to borrow pursuant to the formula at December 31, 2019. Outstanding borrowings under the credit agreement, which are classified as current liabilities, were $52.5 million and $43.7 million at December 31, 2019 and 2018, respectively; while letters of credit outstanding under the credit agreement were $3.1 million at both December 31, 2019 and 2018. Borrowings under the credit agreement have been classified as current liabilities based upon accounting rules and certain provisions in the agreement.

At December 31, 2019, the weighted average interest rate on our amended credit agreement was 3.5%, which consisted of $40 million in direct borrowings at 2.3% and an alternative base rate loan of $12.5 million at 5%. At December 31, 2018, the weighted average interest rate on our amended credit agreement was 3.9%, which consisted of $40 million in direct borrowings at 3.4% and an alternative base rate loan of $3.7 million at 5.8%. Our average daily alternative base rate loan balance was $1.7 million and $1.8 million during 2019 and 2018, respectively.

At any time that our borrowing availability is less than the greater of either (a) $25 million, or 10% of the commitments if fixed assets are not included in the borrowing base, or (b) $31.25 million, or 12.5% of the commitments if fixed assets are included in the borrowing base, the terms of the amended credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain a fixed charge coverage ratio of 1:1 at the end of each fiscal quarter (rolling four quarters). As of December 31, 2019, we were not subject to these covenants. The amended credit agreement permits us to pay cash dividends of $20 million and make stock repurchases of $20 million in any fiscal year subject to a minimum availability of $25 million. Provided specific conditions are met, the amended credit agreement also permits acquisitions, permissible debt financing, capital expenditures, and cash dividend payments and stock repurchases of greater than $20 million.

Polish Overdraft Facility

Our Polish subsidiary, SMP Poland sp. z.o.o., has entered into an overdraft facility with HSBC France (Spolka Akcyjna) Oddzial w Polsce, formerly HSBC Bank Polska S.A., for Zloty 30 million (approximately $7.9 million). The facility, as amended, expires in December 2020. Borrowings under the overdraft facility will bear interest at a rate equal to WIBOR + 0.75% and are guaranteed by Standard Motor Products, Inc., the ultimate parent company. At December 31, 2019 and 2018, borrowings under the overdraft facility were Zloty 16.7 million (approximately $4.4 million) and Zloty 19.9 million (approximately $5.3 million), respectively.

Deferred Financing Costs

We have deferred financing costs of approximately $0.9 million and $1.1 million as of December 31, 2019 and 2018, respectively. Deferred financing costs as of December 31, 2019 are related to our revolving credit facility. In connection with the amendment to our Credit Agreement with JPMorgan Chase Bank, N.A., as agent, entered into in December 2018, we incurred and capitalized approximately $0.5 million of deferred financing costs related to bank, legal, and other professional fees which are being amortized, along with the preexisting deferred financing costs, through 2023, the term of the amended agreement.

Scheduled amortization for future years, assuming no prepayments of principal is as follows:

(In thousands)		
2020	$	225
2021		225
2022		225
2023		206
Total amortization	$	881

13. Stockholders' Equity

We have authority to issue 500,000 shares of preferred stock, $20 par value, and our Board of Directors is vested with the authority to establish and designate any series of preferred, to fix the number of shares therein and the variations in relative rights as between each series. In December 1995, our 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 our 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, 2019 and 2018.

During 2017, our Board of Directors authorized the purchase of up to $30 million of our common stock under stock repurchase programs. Under these programs, during the years ended December 31, 2017 and 2018, we repurchased 539,760 and 112,307 shares of our common stock, respectively, in the open market at a total cost of $24.8 million and $5.2 million, respectively, thereby completing the 2017 Board of Directors' authorizations.

In May 2018, our Board of Directors authorized the purchase of up to an additional $20 million of our common stock under a new stock repurchase program. Under this program, during the year ended December 31, 2018 and 2019, we repurchased 201,484 and 221,748 shares of our common stock, respectively, at a total cost of $9.3 million and $10.7 million, respectively, thereby completing the 2018 Board of Directors authorization.

14. Stock-Based Compensation Plans

Our stock-based compensation program is a broad-based program designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. In addition, members of our Board of Directors participate in our stock-based compensation program in connection with their service on our board. In May 2016, our Board of Directors and Shareholders approved the 2016 Omnibus Incentive Plan. The 2016 Omnibus Incentive Plan supersedes the 2006 Omnibus Incentive Plan, which terminated in May 2016. The 2016 Omnibus Incentive Plan is the only remaining plan available to provide stock-based incentive compensation to our employees, directors and other eligible persons.

Under the 2016 Omnibus Incentive Plan, which terminates in May 2026, we are authorized to issue, among other things, shares of restricted and performance-based stock to eligible employees and restricted stock to directors of up to 1,100,000 shares. Shares issued under the plan that are cancelled, forfeited or expire by their terms are eligible to be granted again under the 2016 Omnibus Incentive Plan. Awards previously granted under the 2006 Omnibus Incentive Plan are not affected by the plan's termination, while shares not yet granted under the plan are not available for future issuance.

We account for our stock-based compensation plans in accordance with the provisions of ASC 718, *Stock Compensation*, which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The service period is the period of time that the grantee must provide services to us before the stock-based compensation is fully vested. The grant-date fair value of the award is recognized as an expense on a straight-line basis over the requisite service periods in our consolidated statements of operations. Forfeitures are estimated at the time of grant based on historical trends in order to estimate the amount of share-based awards that will ultimately vest. We monitor actual forfeitures for any subsequent adjustment to forfeiture rates.

Stock-based compensation expense under our existing plans was $6.5 million ($4.9 million, net of tax), $7.4 million ($5.5 million, net of tax), and $7.1 million ($3.2 million, net of tax) for the years ended December 31, 2019, 2018 and 2017, respectively.

Restricted Stock and Performance Share Grants

We currently grant shares of restricted stock to eligible employees and our independent directors and performance-based stock to eligible employees. Selected executives and other key personnel are granted performance awards whose vesting is contingent upon meeting various performance measures with a retention feature. Performance-based shares are subject to a three year measuring period and the achievement of performance targets and, depending upon the achievement of such performance targets, they may become vested on the third anniversary of the date of grant. Each period we evaluate the probability of achieving the applicable targets and we adjust our accrual accordingly. Restricted shares granted to employees become fully vested upon the third anniversary of the date of grant; and for selected key executives certain additional restricted share grants vest 25% upon the attainment of age 60, 25% upon the attainment of age 63 and become fully vested upon the attainment of age 65. Restricted shares granted to directors become fully vested upon the first anniversary of the date of grant. Commencing with the 2015 grants, restricted and performance shares issued to certain key executives and directors are subject to a one or two year holding period upon the lapse of the vesting period.

Prior to the time a restricted share becomes fully vested or a performance share is issued, the awardees cannot transfer, pledge, hypothecate or encumber such shares. Prior to the time a restricted share is fully vested, the awardees have all other rights of a stockholder, including the right to vote (but not receive dividends during the vesting period). Prior to the time a performance share is issued, the awardees shall have no rights as a stockholder. All shares and rights are subject to forfeiture if certain employment conditions are not met.

Under the 2016 Omnibus Incentive Plan, 1,100,000 shares are authorized to be issued. At December 31, 2019, under the plan, there were an aggregate of (a) 778,071 shares of restricted and performance-based stock grants issued, net of forfeitures, and (b) 321,929 shares of common stock available for future grants. For the year ended December 31, 2019, 204,650 restricted and performance-based shares were granted (148,400 restricted shares and 56,250 performance-based shares).

In determining the grant date fair value, the stock price on the date of grant, as quoted on the New York Stock Exchange, was reduced by the present value of dividends expected to be paid on the shares issued and outstanding during the requisite service period, discounted at a risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the restriction or vesting period at the grant date. In addition, a further discount for the lack of marketability reduced the fair value of grants issued to certain key executives and directors subject to the one or two year post vesting holding period. Assumptions used in calculating the discount for the lack of marketability include an estimate of stock volatility, risk-free interest rate, and a dividend yield.

The fair value of the shares at the date of grant is amortized to expense ratably over the vesting period. Forfeitures on restricted stock grants are estimated at 5% for employees and 0% for executives and directors, respectively, based on evaluation of historical and expected future turnover.

As related to restricted and performance stock shares, we recorded compensation expense of $6.5 million ($4.9 million, net of tax), $7.4 million ($5.5 million, net of tax) and $7.1 million ($3.2 million, net of tax), for the years ended December 31, 2019, 2018 and 2017, respectively. The unamortized compensation expense related to our restricted and performance-based shares was $15.9 million and $15.8 million at December 31, 2019 and 2018, respectively and is expected to be recognized over a weighted average period of 4.6 years and 0.3 years for employees and directors, respectively, as of December 31, 2019 and over a weighted average period of 4.3 years and 0.3 years for employees and directors, respectively, as of December 31, 2018.

Our restricted and performance-based share activity was as follows for the years ended December 31, 2019 and 2018:

	Shares	Weighted Average Grant Date Fair Value per Share
Balance at December 31, 2017	853,958	$ 33.25
Granted	198,004	39.36
Vested	(167,811)	39.90
Forfeited (1)	(14,110)	42.28
Balance at December 31, 2018	870,041	$ 34.59
Granted	204,650	42.05
Vested	(188,693)	38.08
Forfeited (1)	(33,458)	43.32
Balance at December 31, 2019	852,540	$ 35.26

(1) Due to the lack of achievement of performance targets, performance-based shares forfeited in the years ended December 31, 2019 and 2018 were 20,508 shares and 2,085 shares, respectively.

The weighted-average grant date fair value of restricted and performance-based shares outstanding as of December 31, 2019, 2018 and 2017 was $30.1 million (or $35.26 per share), $30.1 million (or $34.59 per share), and $28.4 million (or $33.25 per share), respectively.

15. Employee Benefits

Defined Contribution Plans

We maintain various defined contribution plans, which include profit sharing and provide retirement benefits for substantially all of our employees. Matching obligations, in connection with the plans which are funded in cash and typically contributed to the plans in March of the following year, are as follows (in thousands):

	U.S. Defined Contribution
Year ended December 31,	
2019	$ 9,080
2018	8,928
2017	9,153

We maintain a defined contribution Supplemental Executive Retirement Plan for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2018, contributions of $0.6 million were made related to calendar year 2017. In March 2019, contributions of $0.3 million were made related to calendar year 2018. We have recorded an obligation of $0.3 million for 2019.

We also have an Employee Stock Ownership Plan and Trust ("ESOP") for employees who are not covered by a collective bargaining agreement. In connection therewith, we maintain an employee benefits trust to which we contribute shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under the plan. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with its fiduciary duties. During 2019, we contributed to the trust an additional 49,100 shares from our treasury and released 49,100 shares from the trust leaving 200 shares remaining in the trust as of December 31, 2019. The provision for expense in connection with the ESOP was approximately $2.5 million in 2019, $2.6 million in 2018 and $2.2 million in 2017.

Defined Benefit Pension Plan

We maintain a defined benefit unfunded Supplemental Executive Retirement Plan ("SERP"). The SERP, as amended, is a defined benefit plan pursuant to which we will pay supplemental pension benefits to certain key employees upon the attainment of a contractual participant's payment date based upon the employees' years of service and compensation. There was no benefit obligation outstanding related to the SERP as of December 31, 2019 and 2018. We recorded no expense related to the plan during the years ended December 31, 2019, 2018 and 2017.

Postretirement Medical Benefits

We provided, and continue to provide, certain medical and dental care benefits to eligible retired U.S. and Canadian employees. The postretirement medical plans to eligible U.S. employees, other than to former union employees, and eligible Canadian employees terminated on December 31, 2016. As related to the U.S. non-union employees, annually and through the year ended December 31, 2016, a fixed amount was credited into a Health Reimbursement account ("HRA") to cover both medical and dental costs for all current and future eligible retirees. Balances in the HRA accounts upon termination of the plan at December 31, 2016 remained available for use until December 31, 2018. Any remaining balance at December 31, 2018 was forfeited. Postretirement medical and dental benefits to the remaining eligible 16 former union employees in the U.S. will continue to be provided. The postretirement medical and dental benefit obligation for the former union employees in the U.S. as of December 31, 2019, and the net periodic benefit cost for our postretirement benefit plans for the years ended December 31, 2019, 2018 and 2017 were not material.

16. Other Non-Operating Income (Expense), Net

The components of other non-operating income (expense), net are as follows:

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Interest and dividend income	$ 97	$ 80	$ 91
Equity income (loss) from joint ventures (1)	2,865	(768)	(602)
Gain (loss) on foreign exchange	(502)	(120)	950
Postretirement plan net periodic benefit credit (cost)	25	262	653
Other non-operating income, net	102	135	158
Total other non-operating income (expense), net	$ 2,587	$ (411)	$ 1,250

(1) Year ended December 31, 2018 and 2017 includes a noncash impairment charge of approximately $1.7 million and $1.8 million, respectively, related to our minority interest investment in Orange Electronic Co., Ltd. (See Note 10, "Investments in Unconsolidated Affiliates" for additional information).

17. Fair Value Measurements

The carrying value of our financial instruments consisting of cash and cash equivalents, deferred compensation, and short term borrowings approximate their fair value. In each instance, fair value is determined after considering Level 1 inputs under the three-level fair value hierarchy. For fair value purposes, the carrying value of cash and cash equivalents approximates fair value due to the short maturity of those investments. The fair value of the assets held by the deferred compensation plan are based on the quoted market prices of the underlying funds which are held in registered investment companies. The carrying value of our revolving credit facilities, classified as short term borrowings, equals fair market value because the interest rate reflects current market rates.

18. Income Taxes

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

	Year Ended December 31,		
	2019	2018	2017
Current:			
Domestic	$ 14,632	$ 26,821	$ 30,742
Foreign	3,019	3,180	3,139
Total current	17,651	30,001	33,881
Deferred:			
Domestic	4,677	(10,132)	18,833
Foreign	417	108	98
Total deferred	5,094	(10,024)	18,931
Total income tax provision	$ 22,745	$ 19,977	$ 52,812

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which included a broad range of tax reform affecting businesses, including the reduction of the federal corporate tax rate from 35% to 21%, changes in the deductibility of certain business expenses, and the manner in which international operations are taxed in the U.S. In connection with the enactment of the Act, our income tax provision for the fourth quarter of 2017 included an increase of $17.5 million, reflecting an increase of $16.1 million for the remeasurement of our net deferred tax assets and an increase in tax of $1.4 million due to the deemed repatriation of earnings of our foreign subsidiaries.

As related to the deemed repatriation of earnings of foreign subsidiaries, the Act includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries. As a result, all previously unremitted earnings for which no U.S. deferred tax liability had been accrued are now subject to U.S. tax. In accordance with the guidelines provided in the Act, as of December 31, 2017 we aggregated our estimated foreign earnings and profits, and utilized participating deductions and available foreign tax credits. The gross repatriation tax was $2.3 million, which was offset by $0.9 million of foreign tax credits for a net repatriation tax charge of $1.4 million. During 2018, we refined and updated our calculation of the gross repatriation tax to $2.7 million, which was paid to the U.S. Treasury. The difference in the refined and updated repatriation tax and what was previously recorded in the fourth quarter of 2017 was reflected in the 2018 tax provision. Notwithstanding the U.S. taxation of these amounts, we intend to continue to invest most or all of these earnings indefinitely outside of the U.S., and do not expect to incur any significant additional taxes related to such amounts.

Reconciliations between taxes at the U.S. Federal income tax rate and taxes at our effective income tax rate on earnings from continuing operations before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
U.S. Federal income tax rate of 21% in 2019 and 2018, and 35% in 2017	$ 19,277	$ 16,135	$ 33,755
Increase (decrease) in tax rate resulting from:			
State and local income taxes, net of federal income tax benefit	3,328	2,781	3,138
Income tax (tax benefits) attributable to foreign income	191	1,598	(149)
Other non-deductible items, net	(409)	(559)	(1,319)
Impact of Tax Cuts and Jobs Act	—	—	17,515
Change in valuation allowance	358	22	(128)
Provision for income taxes	$ 22,745	$ 19,977	$ 52,812

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

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Inventories	$ 12,077	$ 12,798
Allowance for customer returns	11,969	16,836
Postretirement benefits	50	58
Allowance for doubtful accounts	1,262	1,371
Accrued salaries and benefits	9,826	9,147
Tax credit carryforwards	609	272
Accrued asbestos liabilities	13,132	11,872
Other	148	127
	49,073	52,481
Valuation allowance	(757)	(399)
Total deferred tax assets	48,316	52,082
Deferred tax liabilities:		
Depreciation	7,706	7,755
Other	3,338	1,993
Total deferred tax liabilities	11,044	9,748
Net deferred tax assets	$ 37,272	$ 42,334

In assessing the realizability of the deferred tax assets, we consider whether it is more likely than not that some portion or the entire deferred tax asset will be realized. Ultimately, the realization of the deferred tax asset is dependent upon the generation of sufficient taxable income in those periods in which temporary differences become deductible and/or net operating loss carryforwards can be utilized. We consider the level of historical taxable income, scheduled reversal of temporary differences, carryback and carryforward periods, tax planning strategies and projected future taxable income in determining whether a valuation allowance is warranted. We also consider cumulative losses in recent years as well as the impact of one-time events in assessing our pre-tax earnings. Assumptions regarding future taxable income require significant judgment. Our assumptions are consistent with estimates and plans used to manage our business.

The valuation allowance of $0.8 million as of December 31, 2019 is intended to provide for uncertainty regarding the ultimate realization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. Based on these considerations, we believe it is more likely than not that we would realize the benefit of the net deferred tax asset of $37.3 million as of December 31, 2019, which is net of the remaining valuation allowance.

At December 31, 2019, we have foreign tax credit carryforwards of approximately $0.6 million that will expire in varying amounts by 2028.

In accordance with generally accepted accounting practices, we recognize in our financial statements only those tax positions that meet the more-likely-than-not recognition threshold. We establish tax reserves for uncertain tax positions that do not meet this threshold. During the years ended December 31, 2019, 2018 and 2017, we did not establish a liability for uncertain tax positions.

We are subject to taxation in the U.S. and various state, local and foreign jurisdictions. As of December 31, 2019, the Company is no longer subject to U.S. Federal tax examinations for years before 2016. We remain subject to examination by state and local tax authorities for tax years 2015 through 2018. Foreign jurisdictions have statutes of limitations generally ranging from 2 to 6 years. Years still open to examination by foreign tax authorities in major jurisdictions include Canada (2015 onward), Hong Kong (2014 onward), Mexico (2015 onward) and Poland (2014 onward). We do not presently anticipate that our unrecognized tax benefits will significantly increase or decrease over the next 12 months; however, actual developments in this area could differ from those currently expected.

19. Earnings Per Share

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Basic Net Earnings Per Common Share:			
Earnings from continuing operations	$ 69,051	$ 56,854	$ 43,630
Loss from discontinued operations	(11,134)	(13,851)	(5,654)
Net earnings available to common stockholders	$ 57,917	$ 43,003	$ 37,976
Weighted average common shares outstanding	22,378	22,456	22,726
Earnings from continuing operations per common share	$ 3.09	$ 2.53	$ 1.92
Loss from discontinued operations per common share	(0.50)	(0.62)	(0.25)
Basic net earnings per common share	$ 2.59	$ 1.91	$ 1.67
Diluted Net Earnings Per Common Share:			
Earnings from continuing operations	$ 69,051	$ 56,854	$ 43,630
Loss from discontinued operations	(11,134)	(13,851)	(5,654)
Net earnings available to common stockholders	$ 57,917	$ 43,003	$ 37,976
Weighted average common shares outstanding	22,378	22,456	22,726
Plus incremental shares from assumed conversions:			
Dilutive effect of restricted stock and performance-based stock	440	476	472
Weighted average common shares outstanding – Diluted	22,818	22,932	23,198
Earnings from continuing operations per common share	$ 3.03	$ 2.48	$ 1.88
Loss from discontinued operations per common share	(0.49)	(0.60)	(0.24)
Diluted net earnings per common share	$ 2.54	$ 1.88	$ 1.64

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

	2019	**2018**	**2017**
Restricted and performance shares	255	249	248

20. Industry Segment and Geographic Data

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

The 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 (in thousands):

	Year Ended December 31,		
	2019	2018	2017 (b)
Net sales (a):			
Engine Management	$ 849,161	$ 803,487	$ 829,413
Temperature Control	278,355	278,456	279,127
Other	10,397	10,108	7,603
Total net sales	$ 1,137,913	$ 1,092,051	$ 1,116,143
Intersegment sales (a):			
Engine Management	$ 19,569	$ 23,367	$ 24,995
Temperature Control	6,545	8,160	7,334
Other	(26,114)	(31,527)	(32,329)
Total intersegment sales	$ —	$ —	$ —
Depreciation and Amortization:			
Engine Management	$ 19,463	$ 17,858	$ 17,981
Temperature Control	4,568	4,704	4,373
Other	1,778	1,542	1,562
Total depreciation and amortization	$ 25,809	$ 24,104	$ 23,916
Operating income (loss):			
Engine Management	$ 103,808	$ 84,844	$ 97,403
Temperature Control	13,667	14,586	19,609
Other	(22,980)	(18,162)	(19,491)
Total operating income	$ 94,495	$ 81,268	$ 97,521
Investment in unconsolidated affiliates:			
Engine Management	$ 2,243	$ 2,158	$ 4,162
Temperature Control	36,615	30,311	27,022
Other	—	—	—
Total investment in unconsolidated affiliates	$ 38,858	$ 32,469	$ 31,184
Capital expenditures:			
Engine Management	$ 12,593	$ 11,435	$ 17,750
Temperature Control	2,273	7,245	5,151
Other	1,319	1,461	1,541
Total capital expenditures	$ 16,185	$ 20,141	$ 24,442

	Year Ended December 31,		
	2019	2018	2017 (b)
Total assets:			
Engine Management	$ 601,637	$ 553,480	$ 527,200
Temperature Control	218,783	205,039	177,006
Other	92,310	84,613	83,361
Total assets	$ 912,730	$ 843,132	$ 787,567

(a) Segment net sales include intersegment sales in our Engine Management and Temperature Control segments.

(b) Net sales and intersegment sales for 2017 have not been restated and are reported under accounting standards in effect in the period presented, as we adopted ASU 2014-09, *Revenue from Contracts with Customers*, on January 1, 2018 using the modified retrospective method.

Other consists of the elimination of intersegment sales from our Engine Management and Temperature Control segments, as well as items pertaining to our Canadian business unit that does not meet the criteria of a reportable operating segment and our corporate headquarters function.

Reconciliation of segment operating income to net earnings:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Operating income	$ 94,495	$ 81,268	$ 97,521
Other non-operating income (expense), net	2,587	(411)	1,250
Interest expense	5,286	4,026	2,329
Earnings from continuing operations before taxes	91,796	76,831	96,442
Income tax expense	22,745	19,977	52,812
Earnings from continuing operations	69,051	56,854	43,630
Discontinued operations, net of tax	(11,134)	(13,851)	(5,654)
Net earnings	$ 57,917	$ 43,003	$ 37,976

	Year Ended December 31,		
	2019	2018	2017 (b)
Revenues (a):	(In thousands)		
United States	$ 1,023,903	$ 976,030	$1,001,003
Canada	50,158	57,460	52,005
Mexico	20,035	20,214	24,521
Europe	13,875	13,684	14,088
Other foreign	29,942	24,663	24,526
Total revenues	$ 1,137,913	$ 1,092,051	$1,116,143

	December 31,		
	2019	2018	2017
Long-lived assets (c):	(In thousands)		
United States	$ 253,384	$ 198,494	$ 202,875
Canada	4,659	2,718	2,017
Mexico	12,036	4,012	4,449
Europe	17,004	16,880	18,530
Other foreign	38,942	32,470	31,185
Total long-lived assets	$ 326,025	$ 254,574	$ 259,056

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

(b) Revenues for 2017 have not been restated and are reported under accounting standards in effect in the period presented, as we adopted ASU 2014-09, *Revenue from Contracts with Customers*, on January 1, 2018 using the modified retrospective method.

(c) Long-lived assets are attributed to countries based upon the location of the assets.

Our five largest individual customers accounted for approximately 69% of our consolidated net sales in 2019, and approximately 70% of our consolidated net sales in 2018 and 2017. During 2019, O'Reilly, Advance, NAPA, and AutoZone accounted for 22%, 16%, 15% and 11% of our consolidated net sales, respectively. Net sales from each of the customers were reported in both our Engine Management and Temperature Control Segments.

For the disaggregation of our net sales from contracts with customers by geographic area, major product group and major sales channels for each of our segments, see Note 21, "Net Sales."

21. Net Sales

Disaggregation of Net Sales

We disaggregate our net sales from contracts with customers by geographic area, major product group, and major sales channels for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our net sales are affected by economic factors. The following tables provide disaggregation of net sales information for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Year Ended December 31, 2019 (a)	Engine Management	Temperature Control	Other (c)	Total
Geographic Area:				
United States	$ 760,134	$ 263,769	$ —	$ 1,023,903
Canada	27,439	12,322	10,397	50,158
Mexico	19,330	705	—	20,035
Europe	13,341	534	—	13,875
Other foreign	28,917	1,025	—	29,942
Total	$ 849,161	$ 278,355	$ 10,397	$ 1,137,913
Major Product Group:				
Ignition, emission control, fuel and safety related system products	$ 705,994	$ —	$ 6,381	$ 712,375
Wire and cable	143,167	—	477	143,644
Compressors	—	160,485	1,338	161,823
Other climate control parts	—	117,870	2,201	120,071
Total	$ 849,161	$ 278,355	$ 10,397	$ 1,137,913

Year Ended December 31, 2019 (a)	Engine Management	Temperature Control	Other (c)	Total
Major Sales Channel:				
Aftermarket	$ 702,872	$ 248,420	$ 10,397	$ 961,689
OE/OES	124,665	27,915	—	152,580
Export	21,624	2,020	—	23,644
Total	$ 849,161	$ 278,355	$ 10,397	$1,137,913

Year Ended December 31, 2018 (a)	Engine Management	Temperature Control	Other (c)	Total
Geographic Area:				
United States	$ 714,402	$ 261,628	$ —	$ 976,030
Canada	33,475	13,877	10,108	57,460
Mexico	19,397	817	—	20,214
Europe	13,054	630	—	13,684
Other foreign	23,159	1,504	—	24,663
Total	$ 803,487	$ 278,456	$ 10,108	$ 1,092,051
Major Product Group:				
Ignition, emission control, fuel and safety related system products	$ 648,270	$ —	$ 5,829	$ 654,099
Wire and cable	155,217	—	454	155,671
Compressors	—	148,416	1,853	150,269
Other climate control parts	—	130,040	1,972	132,012
Total	$ 803,487	$ 278,456	$ 10,108	$ 1,092,051
Major Sales Channel:				
Aftermarket	$ 684,242	$ 246,112	$ 10,108	$ 940,462
OE/OES	97,205	30,275	—	127,480
Export	22,040	2,069	—	24,109
Total	$ 803,487	$ 278,456	$ 10,108	$ 1,092,051

Year Ended December 31, 2017 (a)(b)	Engine Management	Temperature Control	Other (c)	Total
Geographic Area:				
United States	$ 737,108	$ 263,895	$ —	$ 1,001,003
Canada	32,197	12,205	7,603	52,005
Mexico	23,683	838	—	24,521
Europe	13,342	746	—	14,088
Other foreign	23,083	1,443	—	24,526
Total	$ 829,413	$ 279,127	$ 7,603	$ 1,116,143
Major Product Group:				
Ignition, emission control, fuel and safety related system products	$ 657,287	$ —	$ 4,403	$ 661,690
Wire and cable	172,126	—	650	172,776
Compressors	—	148,377	1,233	149,610
Other climate control parts	—	130,750	1,317	132,067
Total	$ 829,413	$ 279,127	$ 7,603	$ 1,116,143
Major Sales Channel:				
Aftermarket	$ 701,308	$ 246,097	$ 7,603	$ 955,008
OE/OES	106,173	30,268	—	136,441
Export	21,932	2,762	—	24,694
Total	$ 829,413	$ 279,127	$ 7,603	$ 1,116,143

(a) Segment net sales include intersegment sales in our Engine Management and Temperature Control segments.

(b) Amounts have not been restated and are reported under accounting standards in effect in the period presented as we adopted ASU 2014-09, *Revenue from Contracts with Customers*, on January 1, 2018 using the modified retrospective method.

(c) Other consists of the elimination of intersegment sales from our Engine Management and Temperature Control segments as well as sales from our Canadian business unit that does not meet the criteria of a reportable operating segment.

Geographic Area

We sell our line of products primarily in the United States, with additional sales in Canada, Mexico, Europe, Asia and Latin America. Sales are attributed to countries based upon the location of the customer. Our sales are substantially denominated in U.S. dollars.

Major Product Group

The Engine Management segment of the Company principally generates revenue from the sale of automotive engine replacement parts including ignition, emission control, fuel and safety related system products, and wire and cable parts. The Temperature Control segment of the Company principally generates revenue from the sale of automotive temperature control systems replacement parts including air conditioning compressors and other climate control parts.

Major Sales Channel

In the aftermarket channel, we sell our products to warehouse distributors and retailers. Our customers buy directly from us and sell directly to jobber stores, professional technicians and to "do-it-yourselfers" who perform automotive repairs on their personal vehicles. In the Original Equipment ("OE") and Original Equipment Service ("OES") channel, we sell our products to original equipment manufacturers who redistribute our products within their distribution network, independent dealerships and service dealer technicians. Lastly, in the Export channel, our domestic entities sell to customers outside the United States.

22. Commitments and Contingencies

Total rent expense for the three years ended December 31, 2019 was as follows (in thousands):

	Total	Real Estate	Other
2019 (1)	$ 11,382	$ 7,909	$ 3,473
2018	12,605	9,272	3,333
2017	11,954	8,983	2,971

(1) Includes expenses of approximately $2.4 million related to non-lease components such as maintenance, property taxes, etc., and operating lease expense for leases with an initial term of 12 months or less, which is not material.

For our operating lease minimal rental payments that we are obligated to make, see Note 2, "Leases."

Warranties

We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time depending on the nature of the product. As of December 31, 2019 and 2018, we have accrued $22.4 million and $19.6 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Warranty expense for each of the years 2019, 2018 and 2017 were $99.3 million, $85.9 million and $94.4 million, respectively.

The following table provides the changes in our product warranties:

	December 31,	
	2019	2018
	(In thousands)	
Balance, beginning of period	$ 19,636	$ 20,929
Liabilities accrued for current year sales	99,304	85,850
Settlements of warranty claims	(96,495)	(87,143)
Balance, end of period	$ 22,445	$ 19,636

Letters of Credit

At December 31, 2019, we had outstanding letters of credit with certain vendors aggregating approximately $3.1 million. These letters of credit are being maintained as security for reimbursements to insurance companies and as security to the landlord of our administrative offices in Long Island City, New York. 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.

Change of Control Arrangements

We have a change in control arrangement with one key officer. In the event of a change of control (as defined in the agreement), the executive will receive severance payments and certain other benefits as provided in his agreement.

Asbestos

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 statement of operations. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001, and the amounts paid for settlements, awards of asbestos-related damages, and defense of such claims. At December 31, 2019, approximately 1,550 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2019, the amounts paid for settled claims are approximately $30.9 million. We do not have insurance coverage for the indemnity and defense costs associated with the claims we face.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study of the asbestos related liabilities performed by an independent actuarial firm, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of such claims. As is our accounting policy, we consider the advice of actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability; and perform an actuarial evaluation in the third quarter of each year and whenever events or changes in circumstances indicate that additional provisions may be necessary. The methodology used to project asbestos-related liabilities and costs in our actuarial study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range of settlement payments and awards of asbestos-related damages was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required.

As related to our potential asbestos-related liability, in 2018, we were a defendant in an asbestos liability case in California, in which we were found liable for $7.6 million in compensatory damages. We are pursuing all rights of appeal of this case. During the fourth quarter of 2018, our actuarial firm revised the results of its August 31, 2018 study. Based upon the results of the revised actuarial study, in December 2018, we increased our asbestos liability to $46.7 million and recorded an incremental pre-tax provision of $10.1 million in earnings (loss) from discontinued operations.

In accordance with our policy to perform an annual actuarial evaluation in the third quarter of each year, an updated actuarial study was performed as of August 31, 2019. The results of the August 31, 2019 study included an estimate of our undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs and any potential recovery from insurance carriers, ranging from $52 million to $90.6 million for the period through 2064. The change from the revised prior year study, which was performed in the fourth quarter of 2018, was a $5.3 million increase for the low end of the range and a $6.7 million increase for the high end of the range. The increase in the estimated undiscounted liability from the revised prior year study at both the low end and high end of the range reflects our actual experience, our historical data and certain assumptions with respect to events that may occur in the future. Based upon the results of the August 31, 2019 actuarial study, we increased our asbestos liability to $52 million, the low end of the range, and recorded an incremental pre-tax provision of $9.7 million in earnings (loss) from discontinued operations in the accompanying statement of operations. Future legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations, are estimated, according to the updated study, to range from $50.6 million to $85.2 million for the period through 2064. Total operating cash outflows related to discontinued operations, which include settlements and legal costs, were $8.8 million, $5.7 million and $5.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

Other Litigation

We are currently involved in various other legal claims and legal proceedings (some of which may involve substantial amounts), including claims related to commercial disputes, product liability, employment, and environmental. Although these legal claims and legal proceedings are subject to inherent uncertainties, based on our understanding and evaluation of the relevant facts and circumstances, we believe that the ultimate outcome of these matters will not, either individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. We may at any time determine that settling any of these matters is in our best interests, which settlement may include substantial payments. Although we cannot currently predict the specific amount of any liability that may ultimately arise with respect to any of these matters, we will record provisions when the liability is considered probable and reasonably estimable. Significant judgment is required in both the determination of probability and the determination as to whether an exposure can be reasonably estimated. As additional information becomes available, we reassess our potential liability related to these matters. Such revisions of the potential liabilities could have a material adverse effect on our business, financial condition or results of operations.

23. Quarterly Financial Data (Unaudited)

	2019 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(In thousands, except per share amounts)			
Net sales	$ 241,252	$ 307,723	$ 305,172	$ 283,766
Gross profit	72,844	92,088	88,905	77,963
Earnings from continuing operations	12,738	22,654	20,555	13,104
Loss from discontinued operations, net of taxes	(1,220)	(7,903)	(1,123)	(888)
Net earnings	$ 11,518	$ 14,751	$ 19,432	$ 12,216
Net earnings from continuing operations per common share:				
Basic	$ 0.57	$ 1.01	$ 0.92	$ 0.58
Diluted	$ 0.56	$ 1.00	$ 0.90	$ 0.57
Net earnings per common share:				
Basic	$ 0.51	$ 0.66	$ 0.87	$ 0.54
Diluted	$ 0.50	$ 0.65	$ 0.85	$ 0.53

	2018 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(In thousands, except per share amounts)			
Net sales	$ 246,970	$ 296,619	$ 286,636	$ 261,826
Gross profit	71,603	87,306	81,289	72,589
Earnings from continuing operations	12,157	19,273	16,827	8,597
Loss from discontinued operations, net of taxes	(8,837)	(3,524)	(882)	(608)
Net earnings	$ 3,320	$ 15,749	$ 15,945	$ 7,989
Net earnings from continuing operations per common share:				
Basic	$ 0.54	$ 0.86	$ 0.75	$ 0.38
Diluted	$ 0.53	$ 0.84	$ 0.73	$ 0.37
Net earnings per common share:				
Basic	$ 0.15	$ 0.70	$ 0.71	$ 0.36
Diluted	$ 0.14	$ 0.69	$ 0.69	$ 0.35

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Report. This evaluation also included consideration of our internal controls and procedures for the preparation of our financial statements as required under Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

(b) Management's Report on Internal Control Over Financial Reporting.

Pursuant to Section 404 of the Sarbanes-Oxley Act, as part of this Report we have furnished a report regarding our internal control over financial reporting as of December 31, 2019. The report is under the caption "Management's Report on Internal Control Over Financial Reporting" in "Item 8. Financial Statements and Supplementary Data," which report is included herein.

(c) Attestation Report of Independent Registered Public Accounting Firm.

KPMG LLP, our independent registered public accounting firm, has issued an opinion as to the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. The opinion is under the caption "Report of Independent Registered Public Accounting Firm−Internal Control Over Financial Reporting" in "Item 8. Financial Statements and Supplementary Data" for this attestation report, which is included herein.

(d) Changes in Internal Control Over Financial Reporting.

During the quarter ended December 31, 2019 and subsequent to that date, we have not made changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We continue to review, document and test our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control–Integrated Framework. We may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business. These efforts may lead to various changes in our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the information in our Definitive Proxy Statement to be filed with the SEC in connection with our 2020 Annual Meeting of Stockholders (the "2020 Proxy Statement") set forth under the captions "Proposal No. 1 - Election of Directors," "Management Information," and "Corporate Governance."

The Board of Directors of the Company has adopted a Code of Ethics that applies to all employees, officers and directors of the Company. The Company's Code of Ethics is available at *www.smpcorp.com* under "Investor Relations─Governance Documents." The Company intends to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Company's Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by disclosing such information on the Company's website, at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information in our 2020 Proxy Statement set forth under captions "Corporate Governance," "Compensation Discussion & Analysis," "Executive Compensation and Related Information" and "Report of the Compensation and Management Development Committee."

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 the information in our 2020 Proxy Statement set forth under the captions "Executive Compensation and Related Information" and "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the information in our 2020 Proxy Statement set forth under the captions "Corporate Governance" and "Executive Compensation and Related Information."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the information in our 2020 Proxy Statement set forth under the captions "Audit and Non-Audit Fees."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) The Index to Consolidated Financial Statements of the Registrant under Item 8 of this Report is incorporated herein by reference as the list of Financial Statements required as part of this Report.

(2) The following financial schedule and related report for the years 2019, 2018 and 2017 is submitted herewith:

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.

The exhibit list in the Exhibit Index is incorporated by reference as the list of exhibits required as part of this Report.

ITEM 16. FORM 10-K SUMMARY

None.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit
Number

3.1 Restated By-Laws, dated as of May 23, 1996 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).

3.2 Restated Certificate of Incorporation, filed as of August 1, 1990 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).

3.3 Certificate of Amendment of the Certificate of Incorporation, filed as of February 27, 1996 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).

10.1 Amended and Restated Employee Stock Ownership Plan and Trust of Standard Motor Products, Inc., dated as of January 1, 2015 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2015).

10.2 2006 Omnibus Incentive Plan of Standard Motor Products, Inc., as amended (incorporated by reference to the Company’s Registration Statement on Form S-8 (Registration No. 333-174330), filed as of May 19, 2011).

10.3 Supplemental Compensation Plan, effective as of October 1, 2001 (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2001).

10.4 Severance Compensation Agreement, dated as of December 12, 2001, between Standard Motor Products, Inc. and James Burke (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2001).

10.5 Amendment to the Standard Motor Products, Inc. Supplemental Compensation Plan, effective as of December 1, 2006 (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2006).

10.6 Purchase and Sale Agreement, dated as of December 21, 2007, between Standard Motors Products, Inc. and EXII Northern Boulevard Acquisition LLC (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2007).

10.7 Lease Agreement, dated as of March 12, 2008, between Standard Motors Products, Inc. and 37-18 Northern Boulevard LLC (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2007).

10.8 Amendment to Severance Compensation Agreement, dated as of December 15, 2008, between Standard Motor Products, Inc. and James Burke (incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2009).

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit
Number

10.9 Amended and Restated Supplemental Executive Retirement Plan, dated as of December 31, 2010 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).

10.10 Amendment to Severance Compensation Agreement, dated as of March 8, 2011, between Standard Motor Products, Inc. and James Burke (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).

10.11 Credit Agreement, dated as of October 28, 2015, among Standard Motor Products, Inc., as borrower and the other loan parties thereto, and JPMorgan Chase Bank, N.A., as agent and lender, J.P. Morgan Securities LLC, as sole bookrunner and joint lead arranger, Bank of America, N.A. and Wells Fargo Bank, National Association, as co-syndication agents and joint lead arrangers, and the other lenders thereto (incorporated by reference to the Company's Current Report on Form 8-K filed as of October 30, 2015).

10.12 Standard Motor Products, Inc. 2016 Omnibus Incentive Plan and forms of related award agreements (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-211461) filed as of May 19, 2016).

10.13 First Amendment to Credit Agreement, dated as of December 10, 2018, among Standard Motor Products, Inc. and SMP Motor Products Ltd., as borrowers, JPMorgan Chase Bank, N.A., as agent and lender, and the other lenders thereto (incorporated by reference to the Company's Current Report on Form 8-K filed as of December 13, 2018).

10.14 Consulting Agreement, dated as of April 1, 2018, between Standard Motor Products, Inc. and John P. Gethin (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed as of May 4, 2018).

21 List of Subsidiaries of Standard Motor Products, Inc.

23 Consent of KPMG LLP, Independent Registered Public Accounting Firm.

24 Power of Attorney (see signature page to Annual Report on Form 10-K).

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.

101.INS**	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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

SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.
(Registrant)

/s/ Eric P. Sills
Eric P. Sills
Chief Executive Officer and President

/s/ James J. Burke
James J. Burke
Chief Operating Officer

/s/ Nathan R. Iles
Nathan R. Iles
Chief Financial Officer

New York, New York
February 20, 2020

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Eric P. Sills, James J. Burke and Nathan R. Iles, jointly and severally, as his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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 Registrant and in the capacities and on the dates indicated:

February 20, 2020	/s/ Eric P. Sills Eric P. Sills Chief Executive Officer and President (Principal Executive Officer)
February 20, 2020	/s/ James J. Burke James J. Burke Chief Operating Officer
February 20, 2020	/s/ Nathan R. Iles Nathan R. Iles Chief Financial Officer (Principal Financial and Accounting Officer)

February 20, 2020	/s/ Lawrence I. Sills Lawrence I. Sills, Director
February 20, 2020	/s/ John P. Gethin John P. Gethin, Director
February 20, 2020	/s/ Pamela Forbes Lieberman Pamela Forbes Lieberman, Director
February 20, 2020	/s/ Patrick S. McClymont Patrick S. McClymont, Director
February 20, 2020	/s/ Joseph W. McDonnell Joseph W. McDonnell, Director
February 20, 2020	/s/ Alisa C. Norris Alisa C. Norris, Director
February 20, 2020	/s/ William H. Turner William H. Turner, Director
February 20, 2020	/s/ Richard S. Ward Richard S. Ward, Director
February 20, 2020	/s/ Roger M. Widmann Roger M. Widmann, Director

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2019, 2018 and 2017

Description	Balance at beginning of year	Additions: Charged to costs and expenses	Additions: Other	Deductions	Balance at end of year
Year ended December 31, 2019:					
Allowance for doubtful accounts	$ 4,488,000	$ (295,000)	$ —	$ (51,000)	$ 4,244,000
Allowance for discounts	1,199,000	10,660,000	—	10,891,000	968,000
	$ 5,687,000	$ 10,365,000	$ —	$ 10,840,000	$ 5,212,000
Allowance for sales returns	$ 57,433,000	$ 136,777,000	$ —	$ 150,094,000	$ 44,116,000
Year ended December 31, 2018:					
Allowance for doubtful accounts	$ 3,824,000	$ 325,000	$ —	$ (339,000)	$ 4,488,000
Allowance for discounts	1,143,000	10,359,000	—	10,303,000	1,199,000
	$ 4,967,000	$ 10,684,000	$ —	$ 9,964,000	$ 5,687,000
Allowance for sales returns	$ 35,916,000	$ 132,390,000	$ 6,670,000 (1)	$ 117,543,000	$ 57,433,000
Year ended December 31, 2017:					
Allowance for doubtful accounts	$ 3,353,000	$ 970,000	$ —	$ 499,000	$ 3,824,000
Allowance for discounts	1,072,000	10,664,000	—	10,593,000	1,143,000
	$ 4,425,000	$ 11,634,000	$ —	$ 11,092,000	$ 4,967,000
Allowance for sales returns	$ 40,176,000	$ 137,416,000	$ —	$ 141,676,000	$ 35,916,000

(1) The other addition to the allowance for sales returns represents the cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2018 for the adoption of ASU 2014-09, *Revenue from Contracts with Customers*.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric P. Sills, certify that:

1. I have reviewed this annual report on Form 10-K of Standard Motor Products, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Eric P. Sills
Eric P. Sills
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nathan R. Iles, certify that:

1. I have reviewed this annual report on Form 10-K of Standard Motor Products, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Nathan R. Iles
Nathan R. Iles
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Standard Motor Products, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric P. Sills, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Eric P. Sills
Eric P. Sills
Chief Executive Officer and President
February 20, 2020

*A signed original of this written statement required by Section 906 has been provided to Standard Motor Products, Inc. and will be retained by Standard Motor Products, Inc. and furnished to the Securities and Exchange Commission on its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Standard Motor Products, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nathan R. Iles, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Nathan R. Iles
Nathan R. Iles
Chief Financial Officer
February 20, 2020

*A signed original of this written statement required by Section 906 has been provided to Standard Motor Products, Inc. and will be retained by Standard Motor Products, Inc. and furnished to the Securities and Exchange Commission on its staff upon request.

[This page intentionally left blank.]

[This page intentionally left blank.]

[This page intentionally left blank.]

Reconciliation of GAAP and Non-GAAP Measures

(In thousands, except per share data)

	2015	2016	2017	2018	2019
EARNINGS FROM CONTINUING OPERATIONS					
GAAP EARNINGS FROM CONTINUING OPERATIONS	**$ 48,120**	**$ 62,412**	**$ 43,630**	**$ 56,854**	**$ 69,051**
CUSTOMER BANKRUPTCY CHARGE	3,514	-	-	-	-
DEFERRED FINANCING FEE WRITE-OFF	773	-	-	-	-
RESTRUCTURING AND INTEGRATION EXPENSES (INCOME)	(134)	3,957	6,173	4,510	2,585
IMPAIRMENT OF OUR INVESTMENT IN ORANGE ELECTRONICS CO.,LTD	-	-	1,815	1,683	-
IMPACT OF TAX CUTS AND JOBS ACT	-	-	17,515	-	-
CERTAIN TAX CREDITS AND PRODUCTION DEDUCTIONS FINALIZED IN PERIOD	(571)	(235)	(463)	(144)	(144)
GAIN FROM SALE OF BUILDINGS	(1,048)	(1,048)	(1,048)	(4,158)	-
INCOME TAX EFFECT RELATED TO RECONCILING ITEMS	(1,243)	(1,164)	(2,050)	(250)	(673)
NON-GAAP EARNINGS FROM CONTINUING OPERATIONS	**$ 49,411**	**$ 63,922**	**$ 65,572**	**$ 58,495**	**$ 70,819**
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS					
GAAP DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	**$ 2.08**	**$ 2.70**	**$ 1.88**	**$ 2.48**	**$ 3.03**
CUSTOMER BANKRUPTCY CHARGE	0.15	-	-	-	-
DEFERRED FINANCING FEE WRITE-OFF	0.03	-	-	-	-
RESTRUCTURING AND INTEGRATION EXPENSES (INCOME)	(0.01)	0.17	0.27	0.20	0.11
IMPAIRMENT OF OUR INVESTMENT IN ORANGE ELECTRONICS CO., LTD	-	-	0.08	0.07	-
IMPACT OF TAX CUTS AND JOBS ACT	-	-	0.75	-	-
CERTAIN TAX CREDITS AND PRODUCTION DEDUCTIONS FINALIZED IN PERIOD	(0.03)	(0.01)	(0.02)	(0.01)	(0.01)
GAIN FROM SALE OF BUILDINGS	(0.04)	(0.04)	(0.04)	(0.18)	-
INCOME TAX EFFECT RELATED TO RECONCILING ITEMS	(0.05)	(0.05)	(0.09)	(0.01)	(0.03)
NON-GAAP DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	**$ 2.13**	**$ 2.77**	**$ 2.83**	**$ 2.55**	**$ 3.10**
EBITDA WITHOUT SPECIAL ITEMS					
GAAP EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES	**$ 74,103**	**$ 98,570**	**$ 96,442**	**$ 76,831**	**$ 91,796**
DEPRECIATION & AMORTIZATION	17,637	20,457	23,916	24,104	25,809
INTEREST EXPENSE	1,537	1,556	2,329	4,026	5,286
EBITDA	**93,277**	**120,583**	**122,687**	**104,961**	**122,891**
CUSTOMER BANKRUPTCY CHARGE	3,514	-	-	-	-
DEFERRED FINANCING FEE WRITE-OFF	773	-	-	-	-
RESTRUCTURING AND INTEGRATION EXPENSES (INCOME)	(134)	3,957	6,173	4,510	2,585
IMPAIRMENT OF OUR INVESTMENT IN ORANGE ELECTRONICS CO.,LTD	-	-	1,815	1,683	-
GAIN FROM SALE OF BUILDINGS	(1,048)	(1,048)	(1,048)	(4,158)	-
SPECIAL ITEMS	**3,105**	**2,909**	**6,940**	**2,035**	**2,585**
EBITDA WITHOUT SPECIAL ITEMS	**$ 96,382**	**$ 123,492**	**$ 129,627**	**$ 106,996**	**$ 125,476**

MANAGEMENT BELIEVES THAT EARNINGS FROM CONTINUING OPERATIONS, DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS AND EBITDA WITHOUT SPECIAL ITEMS, EACH OF WHICH ARE NON-GAAP MEASUREMENTS AND ARE ADJUSTED FOR SPECIAL ITEMS, ARE MEANINGFUL TO INVESTORS BECAUSE THEY PROVIDE A VIEW OF THE COMPANY WITH RESPECT TO ONGOING OPERATING RESULTS. SPECIAL ITEMS REPRESENT SIGNIFICANT CHARGES OR CREDITS THAT ARE IMPORTANT TO AN UNDERSTANDING OF THE COMPANY'S OVERALL OPERATING RESULTS IN THE PERIODS PRESENTED. SUCH NON-GAAP MEASUREMENTS ARE NOT RECOGNIZED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND SHOULD NOT BE VIEWED AS AN ALTERNATIVE TO GAAP MEASURES OF PERFORMANCE.

BOARD OF DIRECTORS

LAWRENCE I. SILLS Executive Chairman of the Board of Directors

WILLIAM H. TURNER Chairman of the International College, Beirut, Lebanon

JOHN P. GETHIN Former Chief Operating Officer of Standard Motor Products, Inc.

PAMELA FORBES LIEBERMAN Former Interim Chief Operating Officer of Entertainment Resource, Inc.

PATRICK S. McCLYMONT Executive Vice President and Chief Financial Officer of IMAX Corporation

JOSEPH W. McDONNELL Professor at Edmund S. Muskie School of Public Service at University of Southern Maine

ALISA C. NORRIS Chief Marketing and Communications Officer of JDRF International

ERIC P. SILLS Chief Executive Officer and President of Standard Motor Products, Inc

RICHARD S. WARD Former Executive Vice President and General Counsel of ITT Corporation

ROGER M. WIDMANN Chairman of Cedar Realty Trust, Inc.

OFFICE OF CHIEF EXECUTIVE

ERIC P. SILLS Director, Chief Executive Officer and President

JAMES J. BURKE Chief Operating Officer

DALE BURKS Executive Vice President and Chief Commercial Officer

NATHAN ILES Chief Financial Officer

CORPORATE OFFICERS

CARMINE J. BROCCOLE Senior Vice President General Counsel and Secretary

RAY NICHOLAS Vice President Information Technology and Chief Information Officer

THOMAS S. TESORO Senior Vice President Human Resources

WILLIAM J. FAZIO Chief Accounting Officer

ERIN PAWLISH Treasurer

SMP®
Standard Motor Products, Inc.

SMPCORP.COM