STANDARD MOTOR PRODUCTS INC
Form 10-Q
August 07, 2013

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2013

or

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

Commission file number: 1-4743

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

New York	11-1362020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

37-18 Northern Blvd., Long Island City, N.Y.	11101
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

As of the close of business on July 31, 2013, there were 22,991,904 outstanding shares of the registrant's Common Stock, par value $2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except share and per share data)	2013 (Unaudited)	2012	2013 (Unaudited)	2012
Net sales	$270,126	$268,875	$500,834	$480,586
Cost of sales	192,330	199,531	357,210	356,692
Gross profit	77,796	69,344	143,624	123,894
Selling, general and administrative expenses	50,588	46,609	100,198	91,385
Restructuring and integration expenses	200	13	618	137
Other income (expense), net	212	(32)	442	21
Operating income	27,220	22,690	43,250	32,393
Other non-operating expense, net	(64)	(24)	(260)	(66)
Interest expense	646	842	1,218	1,555
Earnings from continuing operations before taxes	26,510	21,824	41,772	30,772
Provision for income taxes	10,110	8,103	15,806	11,557
Earnings from continuing operations	16,400	13,721	25,966	19,215
Loss from discontinued operations, net of income taxes	(357)	(317)	(749)	(617)
Net earnings	$16,043	$13,404	$25,217	$18,598
Per Share Data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	$0.71	$0.60	$1.13	$0.84
Discontinued operations	(0.01)	(0.01)	(0.03)	(0.03)
Net earnings per common share – Basic	$0.70	$0.59	$1.10	$0.81
Net earnings per common share – Diluted:				
Earnings from continuing operations	$0.71	$0.59	$1.12	$0.83
Discontinued operations	(0.02)	(0.01)	(0.03)	(0.03)
Net earnings per common share – Diluted	$0.69	$0.58	$1.09	$0.80
Dividend declared per share	$0.11	$0.09	$0.22	$0.18
Average number of common shares	22,981,337	22,872,618	22,917,769	22,870,069
Average number of common shares and dilutive common shares	23,261,118	23,104,654	23,190,091	23,111,732

See accompanying notes to consolidated financial statements.
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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
	(Unaudited)		(Unaudited)	
Net earnings	$16,043	$13,404	$25,217	$18,598
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(940)	(903)	(1,752)	166
Pension and postretirement plans:				
Amortization of:				
Prior service benefit	(1,080)	(1,196)	(2,160)	(2,392)
Unrecognized loss	776	835	1,561	1,548
Unrecognized amounts	154	437	154	437
Foreign currency exchange rate changes	(15)	(18)	(27)	(2)
Income tax benefit (expense) related to pension and postretirement plans	51	(37)	159	149
Pension and postretirement plans, net of tax	(114)	21	(313)	(260)
Total other comprehensive income (loss), net of tax	(1,054)	(882)	(2,065)	(94)
Comprehensive income	$14,989	$12,522	$23,152	$18,504

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,275	$ 13,074
Accounts receivable, less allowances for discounts and doubtful accounts of $7,007 and $6,124 for 2013 and 2012, respectively	151,789	98,565
Inventories, net	296,815	267,468
Deferred income taxes	34,734	33,258
Prepaid expenses and other current assets	9,878	6,188
Total current assets	505,491	418,553
Property, plant and equipment, net	64,119	64,422
Goodwill	37,836	35,827
Other intangibles, net	37,291	36,546
Deferred income taxes	9,625	11,085
Other assets	18,931	10,161
Total assets	$ 673,293	$ 576,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 68,334	$ 40,453
Current portion of long-term debt	103	120
Accounts payable	90,157	62,283
Sundry payables and accrued expenses	39,309	41,723
Accrued customer returns	44,977	29,033
Accrued rebates	33,729	27,349
Payroll and commissions	19,997	21,211
Total current liabilities	296,606	222,172
Long-term debt	30	75
Other accrued liabilities	21,786	21,650
Accrued asbestos liabilities	24,242	25,110
Total liabilities	342,664	269,007
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	85,871	82,348
Retained earnings	206,873	186,693
Accumulated other comprehensive income	1,814	3,879
Treasury stock – at cost (944,132 shares and 1,117,104 shares in 2013 and 2012, respectively)	(11,801)	(13,205)
Total stockholders' equity	330,629	307,587

Total liabilities and stockholders’ equity	$ 673,293	$ 576,594

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30, 2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$25,217	$18,598
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,545	7,898
Amortization of deferred financing cost	542	580
Increase (decrease) to allowance for doubtful accounts	498	(55)
Increase to inventory reserves	3,059	1,573
Amortization of deferred gain on sale of building	(524)	(524)
Gain on disposal of property, plant and equipment	(1)	(6)
Equity loss from joint ventures	26	—
Employee Stock Ownership Plan allocation	2,188	1,933
Stock-based compensation	1,494	1,278
Decrease in deferred income taxes	142	4,114
Decrease in tax valuation allowance	—	(294)
Loss on discontinued operations, net of tax	749	617
Change in assets and liabilities:		
Increase in accounts receivable	(53,723)	(44,472)
(Increase) decrease in inventories	(31,885)	3,300
Increase in prepaid expenses and other current assets	(1,501)	(510)
Increase in accounts payable	16,550	18,886
Increase in sundry payables and accrued expenses	19,304	9,629
Net change in other assets and liabilities	(3,079)	(1,362)
Net cash provided by (used in) operating activities	(12,399)	21,183
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of and investments in businesses	(12,760)	(38,594)
Capital expenditures	(5,551)	(5,296)
Other investing activities	(596)	6
Net cash used in investing activities	(18,907)	(43,884)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line-of-credit agreements	27,881	24,000
Principal payments of long-term debt and capital lease obligations	(62)	(53)
Purchase of treasury stock	(1,151)	(4,999)
Increase in overdraft balances	11,324	5,766
Payment of debt issuance costs	(1,261)	—
Proceeds from exercise of employee stock options	142	307
Excess tax benefits related to the exercise of employee stock grants	66	4
Dividends paid	(5,037)	(4,121)
Net cash provided by financing activities	31,902	20,904
Effect of exchange rate changes on cash	(1,395)	168
Net decrease in cash and cash equivalents	(799)	(1,629)
CASH AND CASH EQUIVALENTS at beginning of period	13,074	10,871

CASH AND CASH EQUIVALENTS at end of period	$12,275	$9,242
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$664	$913
Income taxes	$16,892	$7,177

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2013
(Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
(In thousands)						
Balance at December 31, 2012	$47,872	$82,348	$186,693	$ 3,879	$(13,205)	$307,587
Net earnings	—	—	25,217	—	—	25,217
Other comprehensive income (loss), net of tax	—	—	—	(2,065)	—	(2,065)
Cash dividends paid	—	—	(5,037)	—	—	(5,037)
Purchase of treasury stock	—	—	—	—	(1,151)	(1,151)
Stock-based compensation and related tax benefits	—	1,306	—	—	254	1,560
Stock options exercised and related tax benefits	—	3	—	—	139	142
Employee Stock Ownership Plan	—	2,214	—	—	2,162	4,376
Balance at June 30, 2013	$47,872	$85,871	$206,873	$ 1,814	$(11,801)	$330,629

See accompanying notes to consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

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

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest. All significant inter-company items have been eliminated.

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

Reclassification

Certain prior period amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2013 presentation.

Note 2. Summary of Significant Accounting Policies

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

There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Issued Accounting Pronouncements

Presentation of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which amends the provisions of FASB ASC 220, Comprehensive Income. The amendments in this update supercede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in FASB ASU 2011-05 and ASU 2011-12. The amendment requires an entity to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the consolidated financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2012, which for us was January 1, 2013, and interim periods within those annual periods. As a result of the adoption of this standard, we have elected to present amounts reclassified out of accumulated other comprehensive income as a separate disclosure in the notes to the consolidated financial statements.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Indefinite-Lived Intangible Assets Impairment Testing

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment ("ASU 2012-02"), which amended the provisions of FASB ASC 350. FASB ASU 2012-02 permits an entity to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset is less than its carrying amount before applying the second step of the impairment test. If an entity concludes that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it would not be required to perform the second step of the impairment test for that indefinite-lived intangible asset. The new standard is effective for annual and interim indefinite-lived intangible assets impairment tests performed in fiscal years beginning after September 15, 2012, which for us was January 1, 2013. We will consider this new standard when conducting our annual impairment test of indefinite-lived intangible assets.

Balance Sheet Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of FASB ASU 2011-11 did not have a material effect on our consolidated financial statements and disclosures.

Note 3. Business Acquisitions and Investments

Orange Electronic Equity Investment

In January 2013, we acquired an approximate 25% minority interest in Orange Electronic Co., Ltd. for $6.3 million. Orange Electronic Co., Ltd. is a manufacturer of tire pressure monitoring system sensors and is located in Taiwan. Our minority interest in Orange Electronic Co., Ltd. is accounted for using the equity method of accounting.

European OE Business Acquisition

In February 2013, we acquired the original equipment business of Standard Motor Products Holdings Ltd. ("SMP Europe"), our former affiliate in the U.K., for £4.2 million ($6.5 million). SMP Europe was a distributor of original equipment parts that were primarily manufactured in our Bialystok, Poland manufacturing facility. We anticipate incremental annual revenues from the acquisition approximating $1 million to $2 million.

Intangible assets acquired in the acquisition consisted of $3.8 million of customer relationships that will be amortized on a straight-line basis over the estimated useful life of 10 years and goodwill of $2 million. Goodwill related to the acquisition was allocated to the Engine Management Segment. The goodwill reflects business specific knowledge, replacement cost of an assembled workforce, as well as the value of expected synergies.

Revenues included in our consolidated statements of operations from the acquired business in the second quarter and six months ended June 30, 2013 were not material.

CompressorWorks Asset Acquisition

In April 2012, we acquired substantially all of the assets of CompressorWorks, Inc. for $38.6 million, which consisted of a purchase price of $37.4 million and a $1.2 million working capital adjustment. The acquisition was paid for with cash funded by our revolving credit facility. Prior to the acquisition, CompressorWorks, Inc. had manufacturing and distribution facilities in Dallas, Texas, and distributed a range of temperature control products including new compressors, fan clutches, and other A/C system and engine cooling products.

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

Purchase price:		$38,594
Assets acquired and liabilities assumed:		
Receivables	$9,114	
Inventory	22,736	
Other current assets	60	
Property, plant and equipment	1,427	
Intangible assets	8,870	
Goodwill	9,703	
Current liabilities	(13,316)	
Net assets acquired		$38,594

Intangible assets acquired of $8.9 million consists of customer relationships of $8 million that will be amortized on a straight-line basis over the estimated useful life of 7 years; trademarks and trade names of $0.5 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; non-compete agreements of $0.2 million that will be amortized on a straight-line basis over the estimated useful life of 3 years; and leaseholds of $0.2 million that will be amortized on a straight-line basis over the estimated useful life of 2.3 years. Goodwill of $9.7 million was allocated to the Temperature Control 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.

Pro Forma Information (Unaudited)

The following table summarizes certain supplemental pro forma financial information which was prepared as if (i) the acquisition of substantially all of the assets of CompressorWorks, Inc., acquired in April 2012, had occurred as of January 1, 2011 and (ii) the acquisition of the original equipment business of SMP Europe, acquired in February 2013, had occurred as of January 1, 2012. The unaudited pro forma financial information was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Supplemental unaudited pro forma financial information for the acquisitions is as follows (in thousands):

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012	
	Reported	Pro Forma	Reported	Pro Forma
Net sales	$270,126	$270,126	$268,875	$276,040
Net earnings	16,043	16,074	13,404	14,517

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Reported	Pro Forma	Reported	Pro Forma
Net sales	$500,834	$501,149	$480,586	$501,254
Net earnings	25,217	25,365	18,598	20,281

Note 4. Restructuring and Integration Costs

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2012 and June 30, 2013 and activity for the six months ended June 30, 2013 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2012	$ 2,226	$1,553	$3,779
Restructuring and integration costs:			
Amounts provided for during 2013	399	219	618
Cash payments	(752)	(633)	(1,385)
Exit activity liability at June 30, 2013	$ 1,873	$1,139	$3,012

Liabilities associated with the remaining restructuring and integration costs as of June 30, 2013 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2016 and environmental clean-up costs at our Long Island City, New York location in connection with the closure of our manufacturing operations at the site.

Note 5. Sale of Receivables

From time to time, we sell undivided interests in certain of our receivables to financial institutions. We enter these agreements at our discretion when we determine that the cost of factoring is less than the cost of servicing our receivables with existing debt. 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 $183.9 million and $334.3 million of receivables during the three months and six months ended June 30, 2013, respectively, and $178.2 million and $310.3 million for the comparable periods in 2012. A charge in the amount of $3.9 million and $7.1 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months and six months ended June 30, 2013, respectively, and $3.9 million and $6.3 million for the comparable periods in 2012. If we do not enter into these arrangements or if any of the financial institutions with which we enter into these arrangements were to experience financial difficulties or otherwise terminate these arrangements, our financial condition, results of operations and cash flows could be materially and adversely affected by delays or failures to collect future trade accounts receivable.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 6. Inventories, Net

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Finished goods, net	$203,749	$178,158
Work-in-process, net	6,501	8,135
Raw materials, net	86,565	81,175
Total inventories, net	$296,815	$267,468

Note 7. Acquired Intangible Assets

Acquired identifiable intangible assets consist of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Customer relationships	$43,872	$40,100
Trademarks and trade names	6,800	6,800
Non-compete agreements	910	910
Patents and supply contracts	723	723
Leaseholds	160	160
Total acquired intangible assets	52,465	48,693
Less accumulated amortization (1)	(16,954)	(14,210)
Net acquired intangible assets	$35,511	$34,483

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

In February 2013, we acquired the original equipment business of SMP Europe. Intangible assets acquired consist of $3.8 million of customer relationships that will be amortized on a straight-line basis over the estimated useful life of 10 years.

Total amortization expense for acquired intangible assets was $1.4 million and $2.7 million for the three months and six months ended June 30, 2013, respectively, and $1.2 million and $2.1 million for the comparable periods in 2012. Based on the current estimated useful lives assigned to our acquired intangible assets, amortization expense is estimated to be $2.2 million for the remainder of 2013, $4.5 million in 2014, $4.3 million in 2015 and $19.3 million in the aggregate for the years 2016 through 2028.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 8. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Revolving credit facilities	$68,334	$ 40,453
Other	133	195
Total debt	$68,467	$ 40,648
Current maturities of debt	$68,437	$ 40,573
Long-term debt	30	75
Total debt	$68,467	$ 40,648

Deferred Financing Costs

We had deferred financing costs of $3.3 million and $2.6 million as of June 30, 2013 and December 31, 2012, respectively. Deferred financing costs are related to our revolving credit facility. In connection with the amendment to our revolving credit facility in May 2013, we incurred and capitalized $1.3 million of costs related to bank, legal and other professional fees which are being amortized through March 2018, the remaining term of the amended revolving credit facility.

Deferred financing costs as of June 30, 2013 are being amortized in the amounts of $0.4 million for the remainder of 2013, $0.7 million in 2014, $0.7 million in 2015, $0.7 million in 2016 and $0.8 million in 2017 and thereafter.

Revolving Credit Facility

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. The restated credit agreement (as amended) provides for a line of credit of up to $250 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2018. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

In February 2013, we amended the restated credit agreement to provide us with greater flexibility regarding the payment of cash dividends and stock repurchases. In May 2013, we further amended our restated credit agreement (1) to extend the maturity date of our credit facility to March 2018; (2) to increase the line of credit from $200 million to $250 million (inclusive of the Canadian revolving credit facility described below); (3) to reduce the margin added to the LIBOR rate to 1.50% - 2%; (4) to reduce the margin added to the index rate to 0.50% - 1%; (5) to reduce the unused fee to 0.25%; and (6) to provide us with greater flexibility regarding acquisitions, other permissible debt financing, cash held and capital expenditures, among other matters.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $126.8 million available for us to borrow pursuant to the formula at June 30, 2013. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $68.3 million and $40.4 million at June 30, 2013 and December 31, 2012, respectively. Borrowings under the restated credit agreement have been classified as current liabilities based upon the accounting rules and certain provisions in the agreement.

At June 30, 2013, the weighted average interest rate on our restated credit agreement was 1.7%, which consisted of $68 million in direct borrowings at 1.7% and an index loan of $0.3 million at 3.75%. At December 31, 2012, the weighted average interest rate on our restated credit agreement was 2.7%, which consisted of $25 million in direct borrowings at 2% and an index loan of $15.4 million at 4%. During the six months ended June 30, 2013, our average daily index loan balance was $4.9 million compared to $6 million for the six months ended June 30, 2012 and $6.1 million for the year ended December 31, 2012.

At any time that our average borrowing availability is less than $25 million, the terms of our restated credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months). As of June 30, 2013, we were not subject to this covenant. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Canadian Revolving Credit Facility

In May 2010, we amended our Canadian Credit Agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provided for the conversion of the then existing $10 million line of credit into a revolving credit facility. The Canadian $10 million line of credit is part of the $250 million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

In May 2013, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2018 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of June 30, 2013, we have no outstanding borrowings under the Canadian Credit Agreement.

Capital Leases

As of June 30, 2013, our capital lease obligations related to certain equipment for use in our operations totaled $0.1 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 9. Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income by Component

	Three Months Ended June 30, 2013		
	Foreign Currency Translation Adjustments	Unrecognized Pension and Postretirement Benefit Costs (Credit)	Total
Beginning balance at March 31, 2013	$3,851	$ (983)	$2,868
Other comprehensive income before reclassifications	(940)	139	(801)
Amounts reclassified from accumulated other comprehensive income	—	(253)	(253)
Current period other comprehensive income, net	(940)	(114)	(1,054)
Ending balance at June 30, 2013	$2,911	$ (1,097)	$1,814

	Six Months Ended June 30, 2013		
	Foreign Currency Translation Adjustments	Unrecognized Pension and Postretirement Benefit Costs (Credit)	Total
Beginning balance at December 31, 2012	$4,663	$ (784)	$3,879
Other comprehensive income before reclassifications	(1,752)	127	(1,625)
Amounts reclassified from accumulated other comprehensive income	—	(440)	(440)
Current period other comprehensive income, net	(1,752)	(313)	(2,065)
Ending balance at June 30, 2013	$2,911	$ (1,097)	$1,814

Reclassifications Out of Accumulated Other Comprehensive Income

Details About Accumulated Other Comprehensive Income Components	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Amortization of pension and postretirement benefit plans:		
Prior service benefit (1)	$(1,080)	$(2,160)
Unrecognized loss (1)	776	1,561
Total before income tax	(304)	(599)
Income tax benefit	51	159
Total reclassifications for the period	$(253)	$(440)

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement benefit costs, which are included in selling, general and administrative expenses in our consolidated statements of operations (see Note 11 for additional details).

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Note 10. Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of FASB 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 cost is recognized in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the six months ended June 30, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2012	29,150	$ 12.20	1.9
Expired	—	—	—
Exercised	(11,525)	12.37	—
Forfeited, other	—	—	—
Outstanding at June 30, 2013	17,625	$ 12.09	1.6
Options exercisable at June 30, 2013	17,625	$ 12.09	1.6

The aggregate intrinsic value of all outstanding stock options as of June 30, 2013 was $0.4 million. All outstanding stock options as of June 30, 2013 are fully vested and exercisable. The total intrinsic value of options exercised was $0.2 million for the six months ended June 30, 2013. There were no options granted in the six months ended June 30, 2013.

Restricted and Performance Stock Grants

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

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

Our restricted and performance-based share activity was as follows for the six months ended June 30, 2013:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2012	533,625	$ 13.03
Granted	7,000	32.01
Vested	(8,075)	12.69
Forfeited	(4,575)	13.54
Balance at June 30, 2013	527,975	$ 13.28

We recorded compensation expense related to restricted shares and performance-based shares of $1,072,847 ($666,895 net of tax) and $913,465 ($570,367 net of tax) for the six months ended June 30, 2013 and 2012, respectively. The unamortized compensation expense related to our restricted and performance-based shares was $4.2 million at June 30, 2013, and is expected to be recognized as they vest over a weighted average period of 4.9 years and 0.7 years for employees and directors, respectively.

Note 11. Employee Benefits

The components of net periodic benefit cost (credit) for our defined benefit plans and postretirement benefit plans for the three months and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Pension benefits	2013	2012	2013	2012
Service cost	$45	$32	$90	$65
Interest cost	58	46	117	93
Amortization of prior service cost	7	27	14	55
Actuarial net loss	171	66	345	131
Net periodic benefit cost	$281	$171	$566	$344
Postretirement benefits				
Service cost	$—	$1	$1	$2
Interest cost	10	18	19	43
Amortization of prior service cost	(1,087)	(1,223)	(2,174)	(2,447)
Actuarial net loss	605	769	1,216	1,417
Net periodic benefit credit	$(472)	$(435)	$(938)	$(985)

For the six months ended June 30, 2013, we made employee benefit contributions of $0.5 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately $1 million in contributions for 2013.

We maintain a 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 2013, contributions of $0.5 million were made to the plan related to calendar year 2012.

We also have an Employee Stock Ownership Plan and Trust 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 their fiduciary duties. During 2013, we contributed to the trust an additional 182,000 shares from our treasury and released 182,500 shares from the trust leaving 430 shares remaining in the trust as of June 30, 2013.

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Note 12. Fair Value Measurements

We follow a three-level fair value hierarchy that prioritizes the inputs to measure fair value. This hierarchy requires entities to maximize the use of "observable inputs" and minimize the use of "unobservable inputs." The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$12,275	$12,275	$13,074	$13,074
Deferred compensation	7,760	7,760	6,678	6,678
Short term borrowings	68,437	68,437	40,573	40,573
Long-term debt	30	30	75	75

For fair value purposes, the carrying value of cash and cash equivalents approximates fair value due to the short maturity of those investments. The fair value of the underlying assets held by the deferred compensation plan are based on the quoted market prices of the funds in registered investment companies, which are considered Level 1 inputs. The carrying value of our revolving credit facilities, classified as short term borrowings, approximates fair market value because the interest rates reflect current market rates.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 13. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Basic Net Earnings Per Common Shares:				
Earnings from continuing operations	$16,400	$13,721	$25,966	$19,215
Loss from discontinued operations	(357)	(317)	(749)	(617)
Net earnings available to common stockholders	$16,043	$13,404	$25,217	$18,598
Weighted average common shares outstanding	22,981	22,873	22,918	22,870
Earnings from continuing operations per common share	$0.71	$0.60	$1.13	$0.84
Loss from discontinued operations per common share	(0.01)	(0.01)	(0.03)	(0.03)
Basic net earnings per common share	$0.70	$0.59	$1.10	$0.81
Diluted Net Earnings Per Common Share:				
Earnings from continuing operations	$16,400	$13,721	$25,966	$19,215
Loss from discontinued operations	(357)	(317)	(749)	(617)
Net earnings available to common stockholders	$16,043	$13,404	$25,217	$18,598
Weighted average common shares outstanding	22,981	22,873	22,918	22,870
Plus incremental shares from assumed conversions:				
Dilutive effect of restricted stock and performance stock	273	229	264	234
Dilutive effect of stock options	7	3	8	8
Weighted average common shares outstanding – Diluted	23,261	23,105	23,190	23,112
Earnings from continuing operations per common share	$0.71	$0.59	$1.12	$0.83
Loss from discontinued operations per common share	(0.02)	(0.01)	(0.03)	(0.03)
Diluted net earnings per common share	$0.69	$0.58	$1.09	$0.80

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock options	10	29	10	25
Restricted and performance shares	234	216	243	213

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 14. Industry Segments

We have two major reportable operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures and distributes ignition and emission parts, ignition wires, battery cables, 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 following tables show our net sales and operating income by our operating segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales				
Engine Management	$182,050	$172,644	$357,559	$335,659
Temperature Control	86,660	93,036	139,388	138,327
All Other	1,416	3,195	3,887	6,600
Consolidated	$270,126	$268,875	$500,834	$480,586
Intersegment Revenue				
Engine Management	$7,566	$4,358	$13,019	$8,846
Temperature Control	1,546	1,527	3,055	2,636
All Other	(9,112)	(5,885)	(16,074)	(11,482)
Consolidated	$—	$—	$—	$—
Operating Income				
Engine Management	$24,704	$17,630	$45,488	$31,318
Temperature Control	6,740	7,775	6,286	7,823
All Other	(4,224)	(2,715)	(8,524)	(6,748)
Consolidated	$27,220	$22,690	$43,250	$32,393

Note 15. Commitments and Contingencies

Asbestos

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At June 30, 2013, approximately 2,230 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through June 30, 2013, the amounts paid for settled claims are approximately $14.4 million. We acquired limited insurance coverage up to a fixed amount for defense and indemnity costs associated with certain asbestos-related claims and have exhausted all insurance coverage.

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 settlement discussions. 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. 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The most recent actuarial study was performed as of August 31, 2012. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.1 million to $41.5 million for the period through 2058. The change from the prior year study was a $0.4 million decrease for the low end of the range and a $25 million decrease for the high end of the range. The decrease in the estimated undiscounted liability from the prior year study at both the low end and high end of the range reflects our actual experience over the prior twelve months. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2058 in our consolidated financial statements. Accordingly, an incremental $0.4 million provision in our discontinued operations was added to the asbestos accrual in September 2012 increasing the reserve to approximately $27.1 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations, are estimated to range from $32.3 million to $57 million during the same period.

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

Other Litigation

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

Warranties

We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of June 30, 2013 and 2012, we have accrued $23.5 million and $18.8 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	$19,414	$13,948	$17,288	$13,500
Liabilities accrued for current year sales	22,020	20,233	40,376	35,656
Settlements of warranty claims	(17,936)	(15,332)	(34,166)	(30,307)
Balance, end of period	$23,498	$18,849	$23,498	$18,849

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

This Report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report are indicated by words such as "anticipates," "expects," "believes," "intends," "plans," "estimates," "projects," "strategies" and similar expressions. These statements repres 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 receivables factoring arrangements; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; the performance of the aftermarket and original equipment service markets; changes in the product mix and distribution channel mix; economic and market conditions (including access to credit and financial markets); our significant indebtedness; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under 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. The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, included elsewhere in this Report.

Business Overview

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with an increasing focus on the original equipment service market. We are organized into two major operating segments, each of which focuses on specific lines of replacement parts. Our Engine Management Segment manufactures 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.

We sell our products primarily to warehouse distributors, large retail chains, original equipment manufacturers and original equipment service part operations in the United States, Canada and Latin America. Our customers consist of many of the leading warehouse distributors, such as CARQUEST Corporation and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, Inc., AutoZone, Inc., O'Reilly Automotive, Inc., Canadian Tire Corporation Limited and The Pep Boys Manny, Moe & Jack. Our customers also include national program distribution groups, such as Federated Auto Parts Distributors, Inc., Auto Value and All Pro/Bumper to Bumper (Aftermarket Auto Parts Alliance, Inc.), Automotive Distribution Network LLC and The National Pronto Association, and specialty market distributors. We distribute parts under our own brand names, such as Standard®, BWD®, Intermotor®, GP Sorensen®, TechSmart®, OEM®, LockSmart®, Four Seasons®, Factory Air®, EVERCO®, ACi®, Imperial®, COMPRESSORWORKS®, TORQFLO® and Hayden® and through private labels, such as CARQUEST®, AutoZone®, Duralast®, O'Reilly® Import Direct® and Master Pro®, NAPA® Echlin®, NAPA® Mileage Plus®, NAPA® Temp Products and NAPA® Belden®.

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to continue to improve our operating efficiency, customer satisfaction and cost position by increasing cost effective vertical integration in key product lines through internal development and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost countries such as those in Asia.

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

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

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

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

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Interim Results of Operations:

Comparison of the Three Months Ended June 30, 2013 to the Three Months Ended June 30, 2012

Sales. Consolidated net sales for the three months ended June 30, 2013 were $270.1 million, an increase of $1.2 million compared to $268.9 million in the same period of 2012. Consolidated net sales increased primarily due to higher sales in the traditional and OE/OES markets of our Engine Management Segment as compared to the second quarter of 2012, which more than offset the lower results achieved by our Temperature Control Segment.

The following table summarizes net sales by segment for the quarters ended June 30, 2013 and 2012, respectively:

Three Months Ended June 30,	Engine Management	Temperature Control	Other	Total
2013				
Net sales	$ 182,050	$ 86,660	$1,416	$270,126
Gross margins	54,380	20,342	3,074	77,796
Gross margin percentage	29.9 %	23.5 %	—	