

STANDARD MOTOR PRODUCTS INC

Form 10-K

February 27, 2015

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, 2014

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: 1 4743

Standard Motor Products, Inc.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

11-1362020

(I.R.S. Employer Identification No.)

37-18 Northern Blvd., Long Island City, N.Y.

(Address of principal executive offices)

11101

(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

Common Stock, par value \$2.00 per share

Name of each exchange on which registered

New York Stock Exchange

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 o 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

The aggregate market value of the voting common stock based on the closing price on the New York Stock Exchange on June 30, 2014 (the last business day of registrant's most recently completed second fiscal quarter) of \$44.67 per share held by non-affiliates of the registrant was \$907,136,558. 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 24, 2015, there were 22,893,472 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 14, 2015.

STANDARD MOTOR PRODUCTS, INC.

INDEX

	<u>Page No.</u>
PART I.	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	13
Item 1B. <u>Unresolved Staff Comments</u>	21
Item 2. <u>Properties</u>	21
Item 3. <u>Legal Proceedings</u>	22
Item 4. <u>Mine Safety Disclosures</u>	23
PART II.	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
Item 6. <u>Selected Financial Data</u>	26
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 8. <u>Financial Statements and Supplementary Data</u>	45
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	88
Item 9A. <u>Controls and Procedures</u>	88
Item 9B. <u>Other Information</u>	89
PART III.	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	89
Item 11. <u>Executive Compensation</u>	89
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	89
Item 13. <u>Certain Relationships and Related Transactions</u>	89
Item 14. <u>Principal Accounting Fees and Services</u>	89

PART
IV.

Item 15. <u>Exhibits, Financial Statement Schedules</u>	90
<u>Signatures</u>	91

2

Index

Business Strategy

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. The key elements of our strategy are as follows:

Maintain Our Strong Competitive Position in the Engine Management and Temperature Control Businesses. 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. 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 customer service.

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

- providing our customers with broad lines of high quality engine management and temperature control products, supported by the highest level of customer service and reliability;
- continuing to maximize our production, supply chain and distribution efficiencies;
- continuing to improve our cost position through increased global sourcing and increased manufacturing in low cost regions; and
- focusing on our engineering development efforts including a focus on bringing more product manufacturing in house.

Provide Superior Customer Service, Product Availability and Technical Support. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability, providing insightful customer category management, and providing technical support in a cost effective manner. In addition, our category management and technically skilled sales force professionals provide product selection, assortment and application support to our customers.

Expand Our Product Lines. We intend to increase our sales by continuing to develop internally, or through 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 multiple product lines that incorporate the latest technologies.

Broaden Our Customer Base. Our goal is to increase our customer base by (a) continuing to leverage our manufacturing capabilities to secure additional original equipment business globally with automotive, industrial, marine, military and heavy duty vehicle and equipment manufacturers and their service part operations as well as our existing customer base including traditional warehouse distributors, large retailers, 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 collaborations and vendor managed inventory initiatives;

Index

- evaluating additional opportunities to relocate manufacturing to our low-cost, off-shore 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, repurchase shares of our common stock, expand our product lines and grow revenues through acquisitions.

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 allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of vehicles on the road. The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of original equipment manufacturers (“OEMs”).

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

- growth in number of vehicles on the road;
- increase in average vehicle age;
- change in total miles driven per year;
- new and modified environmental regulations, including fuel-efficiency standards;
- increase in pricing of new cars;
- economic and financial market conditions;
- new car quality and related warranties;
- changes in automotive technologies;
- change in vehicle scrap rates; and
- change in average fuel prices.

Traditionally, the parts manufacturers of OEMs and the independent manufacturers who supply the original equipment (“OE”) part applications have supplied a majority of the business to new car dealer networks. However, certain parts manufacturers have become more independent and are no longer affiliated with OEMs, which has provided, and may continue to provide, opportunities for us to supply replacement parts to the dealer service networks of the OEMs, both for warranty and out of warranty repairs.

Index

Financial Information about our Operating Segments

The table below shows our consolidated net sales by operating segment and by major product group within each segment for the three years ended December 31, 2014. Our two major reportable operating segments are Engine Management and Temperature Control.

	Year Ended December 31, 2014		2013		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(Dollars in thousands)						
Engine Management:						
Ignition, Emission and Fuel System Parts	\$609,383	62.1 %	\$604,646	61.5 %	\$561,827	59.2 %
Wires and Cables	99,880	10.2 %	106,599	10.8 %	103,278	10.9 %
Total Engine Management	709,263	72.3 %	711,245	72.3 %	665,105	70.1 %
Temperature Control:						
Compressors	124,238	12.7 %	135,456	13.8 %	137,389	14.5 %
Other Climate Control Parts	134,827	13.8 %	127,081	12.9 %	131,415	13.8 %
Total Temperature Control	259,065	26.5 %	262,537	26.7 %	268,804	28.3 %
All Other	12,064	1.2 %	9,922	1 %	15,007	1.6 %
Total	\$980,392	100 %	\$983,704	100 %	\$948,916	100 %

The following table shows our operating profit and identifiable assets by operating segment for the three years ended December 31, 2014.

	Year Ended December 31, 2014		2013		2012	
	Operating Income (Loss)	Identifiable Assets	Operating Income (Loss)	Identifiable Assets	Operating Income (Loss)	Identifiable Assets
(In thousands)						
Engine Management	\$103,861	\$409,275	\$96,335	\$384,712	\$69,578	\$362,824
Temperature Control	6,445	173,070	9,147	150,280	15,019	132,644
All Other	(24,968)	91,206	(18,619)	80,531	(13,166)	81,126
Total	\$85,338	\$673,551	\$86,863	\$615,523	\$71,431	\$576,594

“All Other” consists of items pertaining to our corporate headquarters function and our Canadian business unit, each of which does not meet the criteria of a reportable operating segment.

Engine Management Segment

Breadth of Products. We manufacture a full line of engine management replacement parts including, electronic ignition control modules, fuel injectors, remanufactured diesel injectors and pumps, ignition wires, coils, switches, sensors (such as tire pressure monitoring system (TPMS) sensors), relays, EGR valves, distributor caps and rotors and many other engine management components primarily under our brand names Standard®, BWD®, Intermotor®,

OEM®, LockSmart®, Select®, TechSmart®, Tech Expert® and GP Sorensen®, and through co-labels and private labels such as CARQUEST® BWD®, CARQUEST® Intermotor®, Duralast®, Duralast Gold®, Import Direct®, Master Pro®, NAPA®, NAPA® Echlin®, Mileage Plus®, NAPA Proformer™ and NAPA® Belden®. We are a basic manufacturer of many of the engine management parts we market. Our strategy includes expanding our product lines through strategic acquisitions in addition to sourcing certain materials and products from low cost regions such as those in Asia. In our Engine Management Segment, replacement parts for ignition, emission control and fuel systems accounted for approximately 62% of our consolidated net sales in 2014, 61% of our consolidated net sales in 2013 and 59% of our consolidated net sales in 2012.

Index

Computer-Controlled Technology. Nearly all new vehicles are factory equipped with computer controlled engine management systems to monitor and control ignition, emission fuel injection, transmission and certain mechanical systems. The on board computers monitor inputs from many types of sensors located throughout the vehicle, and control a myriad of valves, solenoids, coils, switches and motors to manage engine and vehicle performance. Computer-controlled engine management systems enable the engine to operate with improved fuel efficiency and reduced level of hazardous emissions.

Government emissions laws have been implemented throughout the majority of the United States. The Clean Air Act imposes strict emissions control test standards on existing and new vehicles, and remains the preeminent legislation in the area of vehicle emissions. As many states have implemented required inspection/maintenance tests, the Environmental Protection Agency, through its rulemaking ability, has also encouraged both manufacturers and drivers to reduce vehicle emissions. 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 have had, and we expect it to continue to have, a positive impact on sales of our ignition and emission controls parts since vehicles failing these laws may require repairs utilizing parts sold by us.

Our sales of sensors, valves, solenoids and related parts have increased as automobile manufacturers equip their cars with more complex engine management systems.

Wire and Cable Products. Wire and cable parts accounted for approximately 10% of our consolidated net sales in 2014, 11% of our consolidated net sales in 2013 and 11% of our consolidated net sales in 2012. These products include ignition (spark plug) wires, wire harnesses, battery cables and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile's electrical system.

We have historically offered ignition wires and battery cables under premium brands, which capitalize on the market's awareness of the importance of quality, along with "value" priced brands for older vehicle applications. We extrude high voltage wire for use in our ignition wire sets. The vertical integration of this critical component offers us the ability to achieve lower costs and a controlled source of supply and quality.

Temperature Control Segment

We manufacture, remanufacture and market a full line of replacement parts for automotive temperature control (air conditioning and heating) systems, engine cooling systems, power window accessories and windshield washer systems, primarily under our brand names of Four Seasons®, Factory Air®, EVERCO®, ACi®, Imperial®, COMPRESSORWORKS®, TORQFLO® and Hayden® and through co-labels and private labels such as Duralast®, NAPA Temp Products™, Cold Power® and Murray®. The major product groups sold by our Temperature Control Segment are new and remanufactured compressors, clutch assemblies, blower and radiator fan motors, filter dryers, evaporators, accumulators, hose assemblies, expansion valves, heater valves, heater cores, AC service tools and chemicals, fan assemblies, fan clutches, engine oil coolers, transmission oil coolers, window lift motors, window regulators and assemblies, and windshield washer pumps. Our temperature control products accounted for approximately 27% of our consolidated net sales in both 2014 and 2013, and 28% of our consolidated net sales in 2012.

Our Temperature Control business continues to implement cost savings initiatives in response to offshore competitive price pressures. We have consolidated excess manufacturing facilities and have implemented a program to improve our manufacturing efficiencies. We are also continuing to improve our cost position through our global sourcing initiatives in low cost regions and by increasing our production of remanufactured and new compressors in our facility in Reynosa, Mexico.

Today's vehicles are being produced with smaller, more complex and efficient AC system designs. Our Temperature Control Segment continues to be a leader in providing superior training to service dealers who require access to up-to-date knowledge in proper maintenance and repair for changing technologies utilized in today's vehicles. We believe that our training module (Diagnosing and Repairing the Top Automotive HVAC Problems) remains one of the most sought-after training clinics in the industry and among professional service dealers.

7

Index

Financial Information about Our Foreign and Domestic Operations and Export Sales

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

The table below shows our consolidated net sales by geographic area for the three years ended December 31, 2014.

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
United States	\$871,665	\$884,380	\$865,861
Canada	53,412	51,853	50,215
Europe	13,299	10,657	8,093
Other foreign	42,016	36,814	24,747
Total	\$980,392	\$983,704	\$948,916

The table below shows our long lived assets by geographic area for the three years ended December 31, 2014.

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
United States	\$158,350	\$135,834	\$137,240
Canada	1,546	1,526	1,658
Europe	11,725	11,310	4,161
Other foreign	20,957	10,497	3,897
Total	\$192,578	\$159,167	\$146,956

Sales and Distribution

In the traditional channel, we sell our products to warehouse distributors, who supply auto parts jobber stores. Jobbers in turn sell to 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. In the retail channel, customers buy directly from us and sell directly to professional technicians and “do-it-yourselfers” through their own stores. 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 grow more complex, “do-it-yourselfers” are less likely to service their own vehicles and may become more reliant on automotive dealerships and independent service dealer technicians. In addition to new car sales, automotive dealerships sell OE brand parts and service vehicles. The products available through the dealers are purchased through the original equipment service (“OES”) network. Traditionally, the parts manufacturers of OEMs have supplied a majority of the OES network. However, certain parts manufacturers have become independent and are no longer affiliated with OEMs. In addition, many Tier 1 OEM suppliers are disinterested in providing service parts requirements for up to 15 years after the OE model has gone out of production. As a result of these factors, there are additional opportunities for independent automotive aftermarket manufacturers like us to supply the OES network.

Our sales force is structured to meet the needs of our traditional and retail customers across the distribution channel, allowing us to provide customer service that we believe is 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 provide our sales personnel extensive instruction at our training facility in Irving, Texas and provide an extensive continuing education program that 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.

8

Index

In addition to training our sales personnel in the function and application of our products, we thoroughly train our sales personnel in proven sales techniques. Our traditional and retail customers, therefore, have come to depend on these sales personnel as a reliable source for technical information and to assist with sales to their customers (i.e., jobber stores, “do-it-yourselfers,” 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 by offering instructional clinics, which teach over 60,000 technicians annually how to diagnose and repair vehicles equipped with complex systems related to our products. To help our sales personnel to be teachers and trainers, we focus our recruitment efforts on candidates who have technical backgrounds as well as strong sales experience.

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, and we offer pricing discounts based on volume purchased from us and participation in our cost reduction initiatives. 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.

Customers

Our customer base is comprised largely of warehouse distributors, large retailers, OE/OES customers, other manufacturers and export customers. In 2014, our consolidated net sales to our major market channels consisted of \$451.3 million to our retail customers, \$390.8 million to our traditional customers, \$74.2 million to our OE/OES customers and \$64.1 million to other customers.

Our five largest individual customers, including members of a marketing group, accounted for approximately 68% of our consolidated net sales in 2014, 66% of our consolidated net sales in 2013 and 64% of our consolidated net sales in 2012. During 2014, O’Reilly Automotive, Inc., NAPA Auto Parts, Advance Auto Parts, Inc., and AutoZone, Inc. accounted for 19%, 19%, 16% and 10% of our consolidated net sales, respectively. Net sales from each of the customers were reported in both our Engine Management and Temperature Control Segments.

Competition

We are a leading independent manufacturer and distributor of replacement parts for product lines in Engine Management and Temperature Control. We compete primarily on the basis of product quality, product availability, customer service, 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 cataloguing systems;
- inventory levels and logistical systems sufficient to meet the rapid delivery requirements of customers; and
- breadth of manufacturing capabilities.

In the Engine Management business, we are one of the leading independent manufacturers and distributors in the United States. Our competitors include ACDelco, Delphi Automotive PLC, Denso Corporation, Robert Bosch GmbH, Visteon Corporation, NGK Spark Plug Co., Ltd., General Cable Corporation, United Components, Inc., Dorman Products, Inc. and several privately-owned companies importing products from Asia.

Index

Our Temperature Control business is one of the leading independent manufacturers and distributors of a full line of temperature control products in North America and other geographic areas. ACDelco, Delphi Automotive PLC, Denso Corporation, Sanden International, Inc., Continental AG, and several privately-owned companies are some of our key competitors in this market.

The automotive aftermarket is highly competitive, and we face substantial competition in all markets that we serve. Our success in the marketplace continues to depend on our ability to offer competitive prices, improved products, superior customer service and expanded offerings in competition with many other suppliers to the aftermarket. 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 produce through OE dealerships.

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, as we experienced in both 2014 and 2013, 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.

Working Capital 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 and reduces the labor requirements to package and repackage inventory. We also expanded our 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 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. 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.

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 in accordance with approved procedures.

10

Index

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.

Suppliers

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.

We purchase materials in the U.S. and foreign open markets and have a limited number of supply agreements on key components. A number of prime suppliers make these materials available. 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. In order to ensure a consistent, high quality and low cost supply of key components for each product line, we continue to develop our own sources. We are not dependent on any single commodity, however, there can be no assurance over the long term that increases in commodity prices will not materially affect our business or results of operations. In addition, in August 2012, the U.S. Securities and Exchange Commission adopted rules requiring us to provide disclosure regarding the use of specified minerals, known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries. Implementation of the disclosure requirements could affect the sourcing and availability of some of the minerals used in the manufacture of our products, and may impose additional costs on us associated with complying with the disclosure requirements.

Production and Engineering

We engineer, tool and manufacture many of the components used in the assembly of our products. We also 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, diesel pumps, and turbo chargers. We have found this level of vertical integration provides advantages in terms of cost, quality and availability. We intend to continue selective efforts toward further vertical integration to ensure a consistent quality and supply of low cost components. In addition, our strategy includes sourcing an increasing number of finished goods and component parts from low cost regions such as those in Asia.

Employees

As of December 31, 2014, we employed approximately 3,400 people, with 2,000 people in the United States and 1,400 people in Mexico, Canada, Poland, the U.K., Hong Kong and Taiwan. Of the 3,400 people employed, approximately 1,700 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 70 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 April 2015. We expect to renew this agreement

with the UAW upon mutually agreeable terms. We also have approximately 700 employees in Mexico who are covered under union agreements negotiated at various intervals.

Index

We believe that our facilities are in favorable labor markets with ready access to adequate numbers of skilled and unskilled workers, and we believe our relations with our union and non union employees are good.

Insurance

We maintain basic liability coverage up to \$2 million for automobile liability, general and product liability and \$100 million for umbrella liability coverage. We also maintain environmental insurance of \$10 million and property insurance of \$200 million, including business interruption insurance, covering our existing U.S. and Canadian facilities. We are currently monitoring our environmental remediation efforts at one of our facilities. 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. Historically, we have not experienced casualty losses in any year in excess of our coverage. However, there can be no assurances that liability losses in the future will not exceed our coverage.

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.

Index

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, including members of a marketing group, accounted for approximately 68% of our consolidated net sales in 2014, 66% of our consolidated net sales in 2013 and 64% of our consolidated net sales in 2012. During 2014, O'Reilly Automotive, Inc., NAPA Auto Parts, Advance Auto Parts, Inc., and AutoZone, Inc. accounted for 19%, 19%, 16% and 10% 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, such as Advance Auto's acquisition of CarQuest in 2014, may further exacerbate 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, 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, our competitors include ACDelco, Delphi Automotive PLC, Denso Corporation, Robert Bosch GmbH, Visteon Corporation, NGK Spark Plug Co., LTD., General Cable Corporation, United Components, Inc., Dorman Products, Inc. and several privately-owned companies importing products from Asia. In the Temperature Control Segment, we compete with ACDelco, Delphi Automotive PLC, Denso Corporation, Sanden International, Inc., Continental AG, and several privately-owned companies. In addition, automobile manufacturers supply many of the replacement parts we sell.

Index

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 suppliers 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 cool summer, as we experienced in both 2014 and 2013, may lessen the demand for our Temperature Control products, while a hot summer may increase such demand. As a result of this seasonality and variability in demand of our Temperature Control products, our working capital requirements peak near the end of the second quarter, as the inventory build-up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. During this period, our working capital requirements are typically funded by borrowing from our revolving credit facility.

Index

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 installer error. In the event that there are material deficiencies or defects in the design and manufacture of our products and/or installer 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 indemnity and defense of such claims.

Actuarial consultants with experience in assessing asbestos-related liabilities conducted a study to estimate our potential claim liability as of August 31, 2014. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from \$36.1 million to \$55.4 million for the period through 2058. The change from the prior year study was an \$11.7 million increase for the low end of the range and an \$18 million increase for the high end of the range. The increase in the estimated undiscounted liability from the prior year study at both the low end and high end of the range reflects historical data and certain assumptions with respect to events that may occur in the future. 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 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. Based upon the results of the August 31, 2014 actuarial study, in September 2014 we increased our asbestos liability to \$36.1 million, the low end of the range, and recorded an incremental pre-tax provision of \$12.8 million in earnings (loss) from discontinued operations in the accompanying statement of operations. 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 \$43 million to \$76.4 million during the same period.

Index

At December 31, 2014, approximately 2,125 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2014, the amounts paid for settled claims are approximately \$17.6 million. A substantial increase in the number of new claims or increased settlement payments or awards of damages could have a material adverse effect on our business, financial condition and results of operations.

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 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 a similar annual actuarial analysis during the third quarter of each year for the foreseeable future.

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.

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. The risk of non-performance may also result from the insolvency or bankruptcy of one or more of our suppliers. Our suppliers' ability to supply products to us is also subject to a number of risks, including availability and cost of raw materials, destruction of their facilities, or work stoppages. 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.

Index

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 those functions that we may outsource, 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 in our information technology systems, or those functions that we may outsource, could unexpectedly compromise the information 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 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.

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

We are continuing to implement a number of cost savings programs including moving some US production to our low cost facilities in Mexico and Poland and integrating and transferring acquired assets and businesses to company facilities. Although we expect to realize cost savings as a result of these initiatives, we may not be able to achieve the level of benefits that we expect to realize 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 and failure to complete or a substantial delay in completing 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.

Risks Related to Liquidity

We are exposed to risks related to our receivables factoring arrangements.

We have entered into factoring arrangements with financial institutions to sell certain of our customers' trade accounts receivable without recourse. If we do not enter into these factoring arrangements, our financial condition, results of operations and cash flows could be materially and adversely affected by delays or failures in collecting trade accounts receivables. In addition, if any of the financial institutions with which we have factoring arrangements experience financial difficulties or otherwise terminate our factoring arrangements, we may experience material and adverse economic losses due to the loss of such factoring arrangements and the impact of such loss on our liquidity, which could have a material and adverse effect upon our financial condition, results of operations and cash flows. The utility of our factoring 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 such that the cost of factoring becomes more than the cost of servicing our receivables with existing debt, we may not be able to rely on such factoring arrangements, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

Index

Increasing our indebtedness could negatively affect our financial health.

We have an existing revolving bank credit facility of \$250 million with General Electric Capital Corporation, as agent, and a syndicate of lenders, which we refer to throughout this Report as our revolving credit facility. As of December 31, 2014, our total outstanding indebtedness was \$56.8 million, of which amount \$56.6 million of outstanding indebtedness and approximately \$127.3 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 currently owned and future acquired personal property, real property and other assets. 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
- the ability of vendors to factor receivables from customers.

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.

Index

Risks Related to External Factors

Our results of operations and financial condition may be adversely affected by global economic conditions.

Continued weakness in the global economy, including the potential for a prolonged global economic recession, high unemployment, and a global increase in commodity prices, may materially and adversely affect our results of operations and financial condition. These conditions may also materially impact our customers, suppliers and other parties with whom we do business. For example, end users may put off discretionary repairs or, as a result of increases in average fuel prices, drive less miles thereby resulting in less need for our products. Economic conditions that adversely affect our customers may cause them to terminate existing purchase orders or to reduce the volume of products they purchase from us in the future. In connection with the sale of products, we normally do not require collateral as security for customer receivables and do not purchase credit insurance. We may have significant balances owing from customers that operate in cyclical industries and under leveraged conditions that may impair the collectability of those receivables. Failure to collect a significant portion of amounts due on those receivables could have a material adverse effect on our results of operations and financial condition. Adverse economic conditions may also cause our suppliers to be unable to meet their commitments to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing the maximum amount of trade credit available to us. Changes of this type or worsening economic conditions could significantly affect our liquidity and could have a material adverse effect on our results of operations and financial condition.

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 and Mexico, 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) export and import restrictions; and (e) the potential for shortages of trained labor. In particular, there has been social unrest in Mexico and any increased violence in or around our manufacturing facilities in Mexico could impact our business by disrupting our supply chain, the delivery of products to customers, and the reluctance of our customers to visit our Mexican facilities. In addition, the increased violence in or around our manufacturing facilities in Mexico could present several 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 our Mexican facilities. The likelihood of such occurrences and their potential effect on us is unpredictable and 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, such as legislation offering incentives to remove older vehicles from the road, could have a material adverse effect on our business, financial condition and results of operations.

Index

In August 2012, as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted rules requiring us to provide disclosure regarding the use of specified minerals, known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries. The rules require us to engage in ongoing due diligence efforts, and to disclose the results of our efforts in May of each year. The rules could affect the sourcing and availability of such minerals used in the manufacture of our products as the number of suppliers who provide conflict-free minerals may be limited. In addition, we expect to incur additional costs and expenses in order to comply with these rules, including for (i) due diligence to determine whether conflict minerals are necessary to the functionality or production of any of our products and, if so, to verify the sources of such conflict minerals; and (ii) any changes that we may desire to make to our products, processes, or sources of supply as a result of such diligence and verification activities. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free and/or we are unable to alter our products, processes or sources of supply to avoid such materials. We may also face difficulties in satisfying customers who may require that our products be certified as having conflict-free minerals, which could place us at a competitive disadvantage if we are unable to do so and lead to a loss of revenue.

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 \$0.7 million at December 31, 2014. 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 and modified environmental regulations, including fuel-efficiency 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 AC systems in particular are less prone to leak resulting in fewer AC system repairs. These factors could have a material adverse effect on our business, financial condition and results of operations.

Index

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, 2014.

Location	State or Country	Principal Business Activity	Owned or Approx. Expiration Square Feet	Date of Lease
Engine Management				
Orlando	FL	Manufacturing (Ignition)	50,600	2017
Ft. Lauderdale	FL	Distribution	23,300	Owned
Ft. Lauderdale	FL	Distribution	30,000	Owned
Mishawaka	IN	Manufacturing	153,100	Owned
Edwardsville	KS	Distribution (Wire)	363,500	Owned
Independence	KS	Manufacturing	337,400	Owned
Long Island City	NY	Administration	74,800	2018
Greenville	SC	Manufacturing (Ignition)	184,500	Owned
Disputanta	VA	Distribution (Ignition)	411,000	Owned
Reynosa	Mexico	Manufacturing (Wire)	100,000	2018
Reynosa	Mexico	Manufacturing (Ignition)	153,000	2018
Temperature Control				
Lewisville	TX	Administration and Distribution	415,000	2016
Grapevine	TX	Manufacturing	180,000	Owned
St. Thomas	Canada	Manufacturing	40,000	Owned
Reynosa	Mexico	Remanufacturing (Compressors)	82,000	2019
Reynosa	Mexico	Manufacturing	55,000	2017
Europe				
Bialystok	Poland	Manufacturing (Ignition)	60,300	2022
Other				
Mississauga	Canada	Administration and Distribution (Ignition, Wire, Temperature Control)	128,400	2016
Irving	TX	Training Center	13,400	2016

The real property that we own in Indiana, Kansas, South Carolina, Virginia and Texas and in St. Thomas, Canada is encumbered by a mortgage or deed of trust, as applicable, in favor of General Electric Capital Corporation or its affiliated company, as agent for our revolving credit facility.

Index

ITEM 3. LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 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 December 31, 2014, approximately 2,125 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2014, the amounts paid for settled claims are approximately \$17.6 million.

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.

Index

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

	High	Low	Dividend
Fiscal Year ended December 31, 2014:			
First Quarter	\$37.02	\$30.28	\$ 0.13
Second Quarter	44.85	35.50	0.13
Third Quarter	45.80	34.17	0.13
Fourth Quarter	40.25	32.62	0.13
Fiscal Year ended December 31, 2013:			
First Quarter	\$28.50	\$21.35	\$ 0.11
Second Quarter	35.92	27.35	0.11
Third Quarter	38.05	28.07	0.11
Fourth Quarter	39.99	32.10	0.11

The last reported sale price of our common stock on the NYSE on February 24, 2015 was \$39.22 per share. As of February 24, 2015, there were 490 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 current practice is to pay dividends on a quarterly basis. In January 2015, our Board voted to increase our quarterly dividend to a rate of \$0.15 per share per quarter. Our revolving credit facility permits dividends and distributions by us provided specific conditions are met. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for a further discussion of our revolving credit facility.

There have been no unregistered offerings of our common stock during the fourth quarter of 2014.

Index

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

For a discussion of our stock repurchases, see the “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The following table provides information relating to the Company’s purchases of its common stock for the fourth quarter of 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (2)
October 1-31, 2014	14,918	\$ 34.39	14,918	\$ —
November 1-30, 2014	—	—	—	—
December 1-31, 2014	—	—	—	—
Total	14,918	\$ 34.39	14,918	\$ —

In February 2014, our Board of Directors authorized the purchase of up to \$10 million of our common stock under (1) a stock repurchase program. All shares were purchased through the publicly announced stock repurchase program in open market transactions.

In February 2015, our Board of Directors authorized the purchase of up to an additional \$10 million of our (2) common stock under a stock repurchase program. Stock will be purchased from time to time, in the open market or through private transactions, as market conditions warrant.

Index

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, 2009 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
2009	100	100	100
2010	164	115	156
2011	245	117	136
2012	277	136	137
2013	466	180	225
2014	489	205	233

* Source: S&P Capital IQ

Index

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the five years ended December 31, 2014. 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.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Statement of Operations Data:					
Net sales	\$980,392	\$983,704	\$948,916	\$874,625	\$810,910
Gross profit	289,630	290,454	259,669	229,147	207,606
Litigation charge (1)	10,650	—	—	—	—
Operating income	85,338	86,863	71,431	64,899	46,793
Earnings from continuing operations	52,899	53,043	42,969	64,327	24,700
Loss from discontinued operations, net of tax	(9,870)	(1,593)	(1,616)	(1,926)	(2,740)
Net earnings (2) (3)	43,029	51,450	41,353	62,401	21,960
Per Share Data:					
Earnings from continuing operations:					
Basic	\$2.31	\$2.31	\$1.88	\$2.82	\$1.10
Diluted	2.28	2.28	1.86	2.78	1.09
Earnings per common share:					
Basic	1.88	2.24	1.81	2.74	0.97
Diluted	1.85	2.21	1.79	2.70	0.97
Cash dividends per common share	0.52	0.44	0.36	0.28	0.20
Other Data:					
Depreciation and amortization	\$17,295	\$17,595	\$16,466	\$14,145	\$13,574
Capital expenditures	13,904	11,410	11,811	11,037	10,806
Dividends	11,905	10,107	8,215	6,381	4,508
Cash Flows Provided By (Used In):					
Operating activities	\$46,987	\$57,616	\$93,560	\$75,307	\$28,078
Investing activities	(51,200)	(24,762)	(49,912)	(75,890)	(7,888)
Financing activities	15,316	(39,295)	(42,787)	566	(19,413)
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$13,728	\$5,559	\$13,074	\$10,871	\$12,135
Working capital	215,204	225,761	196,381	172,106	169,875
Total assets	673,551	615,523	576,594	550,722	492,801
Total debt	56,816	21,481	40,648	73,299	65,596
Long term debt (excluding current portion)	83	16	75	190	307
Stockholders’ equity	374,153	349,432	307,587	271,953	209,883

Index

Notes to Selected Financial Data

During 2014, we recorded a \$10.6 million litigation charge in connection with a settlement agreement in a legal proceeding with a third party. The settlement amount was funded from cash on hand and available credit under our revolving credit facility.

We recorded an after tax gain (charge) of \$(9.9) million, \$(1.6) million, \$(1.6) million, \$(1.9) million, and \$(2.7) 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, 2014, 2013, 2012, 2011 and 2010, respectively. Such costs were also separately disclosed in the operating activity section of the consolidated statements of cash flows for those same years.

In December 2011, we realized a non-recurring non-cash benefit of \$21.5 million in our provision for income taxes related to a reduction of a significant portion of our deferred tax valuation allowance on net U.S. deferred tax assets.

Index

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, 2014.

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 heavy duty, industrial equipment and 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 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.

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, Latin America, and Europe. Our customers consist of many of the leading warehouse distributors and auto parts retail chains, such as NAPA Auto Parts (National Automotive Parts Association, Inc.), Advance Auto Parts, Inc./CARQUEST Auto Parts, AutoZone, Inc., O'Reilly Automotive, Inc., Canadian Tire Corporation Limited and The Pep Boys Manny, Moe & Jack, as well as national program distribution groups, such as 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 newly formed organization, the Automotive Parts Services Group or The Group, and specialty market distributors. We distribute parts under our own brand names, such as Standard®, BWD®, Intermotor®, GP Sorensen®, TechSmart®, Tech Expert®, OEM®, LockSmart®, Select®, Four Seasons®, Factory Air®, EVERCO®, ACi®, Imperial®, COMPRESSORWORKS®, TORQFLO® and Hayden® and through co-labels and private labels, such as CARQUEST® BWD®, CARQUEST® Intermotor®, Duralast®, Duralast Gold®, Import Direct®, Master Pro®, Murray®, NAPA®, NAPA® Echlin®, Mileage Plus®, NAPA Proformer™, NAPA Temp Products™, Cold Power® and NAPA® Belden®.

Business Strategy

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. The key elements of our strategy are as follows:

Maintain Our Strong Competitive Position in the Engine Management and Temperature Control Businesses. 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. 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 customer service.

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

- providing our customers with broad lines of high quality engine management and temperature control products, supported by the highest level of customer service and reliability;
- continuing to maximize our production, supply chain and distribution efficiencies;

Index

· continuing to improve our cost position through increased global sourcing and increased manufacturing in low cost regions; and
· focusing on our engineering development efforts including a focus on bringing more product manufacturing in house.

Provide Superior Customer Service, Product Availability and Technical Support. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability, providing insightful customer category management, and providing technical support in a cost effective manner. In addition, our category management and technically skilled sales force professionals provide product selection, assortment and application support to our customers.

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 multiple product lines that incorporate the latest technologies.

Broaden Our Customer Base. Our goal is to increase our customer base by (a) continuing to leverage our manufacturing capabilities to secure additional original equipment business globally with automotive, industrial, marine, military and heavy duty vehicle and equipment manufacturers and their service part operations as well as our existing customer base including traditional warehouse distributors, large retailers, 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 collaborations and vendor managed inventory initiatives;
- evaluating additional opportunities to relocate manufacturing to our low-cost, off-shore 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, repurchase shares of our common stock, expand our product lines and grow revenues through potential acquisitions.

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 allocate resources towards an efficient distribution process and product engineering in order to maintain the flexibility and responsiveness on which their customers depend. Aftermarket manufacturers must be efficient producers of small lot sizes and do not have to provide systems engineering support. Aftermarket manufacturers also must distribute, with rapid turnaround times, products for a full range of vehicles on the road. The primary customers of the automotive aftermarket manufacturers are national and regional warehouse distributors, large retail chains, automotive repair chains and the dealer service networks of original equipment manufacturers (“OEMs”).

Index

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

- growth in number of vehicles on the road;
- increase in average vehicle age;
- change in total miles driven per year;
- new and modified environmental regulations, including fuel-efficiency standards;
- increase in pricing of new cars;
- economic and financial market conditions;
- new car quality and related warranties;
- changes in automotive technologies;
- change in vehicle scrap rates; and
- change in average fuel prices.

Traditionally, the parts manufacturers of OEMs and the independent manufacturers who supply the original equipment ("OE") part applications have supplied a majority of the business to new car dealer networks. However, certain parts manufacturers have become more independent and are no longer affiliated with OEMs, which has provided, and may continue to provide, opportunities for us to supply replacement parts to the dealer service networks of the OEMs, both for warranty and out of warranty repairs.

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, as we experienced in both 2014 and 2013, 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.