MICROVISION, INC.
Form S-1/A
June 08, 2018
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As filed with the Securities and Exchange Commission on June 8, 2018

Registration No. 333-222857

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MicroVision, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**3679**	**91-1600822**
(State or Other Jurisdiction of Incorporation or Organization	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

6244 185th Avenue NE, Suite 100

Redmond, WA 98052

(425) 936-6847

(Address, including zip code, and telephone number, including area code of principal executive offices)

David J. Westgor

Vice President, General Counsel & Secretary

MicroVision, Inc.

6244 185th Avenue NE

Redmond, Washington 98052

(425) 936-6847

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock	$20,700,000.00	$2,577.15(3)

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
(2) Includes the price of additional shares of common stock that the underwriters have the option to purchase to cover over-allotments, if any.
(3) The Registrant previously paid a registration fee of $1,876.50.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is prohibited.

SUBJECT TO COMPLETION, DATED JUNE 8, 2018

PROSPECTUS

MicroVision, Inc.

12,500,000 Shares of Common Stock

We are offering 12,500,000 shares of our common stock. We have granted the underwriters a 30-day option to purchase up to 1,875,000 additional shares of our common stock to cover over-allotments, if any.

Our shares are traded on the Nasdaq Global Market under the symbol MVIS. On June 6, 2018, the last sale price of our common stock as reported on the Nasdaq Global Market was $1.44 per share. The public offering price per share of our common stock will be determined between us, the underwriters and investors based on market conditions at the time of pricing, and may be at a discount to the current market price of our common stock. Therefore, the recent market price used throughout this prospectus may not be indicative of the final offering price.

Investing in our securities involves a high degree of risk. Please see the sections entitled Risk Factors on page 5 of this prospectus, as well as in our periodic reports filed with the Securities and Exchange Commission and incorporated by reference herein, for a discussion of important risks that you should consider before making an investment decision.

	Per Share	Total

Public offering price	$	$
Underwriting discount[(1)]	$	$
Proceeds, before expenses, to us	$	$

(1) See Underwriting on page 9 of this prospectus for a description of the compensation payable to the underwriters.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Delivery of the shares offered hereby is expected to be made on or about , 2018.

Sole Book-Running Manager

Ladenburg Thalmann

Co-Managers

H.C. Wainwright & Co. **Northland Capital Markets**

The date of this prospectus is , 2018.

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You should rely only on the information contained in or incorporated by reference into this prospectus (as supplemented and amended). We have not, and the underwriters have not, authorized anyone to provide you with different information. This document may only be used where it is legal to sell these securities. You should not assume that the information contained in this prospectus is accurate as of any date other than its date regardless of the time of delivery of the prospectus or any sale of our common stock.

We urge you to read carefully this prospectus (as supplemented and amended), together with the information incorporated herein by reference as described under the heading Information Incorporated by Reference, before deciding whether to invest in any of the common stock being offered.

All references in this prospectus to MicroVision, the Company, we, us or our mean MicroVision, Inc., unless we otherwise or the context otherwise requires.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read together with, the more detailed information and our consolidated financial statements and related notes thereto appearing elsewhere or incorporated by reference in this prospectus. Before you decide to invest in our securities, you should read the entire prospectus carefully, including the risk factors and the financial statements and related notes included or incorporated by reference in this prospectus.

Our Company

Overview

MicroVision, Inc. is a pioneer in laser beam scanning (LBS) technology that we market under our brand name PicoP®. We have developed our proprietary PicoP® scanning technology that can be adopted by our customers to create high-resolution miniature projection and three-dimensional sensing and image capture solutions. PicoP® scanning technology is based on our patented expertise in micro-electrical mechanical systems (MEMS), laser diodes, opto-mechanics, and electronics and how those elements are packaged into a small form factor, low power scanning engine that can display, interact and sense, depending on the needs of the application. For display, the engine can project a high-quality image on any surface for use in pico projection and augmented or virtual reality. For sensing, we use infrared (IR) lasers to capture three-dimensional data in the form of a point cloud. Interactivity uses the 3D sensing function and the display function to project an image that the user could then interact with as one would a touch screen.

Our strategy includes selling LBS engines to original design manufacturers (ODMs) and original equipment manufacturers (OEMs). We plan to offer three scanning engines to support a wide array of applications: a small form factor display engine for consumer products, an interactive scanning engine for smart Internet of Things (IoT) products, and a light detection and ranging (LiDAR) engine for consumer electronic applications. We also are developing LiDAR for automotive collision avoidance systems.

In addition to selling modules, we have licensed our patented PicoP® scanning technology to other companies for incorporation into their scanning engines for projection. We sell our licensees key components needed to produce their laser scanning engines and/or license our technology in exchange for a royalty fee for each scanning engine they sell. Companies to whom we license our PicoP® scanning technology are typically ODMs or OEMs who are in the business of making components or products ready for sale to end users. To date, we have primarily focused on the consumer electronics market, however, we believe that our LBS technology creates a platform that could support multiple applications and markets including medical, industrial and automotive.

While we are optimistic about our technology and the potential for future revenues, we have incurred substantial losses since inception and we expect to incur a significant loss during the fiscal year ending December 31, 2018.

Recent Developments

In May 2018, we signed a five-year license agreement with a customer granting them exclusive license to our LBS technology for display-only applications. As part of the agreement, we will receive $10 million in license fees in 2018. An initial payment of $5 million is scheduled to be paid in June 2018, and a second payment of $5 million is scheduled to be paid in October 2018. The contract includes requirements that must be met in order to maintain exclusivity. In addition to the up-front license fees, we expect payments for non-recurring engineering expenses associated with process and product transfer and qualification milestones, and component sales.

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Corporate Information

We were founded in 1993 as a Washington corporation and reincorporated in 2003 under the laws of the State of Delaware. Our principal office is located at 6244 185th Ave NE, Suite 100, Redmond, WA 98052 and our telephone number is 425-936-6847. We maintain a website at www.microvision.com, where general information about us is available. We do not incorporate the information on our website into this prospectus and you should not consider it part of this prospectus.

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The Offering

The following summary contains basic information about this offering. The summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this prospectus.

Common stock offered by us	12,500,000 shares (14,375,000 shares if the underwriters over-allotment option is exercised in full), based on an assumed public offering price of \$1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market.
Common stock to be outstanding immediately after this offering(1)	91,113,343 shares (92,988,343 shares if the underwriters over-allotment option is exercised in full), based on an assumed public offering price of \$1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market.
Option to purchase additional shares	We have granted a 30-day option to the underwriters to purchase up to a total of 1,875,000 additional shares of our common stock from us at the public offering price, less the underwriting discount payable by us, to cover over-allotments, if any.
NASDAQ Global Market symbol	MVIS
Use of proceeds	We intend to use the net proceeds from the sale of common stock offered by this prospectus for general corporate purposes, which may include, but are not limited to, working capital and capital expenditures. See Use of Proceeds.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors.

(1) The number of shares of common stock to be outstanding after this offering is based on 78,613,343 shares outstanding as of March 31, 2018 and excludes, as of that date, the following:

4,972,720 shares of our common stock issuable upon exercise of outstanding options, of which approximately 2,769,407 were exercisable at a weighted average exercise price of \$3.32 per share, under our 2013 Incentive Plan, as amended, or the Incentive Plan, and our Independent Director Stock Option Plan;

185,000 shares of our common stock underlying unvested stock awards;

1,973,000 shares of our common stock issuable upon exercise of outstanding warrants, all of which were exercisable at a weighted average exercise price of $2.47 per share; and

2,227,672 shares of our common stock reserved for issuance pursuant to the Incentive Plan.

Unless otherwise indicated, this prospectus assumes no exercise by the underwriters of their over-allotment option.

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NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus and the documents incorporated by reference herein contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and is subject to the safe harbor created by that section. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for product development and cooperative arrangements, future operations, financing needs or plans, as well as assumptions relating to the foregoing. The words anticipate, believe, estimate, expect, goal, m plan, project, will and similar expressions identify forward-looking statements, which speak only as of the date the statement was made.

These forward-looking statements are not guarantees of future performance. Factors that could cause actual results to differ materially from those projected in our forward-looking statements include the following: our ability to raise additional capital when needed; market acceptance of our technologies and products, and for products incorporating our technologies; the failure of our commercial partners to perform as expected under our agreements; our ability to identify parties interested in paying any amounts or amounts we deem desirable for the purchase or license of intellectual property assets; our or our customers failure to perform under open purchase orders; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; the ability to obtain additional contract awards and to develop partnership opportunities; the timing of commercial product launches and delays in product development; the ability to achieve key technical milestones in key products; dependence on third parties to develop, manufacture, sell and market our products; potential product liability claims; and other factors set forth in the section entitled Risk Factors below, and in the documents incorporated by reference into this prospectus. These factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, now or in the future, and the factors set forth in this prospectus may affect us to a greater extent than indicated. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in or incorporated into this prospectus. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, and all other information included or incorporated by reference in this prospectus, before you decide whether to purchase our securities. The risks and uncertainties we describe are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks were to occur, our business, financial condition or results of operations would likely suffer. In that event, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Common Stock and this Offering

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not necessarily improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, financial condition, operating results and cash flow, and could cause the price of our common stock to decline.

If you purchase the common stock sold in this offering, you will experience immediate and substantial dilution in your investment. You will experience further dilution if we issue additional equity securities in future fundraising transactions.

Since the price per share of our common stock being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution with respect to the net tangible book value of the common stock you purchase in this offering. Based on an assumed public offering price of $1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market, and our net tangible book value as of March 31, 2018, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $1.23 per share with respect to the net tangible book value of the common stock. See the section entitled Dilution elsewhere in this prospectus for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

If we issue additional common stock, or securities convertible into or exchangeable or exercisable for common stock following the expiration of the lock-up agreement we entered into with the underwriters as described in the section entitled Underwriting elsewhere in this prospectus, our stockholders, including investors who purchase shares of common stock in this offering, could experience additional dilution, and any such issuances may result in downward pressure on the price of our common stock.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares of common stock intend to sell shares, could reduce the market price of our common stock.

As of March 31, 2018, we had outstanding options to purchase an aggregate of 4,972,720 shares of our common stock, of which approximately 2,769,407 were exercisable at a weighted average exercise price of $3.32 per share, and outstanding warrants to purchase an aggregate of 1,973,000 shares of our common stock, all of which are exercisable at a weighted average exercise price of $2.47 per share. The exercise of such outstanding options and warrants will result in further dilution of your investment. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

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We do not currently intend to pay dividends on our common stock, and any return to investors is expected to come, if at all, only from potential increases in the price of our common stock.

At the present time, we intend to use available funds to finance our operations. Accordingly, while payment of dividends rests within the discretion of our board of directors, no cash dividends on our common shares have been declared or paid by us and we have no intention of paying any such dividends in the foreseeable future. Any return to investors is expected to come, if at all, only from potential increases in the price of our common stock.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $16.7 million (or approximately $19.2 million if the underwriters over-allotment option is exercised in full), in each case after deducting the underwriting discount and estimated offering expenses payable by us. The public offering price per share of our common stock will be determined between us, the underwriters and investors based on market conditions at the time of pricing, and may be at a discount to the current market price of our common stock.

Each $0.10 increase (decrease) in the assumed public offering price of $1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market, would increase (decrease) the net proceeds to us from this offering, after deducting the estimated underwriting discount and estimated offering expenses payable by us, by approximately $1.2 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 500,000 in the number of shares we are offering would increase (decrease) the net proceeds to us from this offering, after deducting the estimated underwriting discount and estimated offering expenses payable by us, by approximately $0.7 million, assuming the assumed public offering price stays the same. This information is illustrative only, and we will adjust this information based on the actual public offering price and other terms of this offering determined at pricing. We do not expect that a change in the offering price or the number of shares by these amounts would have a material effect on our intended uses of the net proceeds from this offering, although it may impact the amount of time prior to which we may need to seek additional capital.

We anticipate that the net proceeds from the sale of the securities offered under this prospectus will be used for general corporate purposes, which may include, but are not limited to, working capital and capital expenditures. Pending the application of the net proceeds, we expect to invest the proceeds in investment-grade, interest-bearing instruments or other securities.

DESCRIPTION OF SECURITIES WE ARE OFFERING

We are offering 12,500,000 shares of our common stock. We have granted the underwriters an option to purchase up to 1,875,000 additional shares of our common stock to cover over-allotments, if any.

Our Certificate of Incorporation, as amended, authorizes us to issue 150,000,000 shares of common stock, $0.001 par value per share, and 25,000,000 shares of preferred stock, $0.001 par value per share. As of March 31, 2018, there were 78,613,343 shares of common stock, and no shares of preferred stock, outstanding.

Common Stock. All outstanding common stock is, and any stock issued under this prospectus will be duly authorized, fully paid and nonassessable. Subject to the rights of the holders of our outstanding preferred stock, holders of common stock:

are entitled to any dividends validly declared;

will share ratably in our net assets in the event of a liquidation; and

are entitled to one vote per share.

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The common stock has no conversion rights. Holders of common stock have no preemption, subscription, redemption, or call rights related to those shares.

American Stock Transfer & Trust Company is the transfer agent and registrar for our common stock.

Preferred Stock. The Board of Directors has the authority, without further action by the shareholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series. The issuance of preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation may have the effect of delaying, deferring or preventing a change in control of MicroVision, which could depress the market price of our common stock. We currently have no shares of preferred stock outstanding.

DILUTION

If you invest in our securities, your interest will be diluted by an amount equal to the difference between the public offering price and the net tangible book value per share of our common stock after this offering. We calculate net tangible book value per share by dividing our net tangible book value (total assets less intangible assets and total liabilities) by the number of outstanding shares of common stock.

Our net tangible book value at March 31, 2018 was approximately $2.7 million, or approximately $0.03 per share of common stock. After giving effect to the sale of 12,500,000 shares of common stock at an assumed public offering price of $1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market, and after deduction of the estimated discount and estimated offering expenses payable by us, our adjusted net tangible book value at March 31, 2018 would have been approximately $19.4 million, or approximately $0.21 per share. This represents an immediate increase in as-adjusted net tangible book value of $0.18 per share to existing shareholders and an immediate and substantial dilution of $1.23 per share to new investors. The following table illustrates this per share dilution:

Assumed public offering price per share		$ 1.44
Net tangible book value per share at March 31, 2018	$ 0.03	
Increase in net tangible book value per share attributable to this offering	$ 0.18	
As-adjusted net tangible book value per share as of March 31, 2018, after giving effect to this offering		$ 0.21
Dilution per share to new investors in this offering		$ 1.23

The information above assumes that the underwriters do not exercise their over-allotment option. If the underwriters exercise their over-allotment option in full, the as-adjusted net tangible book value after this offering would be approximately $0.24 per share, representing an increase in net tangible book value of approximately $0.20 per share to existing shareholders and immediate dilution in net tangible book value of approximately $1.20 per share to new investors purchasing our common stock in this offering at the public offering price.

A $0.10 increase (decrease) in the assumed public offering price of $1.44 per share, the last sale price per share of our common stock on June 6, 2018, as reported on the Nasdaq Global Market, would increase (decrease) our as adjusted net tangible book value as of March 31, 2018 after this offering by approximately $1.2 million, or approximately $0.01 per share, and would increase (decrease) dilution to investors in this offering by approximately $0.09 per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discount and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 500,000 in the number of shares we are offering would increase (decrease) our as adjusted net tangible book value as of March 31, 2018 after this offering by approximately $0.7 million, or approximately $0.01 per share, and would decrease (increase) dilution to investors in this offering by approximately $0.01 per share, assuming the assumed public offering price per share remains the same, after deducting the estimated underwriting discount and estimated offering expenses payable by us. The as adjusted information is illustrative only, and we will adjust this information based on the actual public offering price and other terms of this offering determined at pricing.

The table and discussion above are based on 78,613,343 shares of our common stock outstanding as of March 31, 2018 and excludes, as of that date, the following:

- 4,972,720 shares of our common stock issuable upon exercise of outstanding options, of which approximately 2,769,407 were exercisable at a weighted average exercise price of $3.32 per share, under our 2013 Incentive Plan, as amended, or the Incentive Plan, and our Independent Director Stock Option Plan;

- 185,000 shares of our common stock underlying unvested stock awards;

- 1,973,000 shares of our common stock issuable upon exercise of outstanding warrants, all of which were exercisable at a weighted average exercise price of $2.47 per share; and

- 2,227,672 shares of our common stock reserved for issuance pursuant to the Incentive Plan.

To the extent that any of the outstanding warrants or options are exercised, there will be further dilution to new investors. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity securities, the issuance of these securities could result in further dilution to our stockholders.

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UNDERWRITING

We have entered into an underwriting agreement with Ladenburg Thalmann & Co. Inc, acting as the representative of the several underwriters named below, with respect to the shares of common stock subject to this offering. Subject to certain conditions, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the number of shares of common stock provided below opposite their respective names. The underwriters obligations are several, which means that each underwriter is required to purchase a specific number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. The underwriters are committed to purchase and pay for all of the shares if any are purchased, other than those shares covered by the over-allotment option described below.

Underwriters	Number of Shares
Ladenburg Thalmann & Co. Inc.	
H.C. Wainwright & Co., LLC	
Northland Securities, Inc.	

The underwriters have advised us that they propose to offer the shares of common stock to the public at a price of $ per share. The underwriters propose to offer the shares of common stock to certain dealers at the same price less a concession of not more than $ per share. After the offering, these figures may be changed by the representative.

The shares sold in this offering are expected to be ready for delivery against payment in immediately available funds on or about , 2018, subject to customary closing conditions. The underwriters may reject all or part of any order.

We have granted to the underwriters an option to purchase up to an additional 1,875,000 shares of common stock from us at the same price to the public, and with the same underwriting discount, as set forth on the cover page of this prospectus. The underwriters may exercise this option, in whole or in part, any time during the 30-day period after the date of this prospectus, but only to cover over-allotments, if any. If the underwriters exercise this option, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares proportionate to that underwriter s initial purchase commitment as indicated in the table above.

Commissions and Discounts

The table below summarizes the underwriting discount that we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the over-allotment option. In addition to the underwriting discount, we have agreed to pay up to $100,000 of the fees and expenses of the underwriters, which may include the fees and expenses of counsel to the underwriters. The fees and expenses of the underwriters that we have agreed to reimburse are not included in the underwriting discounts set forth in the table below. The underwriters have not received and will not receive from us any other item of compensation or expense in connection with this offering considered by the Financial Industry Regulatory Authority, Inc., or FINRA, to be underwriting compensation under its rules. The underwriting discount and other items of compensation the underwriters will receive were determined through arms length negotiations between us and the representative.

	Per Share	Total with no Over-Allotment	Total with Full Exercise of Over-Allotment
Underwriting discount	$	$	$

We estimate that the total expenses of this offering, excluding the underwriting discount, will be $225,000. This includes $100,000 of fees and expenses of the underwriters. These expenses are payable by us.

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Indemnification

We also have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

No Sales of Similar Securities

We and each of our directors and officers have agreed not to offer, sell, agree to sell, directly or indirectly, or otherwise dispose of any shares of common stock or any securities convertible into or exchangeable for shares of common stock without the prior written consent of the underwriters for a period of 90 days after the date of this prospectus. These lock-up agreements provide certain exceptions and their restrictions may be waived at any time by the representative.

Price Stabilization, Short Positions and Penalty Bids

To facilitate this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock during and after the offering. Specifically, the underwriters may create a short position in our common stock for their own accounts by selling more shares of common stock than we have sold to the underwriters. The underwriters may close out any short position by purchasing shares in the open market.

In addition, the underwriters may stabilize or maintain the price of our common stock by bidding for or purchasing shares in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to broker-dealers participating in this offering are reclaimed if shares previously distributed in this offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of our common stock at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of our common stock to the extent that it discourages resales of our common stock. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, the underwriters and selling group members may also engage in passive market making transactions in our common stock on the Nasdaq Global Market. Passive market making consists of displaying bids on the Nasdaq Global Market limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of our common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that any transaction, if commenced, will not be discontinued without notice.

Electronic Offer, Sale and Distribution of Shares

The underwriters or syndicate members may facilitate the marketing of this offering online directly or through one of their affiliates. In those cases, prospective investors may view offering terms and a prospectus online and place orders online or through their financial advisors. Such websites and the information contained on such websites, or connected to such sites, are not incorporated into and are not a part of this prospectus.

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Other Relationships

The underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters have in the past, and may in the future, engage in investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. The underwriters have in the past, and may in the future, receive customary fees and commissions for these transactions. Ladenburg Thalmann & Co. Inc. previously acted as the sole underwriter for our August 2017 public offering of common stock and, in connection therewith, received total compensation of $808,538, including the reimbursement of certain of its fees and expenses.

In the ordinary course of their various business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that it acquires, long and/or short positions in such securities and instruments.

Selling Restrictions

Canada. The offering of the common stock in Canada is being made on a private placement basis in reliance on exemptions from the prospectus requirements under the securities laws of each applicable Canadian province and territory where the common stock may be offered and sold, and therein may only be made with investors that are purchasing as principal and that qualify as both an accredited investor as such term is defined in National Instrument 45-106 - Prospectus Exemptions, and as a permitted client as such term is defined in National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any offer and sale of the common stock in any province or territory of Canada may only be made through a dealer that is properly registered under the securities legislation of the applicable province or territory wherein the common stock is offered and/or sold or, alternatively, by a dealer that qualifies under and is relying upon an exemption from the registration requirements therein.

Any resale of the common stock by an investor resident in Canada must be made in accordance with applicable Canadian securities laws, which may require resales to be made in accordance with prospectus and registration requirements, statutory exemptions from the prospectus and registration requirements or under a discretionary exemption from the prospectus and registration requirements granted by the applicable Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the common stock outside of Canada.

European Economic Area. In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive each, a Relevant Member State, no offer to the public of any of our shares of common stock will be made, other than under the following exemptions:

to any legal entity that is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the issuer for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock will result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or any supplementary prospectus pursuant to Article 16 of the Prospectus Directive.

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For the purposes of this provision, the expression an offer to the public in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer so as to enable an investor to decide to purchase or subscribe for any shares of common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom. This document is not an approved prospectus for the purposes of section 85 of the UK Financial Services and Markets Act 2000, as amended, or FSMA, and a copy of it has not been, and will not be, delivered to or approved by the UK Listing Authority or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of section 86(7) of FSMA that are also (i) investment professionals falling within Article 19(5) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, and/or (ii) high net worth companies, unincorporated associations or partnerships and the trustees of high value trusts falling within Article 49(2)(a) to (d) of the Order and other persons to whom it may lawfully be communicated (each such person being referred to as a relevant person).

Any person in the United Kingdom that is not a relevant person should not act or rely on these documents or any of their contents. Any investment, investment activity or controlled activity to which this document relates is available in the United Kingdom only to relevant persons and will be engaged in only with such persons. Accordingly, this document has not been approved by an authorized person, as would otherwise be required by Section 21 of FSMA. Any purchaser of shares of common stock resident in the United Kingdom will be deemed to have represented to us and the underwriters, and acknowledge that each of us and the underwriters are relying on such representation, that it, or the ultimate purchaser for which it is acting as agent, is a relevant person.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer and Trust Company, LLC.

LEGAL MATTERS

The validity of the common stock being offered hereby will be passed upon by Ropes & Gray LLP, Boston, Massachusetts. Lowenstein Sandler LLP, New York, New York, is acting as counsel for the underwriters in connection with this offering.

EXPERTS

Our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2017, and the effectiveness of our internal control over financial reporting as of December 31, 2017, have been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm (which report expresses an unqualified opinion and includes an explanatory paragraph regarding a going concern emphasis) given upon their authority as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of our common stock being offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not include all of the information contained in the registration statement and the exhibits to the registration statement. For further information with respect to us and our common stock, you should refer to the registration statement (including this prospectus), the exhibits to the registration statement and the documents incorporated by reference in this prospectus. Statements contained in this prospectus about the contents of any contract or any other document are not necessarily complete, and in each instance, we refer you to the copy of the contract or other documents filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC s website at http://www.sec.gov and through the Investors section of our website at http://www.Microvision.com. The information found on our website is not part of this prospectus and investors should not rely on any such information in deciding whether to invest.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to another document that we have filed separately with the SEC. You should read the information incorporated by reference because it is an important part of this prospectus. We incorporate by reference the following information or documents that we have filed with the SEC; provided, however, that we are not incorporating any information furnished under any of Item 2.02 or Item 7.01 (including exhibits furnished under Item 9.01 in connection with information furnished under Item 2.02 or Item 7.01) of any current report on Form 8-K:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 23, 2018.

- Our quarterly report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the SEC on May 10, 2018.

- Our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 20, 2018.

- Our Current Reports on Form 8-K filed with the SEC on May 16, 2018 and June 7, 2018.

Any statement contained in any document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any amendment or supplement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We also specifically incorporate by reference any documents filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial filing of this registration statement and prior to the effectiveness of this registration statement.

We will provide to each person, including any beneficial owners, to whom a prospectus is delivered, upon written or oral request of any such person, a copy of the reports and documents that have been incorporated by

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reference into this prospectus, at no cost. You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

MicroVision, Inc.

6244 185th Avenue NE, Suite 100

Redmond, Washington 98052

Attention: Investor Relations

(425) 936-6847

Copies of these filings are also available through the Investors section of our website at http://www.Microvision.com. The reference to our website address does not constitute incorporation by reference of the information contained on our website.

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12,500,000 Shares

Common Stock

Sole Book-Running Manager

Ladenburg Thalmann

Co-Managers

H.C. Wainwright & Co. **Northland Capital Markets**

, 2018.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. *Other Expenses of Issuance and Distribution*

The following table sets forth the various costs and expenses (other than the underwriting discounts and commissions) payable by the Registrant in connection with a distribution of securities registered hereby. All amounts are estimates except the SEC registration fee.

SEC registration fee	$ 2,577
FINRA filing fee	$ 3,605
Legal fees and expenses	$ 75,000
Underwriters expense reimbursement	$ 100,000
Accounting fees and expenses	$ 38,000
Miscellaneous	$ 5,818
Total	$ 225,000

Item 14. *Indemnification of Directors and Officers*

Section 145 of the Delaware General Corporation Law (DGCL) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney s fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor, against expenses actually and reasonably incurred in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (relating to unlawful payment of dividends and unlawful stock purchase and redemption) or (iv) for any transaction from which the director derived an improper personal ben

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,898	$ 12,135
Accounts receivable, less allowance for discounts and doubtful accounts of $7,036 and $6,779 for 2011 and 2010, respectively	137,521	104,986
Inventories, net	233,995	241,158
Deferred income taxes	15,184	18,135
Assets held for sale	216	216
Prepaid expenses and other current assets	7,085	8,076
Total current assets	408,899	384,706
Property, plant and equipment, net	60,114	60,666
Goodwill	14,304	1,437
Other intangibles, net	16,474	11,050
Deferred income taxes	11,956	21,347
Other assets	11,996	13,595
Total assets	$ 523,743	$ 492,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 41,790	$ 52,887
Current portion of long-term debt	107	12,402
Accounts payable	68,060	49,919
Sundry payables and accrued expenses	35,583	29,280
Accrued customer returns	32,626	23,207
Accrued rebates	29,344	23,668
Payroll and commissions	24,074	23,468
Total current liabilities	231,584	214,831
Long-term debt	221	307
Accrued postretirement benefits	5,918	21,044
Other accrued liabilities	16,779	21,944
Accrued asbestos liabilities	26,248	24,792
Total liabilities	280,750	282,918
Commitments and contingencies		
Stockholders' equity:		
Common stock – par value $2.00 per share: Authorized – 30,000,000 shares; issued 23,936,036 shares	47,872	47,872
Capital in excess of par value	78,723	77,471

Retained earnings	125,837	97,535
Accumulated other comprehensive income	4,396	716
Treasury stock – at cost 1,239,204 and 1,276,044 shares in 2011 and 2010, respectively	(13,835)	(13,711)
Total stockholders’ equity	242,993	209,883
Total liabilities and stockholders’ equity	$ 523,743	$ 492,801

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$33,090	$19,716
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	10,429	10,030
Increase (decrease) to allowance for doubtful accounts	(8)	778
Increase to inventory reserves	2,375	4,801
Amortization of deferred gain on sale of building	(786)	(786)
Gain on disposal of property, plant and equipment	(31)	(1,615)
Equity income from joint ventures	(327)	(116)
Employee stock ownership plan allocation	1,885	1,225
Stock-based compensation	1,541	1,256
Decrease in deferred income taxes	12,457	5,585
Decrease in unrecognized tax benefit	(454)	(1,084)
Loss on discontinued operations, net of tax	1,714	2,309
Change in assets and liabilities:		
Increase in accounts receivable	(30,583)	(47,166)
Decrease (increase) in inventories	8,615	(35,769)
Decrease in prepaid expenses and other current assets	349	481
Increase in accounts payable	8,507	20,683
Increase in sundry payables and accrued expenses	21,374	26,932
Net changes in other assets and liabilities	(12,859)	(2,324)
Net cash provided by operating activities	57,288	4,936
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property, plant and equipment	35	11
Net cash received from the sale of land and buildings	—	2,559
Divestiture of joint ventures	1,273	1,000
European distribution business	1,317	—
Capital expenditures	(6,682)	(9,112)
Acquisitions of businesses and assets	(26,984)	(2,024)
Net cash used in investing activities	(31,041)	(7,566)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments of) borrowings under line-of-credit agreements	(11,097)	3,228
Principal payments of long-term debt and capital lease obligations	(12,381)	(5,399)
Increase in overdraft balances	9,441	10,625
Purchase of treasury stock	(3,285)	—
Proceeds from exercise of employee stock options	204	—
Excess tax benefits related to the exercise of employee stock grants	154	—
Adjustment to costs related to issuance of common stock	—	36
Payments of debt issuance cost	(400)	(56)

Dividends paid	(4,788)	(3,376)
Net cash (used in) provided by financing activities	(22,152)	5,058
Effect of exchange rate changes on cash	(1,332)	361
Net increase in cash and cash equivalents	2,763	2,789
CASH AND CASH EQUIVALENTS at beginning of period	12,135	10,618
CASH AND CASH EQUIVALENTS at end of period	$14,898	$13,407
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$2,340	$3,919
Income taxes	$10,354	$1,529

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Nine Months Ended September 30, 2011
(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2010	$47,872	$77,471	$97,535	$ 716	$(13,711)	$209,883
Comprehensive income:						
Net income			33,090			33,090
Foreign currency translation adjustment				(1,500)		(1,500)
Pension and retiree medical adjustment, net of tax				5,180		5,180
Total comprehensive income						36,770
Cash dividends paid			(4,788)			(4,788)
Purchase of treasury stock					(3,285)	(3,285)
Stock-based compensation and related tax benefits		683			1,012	1,695
Stock options and related tax benefits		21			183	204
Employee Stock Ownership Plan		548			1,966	2,514
Balance at September 30, 2011	$47,872	$78,723	$125,837	$ 4,396	$(13,835)	$242,993

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

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

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest. All significant inter-company items have been eliminated.

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

Immaterial Correction Related to Prior Periods

During the year ended December 31, 2010, we identified an immaterial correction related to our classification in the consolidated statements of operations of gains/losses on the sale of long-lived assets. As a result, we have adjusted certain prior period amounts within continuing operations on the consolidated statements of operations for the three and nine months ended September 30, 2010. Such correction was limited to classification within continuing operations on the consolidated statements of operations and did not impact the consolidated balance sheet, consolidated statements of cash flows or the consolidated statements of changes in stockholders' equity and comprehensive income. See Note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for additional information.

Note 2. Summary of Significant Accounting Policies

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

The impact and any associated risks related to significant accounting policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the FASB amended Accounting Standard Codification ("ASC") 220, Comprehensive Income. The amendment eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us is January 1, 2012 with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income, as it is currently presented as part of our consolidated statement of changes in stockholders' equity.

Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us is January 1, 2012. Early adoption is permitted. We will consider this new standard when conducting our annual impairment test of goodwill.

In December 2010, the FASB issued ASU 2010-28, which updated ASC 350, Intangibles – Goodwill and Other. Pursuant to ASC 350, goodwill is tested for impairment using a two-step approach. Initially, the fair value of a reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; a second step of comparing the carrying amount to its implied fair value is required, as this is an indication that the reporting unit goodwill may be impaired. The new standard sets forth a requirement that the second step test must be performed in circumstances where a reporting unit has a zero or negative carrying amount and there are qualitative factors which indicate that it is more likely than not that an impairment exists. The new standard is effective for annual reporting periods beginning after December 15, 2010, which for us was January 1, 2011. Currently, none of our reporting units have a zero or negative carrying amount. As a result, the adoption of this standard will not have an immediate impact on the manner in which we conduct our impairment testing.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU 2009-13, which will update ASC 605, Revenue Recognition, and changes the accounting for certain revenue arrangements. The new standard sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010, which for us was January 1, 2011. The adoption of these provisions did not have a material impact on our consolidated financial position, results of operations and cash flows.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 3. Engine Controls Acquisition

In April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc., for $27 million in cash funded by our revolving line of credit. As part of the acquisition, we acquired certain assets and assumed certain liabilities of BLD's Engine Controls business in Holland, Michigan, and acquired 100% of the equity of Novo Products Inc. located in Ocala, Florida. The acquired business is a manufacturer of a range of products including fuel pressure regulators, air by-pass valves, idle air control valves, and PCV valves. Revenues generated from the acquired business were approximately $18 million for the year-ended December 31, 2010, of which approximately 40% of the volume was sold to us.

In connection with the purchase, $7.2 million was allocated to customer relationships and will be amortized on a straight line basis over the estimated useful life of 10 years. Goodwill of $12.9 million was allocated to the Engine Management Segment and is deductible for income tax purposes. The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed, based on their fair values (in thousands):

Purchase Price		$26,984
Assets acquired and liabilities assumed:		
Inventory	3,826	
Other current assets	1,947	
Property, plant and equipment, net	1,965	
Intangible assets	7,200	
Goodwill	12,867	
Current liabilities	(821)	
Net assets acquired		$26,984

Note 4. Restructuring and Integration Costs

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2010 and September 30, 2011 and activity for the nine months ended September 30, 2011 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$6,220	$2,435	$8,655
Restructuring and integration costs:			
Amounts provided for during 2011	239	504	743
Non-cash usage, including asset write-downs	--	(343)	(343)
Cash payments	(4,402)	(574)	(4,976)
Exit activity liability at September 30, 2011	$2,057	$2,022	$4,079

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Restructuring Costs

Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to be paid through 2015. Of the original restructuring charge of $8 million, we have $1.7 million remaining as of September 30, 2011 that is expected to be paid in the amounts of $0.4 million in 2011, $0.5 million in 2012 and $0.8 million for the period 2013-2015.

Activity, by segment, for the nine months ended September 30, 2011 related to the voluntary separation program, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2010	$ 970	$ 321	$ 915	$ 2,206
Restructuring costs:				
Amounts provided for during 2011	--	--	--	--
Cash payments	(167)	(54)	(311)	(532)
Exit activity liability at September 30, 2011	$ 803	$ 267	$ 604	$ 1,674

Integration Expenses

Overhead Cost Reduction Program

Beginning in 2007 in connection with our efforts to improve our operating efficiency and reduce costs, we announced our intention to focus on company-wide overhead and operating expense cost reduction activities, such as closing excess facilities and reducing redundancies. Integration expenses remaining under this program to date relate primarily to the closure of our production operations in Corona, California and Edwardsville, Kansas. We expect that all payments related to the current liability will be made within twelve months.

Activity for the nine months ended September 30, 2011 related to our overhead cost reduction program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$ 853	$ 686	$ 1,539
Integration costs:			
Amounts provided for during 2011	194	309	503
Non-cash usage, including asset write-downs	--	(343)	(343)
Cash payments	(804)	(284)	(1,088)
Exit activity liability at September 30, 2011	$ 243	$ 368	$ 611

Reynosa Integration Program

During 2008, we closed our Long Island City, New York and Puerto Rico manufacturing facilities and integrated these operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of September 30, 2011, the reserve balance related to environmental clean-up at Long Island City of $1.7 million is included in other exit costs.

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In connection with the shutdown of the manufacturing operations at Long Island City, we entered into an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and its Local 365 ("UAW"). As part of the agreement, we incurred a withdrawal liability from a multi-employer plan. The pension plan withdrawal liability is related to trust asset under-performance in a plan that covers our former UAW employees at the Long Island City facility and was payable quarterly for 20 years at $0.3 million per year, which commenced in December 2008. In June 2011, we agreed to settle our pension withdrawal liability for $2.8 million and recorded a gain of $0.3 million in connection with the settlement.

Activity for the nine months ended September 30, 2011 related to the Reynosa integration program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$3,161	$1,749	$4,910
Integration costs:			
Amounts provided for during 2011	(225)	70	(155)
Cash payments	(2,877)	(165)	(3,042)
Exit activity liability at September 30, 2011	$59	$1,654	$1,713

Engine Controls Relocation

During April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc. As a result of our acquisition, we will incur integration costs within our Engine Management Segment related to employee severance and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility. We expect that all related payments will be made within twelve months.

Activity for the nine months ended September 30, 2011 related to the engine controls relocation program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$—	$—	$—
Integration costs:			
Amounts provided for during 2011	270	125	395
Cash payments	(189)	(125)	(314)
Exit activity liability at September 30, 2011	$81	$--	$81

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Integration activity, by segment, for the nine months ended September 30, 2011 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Total
Exit activity liability at December 31, 2010	$ 5,580	$ 869	$ 6,449
Integration costs:			
Amounts provided for during 2011	626	117	743
Non-cash usage, including asset write-downs	(343)	--	(343)
Cash payments	(3,611)	(833)	(4,444)
Exit activity liability at September 30, 2011	$ 2,252	$ 153	$ 2,405

Assets Held for Sale

As of September 30, 2011, we have reported $0.2 million as assets held for sale on our consolidated balance sheet related to the net book value of vacant land located in the U.K. Following plant closures resulting from integration activities, this facility had been vacant, and in July 2011, we signed an agreement to sell the property pending the procurement of satisfactory planning permission. We expect there will be a gain on the sale of the property and will record the resulting gain in other income (expense), net included in operating income (loss) in the consolidated statement of operations, upon completion of such sale.

Note 5. Sale of Receivables

From time to time, we sell undivided interests in certain of our receivables to financial institutions. We enter these agreements at our discretion when we determine that the cost of factoring is less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $159 million and $449.7 million of receivables during the three months and nine months ended September 30, 2011, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of $2.3 million and $6.4 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months and nine months ended September 30, 2011, respectively, and $1.8 million and $4.8 million for the comparable periods in 2010.

Note 6. Inventories, net

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

	September 30, 2011	December 31, 2010
	(In thousands)	
Finished goods, net	$ 148,383	$ 162,885

Work in process, net	5,852	5,672
Raw materials, net	79,760	72,601
Total inventories, net	$233,995	$ 241,158

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Note 7. Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Revolving credit facilities	$41,790	$ 52,887
15% convertible subordinated debentures (1)	--	12,300
Other	328	409
Total debt	$42,118	$ 65,596
Current maturities of debt	$41,897	$ 65,289
Long-term debt	221	307
Total debt	$42,118	$ 65,596

(1) On April 15, 2011, we settled at maturity the $12.3 million principal amount of our 15% convertible subordinated debentures with funds from our revolving credit facility.

Deferred Financing Costs

We had deferred financing cost of $4.1 million and $4.9 million as of September 30, 2011 and December 31, 2010, respectively. Deferred financing costs are related to our revolving credit facility and 15% convertible subordinated debentures. Deferred financing costs as of September 30, 2011 are being amortized in the amount of $0.3 million in 2011, $1.2 million in 2012, $1.2 million in 2013, $1.1 million in 2014 and $0.3 million in 2015.

Revolving Credit Facility

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended in September 2011) provides for a line of credit of up to $200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2015. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

In September 2011, we amended our restated credit agreement (1) to extend the maturity date of our credit facility to March 2015, (2) to reduce the margin added to the LIBOR rate to 1.75% - 2.25%, (3) to reduce the margin added to the index rate to 0.75% - 1.25% and (4) to provide us with greater flexibility regarding permitted acquisitions and stock repurchases.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $121 million available for us to borrow pursuant to the formula at September 30, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $41.8 million and $52.9 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the weighted average interest rate on our restated credit agreement was 2.1%, which consisted of $40 million in direct borrowings at 2% and an index loan of $1.8 million at 4%. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of $52 million at 3.1% and an index loan of $0.9 million at 4.5%. During the nine months ended September 30, 2011 our average daily index loan balance was $5.4 million compared to $7.7 million for the nine months ended September 30, 2010 and $7.1 million for the year ended December 31, 2010.

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At any time that our average borrowing availability over the previous thirty days is less than $30 million or if our borrowing availability is $20 million or less, and until such time that we have maintained an average borrowing availability of $30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of September 30, 2011, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Canadian Revolving Credit Facility

In May 2010, we amended our Canadian Credit Agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provided for the conversion of the then existing $10 million line of credit into a revolving credit facility. The Canadian $10 million line of credit is part of the $200 million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of September 30, 2011, we have no outstanding borrowings under the Canadian Credit Agreement.

Subordinated Debentures

In May 2009, we exchanged $12.3 million aggregate principal amount of our outstanding 6.75% convertible subordinated debentures due 2009 for a like principal amount of newly issued 15% convertible subordinated debentures due 2011. The convertible subordinated debentures were subordinated in right of payment to all of our existing and future senior indebtedness. On April 15, 2011, we settled at maturity the $12.3 million outstanding principal amount of the 15% convertible subordinated debentures with funds from our revolving credit facility.

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Capital Leases

During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of $0.2 million and $0.4 million, respectively. As of September 30, 2011, our remaining capital lease obligations totaled $0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

Note 8.   Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of Accounting Standards Codification 718, “Stock Compensation,” which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award.

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the nine months ended September 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2010	312,024	$13.12	3.2
Expired	(49,324)	$15.74	—
Exercised	(17,000)	$11.91	—
Forfeited, other	(1,500)	$14.23	3.0
Outstanding and exercisable at September 30, 2011	244,200	$12.67	3.1

The aggregate intrinsic value of all outstanding stock options as of September 30, 2011 was $0.2 million. All outstanding stock options as of September 30, 2011 are fully vested and exercisable. The total intrinsic value of options exercised was $42,489 for the nine months ended September 30, 2011. There were no options granted in the nine months ended September 30, 2011.

Restricted and Performance Stock Grants

As part of the 2006 Omnibus Incentive Plan, we currently grant shares of restricted and performance-based stock to eligible employees and directors. Selected executives and other key personnel are granted performance awards whose vesting is contingent upon meeting various performance measures with a retention feature. Performance-based shares are subject to a three year measuring period and the achievement of performance targets and, depending upon the achievement of such performance targets, they may become vested on the third anniversary of the date of grant. Each period we evaluate the probability of achieving the applicable targets, and we adjust our accrual accordingly. Restricted shares granted to employees become fully vested upon the third anniversary of the date of grant; and for selected key executives certain restricted share grants vest 25% upon the attainment of age 60, 25% upon the attainment of age 63 and become fully vested upon the attainment of age 65. Restricted shares granted to directors become fully vested upon the first anniversary of the date of grant. Forfeitures on restricted stock grants are estimated at 5% for employees and 0% for executives and directors, respectively, based on our evaluation of historical and expected future turnover.

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Our restricted and performance-based share activity was as follows for the nine months ended September 30, 2011:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2010	364,800	$ 10.68
Granted	203,750	12.21
Vested	(68,575)	6.69
Forfeited	(35,575)	7.34
Balance at September 30, 2011	464,400	$ 12.19

We recorded compensation expense related to restricted shares and performance-based shares of $1,162,000 ($722,000 net of tax) and $874,000 ($550,000 net of tax) for the nine months ended September 30, 2011 and 2010, respectively. The unamortized compensation expense related to our restricted and performance-based shares was $4.1 million at September 30, 2011, and is expected to be recognized as they vest over a weighted average period of 5.2 and 0.6 years for employees and directors, respectively.

Note 9. Employee Benefits

During the second quarter of 2011, we announced that our postretirement medical benefit plans to substantially all eligible U.S. and Canadian employees will terminate on December 31, 2016. There will be no change to the eligibility or plan provided to the 64 former union employees. The remeasurement of the postretirement medical benefit plans resulting from these benefit modifications generated a $14.4 million reduction in the accumulated postretirement benefit obligation and a $3.6 million curtailment gain. The remaining unrecognized prior service cost is being amortized on a straight-line basis over the remaining term of the plan. The $3.6 million curtailment gain is included in selling, general and administrative expenses in the consolidated statement of operations.

The discount rate assumptions used to determine the remeasurement of the costs and benefit obligation related to our U.S. and Canadian postretirement plans were 1.87% and 3.75%, respectively. These rates reflect the shorter duration of our obligation as a result of the negative plan amendments.

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The components of net periodic benefit cost for our defined benefit plans and postretirement benefit plans for the three months and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Pension Benefits	2011	2010	2011	2010
Service cost	$36	$22	$110	$67
Interest cost	59	36	179	109
Amortization of prior service cost	30	40	84	120
Actuarial net (gain) loss	91	—	275	—
Net periodic benefit cost	$216	$98	$648	$296
Postretirement Benefits				
Service cost	$1	$47	$75	$143
Interest cost	35	290	516	903
Amortization of prior service cost	(1,642)	(2,257)	(4,873)	(6,772)
Amortization of transition obligation	—	1	2	3
Actuarial net loss	728	315	1,473	1,001
Curtailment gain	—	—	(3,647)	—
Net periodic benefit cost	$(878)	$(1,604)	$(6,454)	$(4,722)

For the nine months ended September 30, 2011, we made employee benefit contributions of $0.9 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately $1.1 million in contributions for 2011.

We maintain a Supplemental Executive Retirement Plan (“SERP”) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2011, contributions of $0.2 million were made related to calendar year 2010.

We maintain an employee benefits trust to which we contributed 750,000 shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under employee benefit plans. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During 2011, we contributed to the trust an additional 180,000 shares from our treasury and released 183,000 shares from the trust leaving 3,930 shares remaining in the trust as of September 30, 2011.

Note 10. Fair Value Measurements

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

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

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

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$14,898	$14,898	$12,135	$12,135
Deferred compensation	5,603	5,603	5,978	5,978
Short term borrowings	41,897	41,897	65,289	65,289
Long-term debt	221	221	307	307

For fair value purposes the carrying value of cash and cash equivalents approximates fair value due to the short maturity of those investments. The fair value of the underlying assets held by the deferred compensation plan are based on the quoted market prices of the funds in registered investment companies, which are considered Level 1 inputs. The carrying value of our revolving credit facilities, classified as short term borrowings, equals fair market value because the interest rate reflects current market rates. The fair value of our 15% convertible subordinated debentures, classified as current borrowings, is based upon the quoted market price, which is considered a Level 1 input.

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Note 11. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Net Earnings Per Common Shares:				
Earnings from continuing operations	$14,100	$11,097	$34,804	$22,025
Loss from discontinued operations	(1,055)	(1,441)	(1,714)	(2,309)
Net earnings available to common stockholders	$13,045	$9,656	$33,090	$19,716
Weighted average common shares outstanding	22,863	22,597	22,813	22,528
Net earnings from continuing operations per common share	$0.62	$0.49	$1.53	$0.98
Loss from discontinued operations per common share	(0.05)	(0.06)	(0.08)	(0.10)
Basic net earnings per common share	$0.57	$0.43	$1.45	$0.88
Diluted Net Earnings Per Common Share:				
Earnings from continuing operations	$14,100	$11,097	$34,804	$22,025
Interest income on debenture conversions (net of income tax expense)	–	277	316	–
Earnings from continuing operations plus assumed conversions	14,100	11,374	35,120	22,025
Loss from discontinued operations	(1,055)	(1,441)	(1,714)	(2,309)
Net earnings available to common stockholders plus assumed conversions	$13,045	$9,933	$33,406	$19,716
Weighted average common shares outstanding	22,863	22,597	22,813	22,528
Plus incremental shares from assumed conversions:				
Dilutive effect of restricted stock and performance stock	163	55	168	76
Dilutive effect of stock options	17	–	6	–
Dilutive effect of convertible debentures	–	820	312	–
Weighted average common shares outstanding – Diluted	23,043	23,472	23,299	22,604
Net earnings from continuing operations per common share	$0.61	$0.48	$1.51	$0.97
Loss from discontinued operations per common share	(0.04)	(0.06)	(0.08)	(0.10)
Diluted net earnings per common share	$0.57	$0.42	$1.43	$0.87

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock options	227	317	238	317
Restricted shares	178	152	164	126
15% convertible subordinated debentures	–	–	–	820

Note 12. Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings as reported	$13,045	$9,656	$33,090	$19,716
Foreign currency translation adjustment	(2,435)	1,060	(1,500)	337
Postretirement benefit plans:				
Plan amendment adjustment	–	–	8,596	–
Reclassification adjustment for recognition of prior period amounts	(1,032)	(2,123)	(5,169)	(4,822)
Unrecognized amounts	435	189	1,753	601
Total comprehensive income	$10,013	$8,782	$36,770	$15,832

Note 13. Industry Segments

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

The following tables show our net sales and operating income by our operating segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Sales				
Engine Management	$165,182	$153,577	$489,305	$443,489
Temperature Control	68,148	71,774	201,942	185,714
All Other	2,890	2,189	9,208	8,736
Consolidated	$236,220	$227,540	$700,455	$637,939

Intersegment Revenue				
Engine Management	$5,948	$5,016	$16,416	$14,024
Temperature Control	1,369	898	3,992	2,821
All Other	(7,317)	(5,914)	(20,408)	(16,845)
Consolidated	$–	$–	$–	$–

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Profit				
Engine Management	$18,479	$15,049	$46,741	$34,758
Temperature Control	7,636	5,443	17,833	12,747
All Other	(3,324)	(2,421)	(6,051)	(7,221)
Consolidated	$22,791	$18,071	$58,523	$40,284

Note 14. Commitments and Contingencies

Asbestos - In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At September 30, 2011, 2,095 cases were outstanding for which we may be responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through September 30, 2011, the amounts paid for settled claims are approximately $11.9 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately $2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received $0.8 million in reimbursement for settlement claims and defense costs.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by an independent actuarial firm with expertise in assessing asbestos-related liabilities, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of settlement discussions. As is our accounting policy, we engage actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability. The methodology used to project asbestos-related liabilities and costs in the study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values.

The most recent actuarial study was performed as of August 31, 2011. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.5 million to $66.5 million for the period through 2059. The change from the prior year study was a $1.8 million increase for the low end of the range and a $0.4 million decrease for the high end of the range. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements.

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Accordingly, an incremental $1.3 million provision in our discontinued operation was added to the asbestos accrual in September 2011 increasing the reserve to approximately $27.5 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from $26.2 million to $63 million during the same period.

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

Antitrust Litigation - In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010. On September 29, 2011, the court dismissed the complaint with prejudice, and on October 27, 2011 the plaintiff filed an appeal. We believe that we have meritorious defenses to the plaintiff's claims and will continue to vigorously oppose this lawsuit.

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

Warranties - We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of September 30, 2011 and 2010, we have accrued $14.9 million and $14.4 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance, beginning of period	$15,459	$13,823	$12,153	$10,476
Liabilities accrued for current year sales	17,085	14,757	49,422	39,361
Settlements of warranty claims	(17,635)	(14,179)	(46,666)	(35,436)
Balance, end of period	$14,909	$14,401	$14,909	$14,401

Note 15. Subsequent Event

On October 25, 2011, we acquired all of the capital stock of Forecast Trading Corporation ("Forecast") for approximately $44 million in cash funded by our revolving credit facility. Forecast has distribution facilities in Ft. Lauderdale, Florida and distributes a range of engine management products including ignition coils, ignition modules, switches and sensors, and filters. Revenues generated from the acquired business were approximately $28 million for the year ended December 31, 2010.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects” and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, our significant indebtedness; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket sector and the automotive sector generally; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under Quantitative and Qualitative Disclosures About Market Risk and those detailed herein and from time to time in the filings of the Company with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. In addition, historical information should not be considered as an indicator of future performance. The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, included elsewhere in this Report.

Business Overview

We are a leading independent manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry, with an increasing focus on the original equipment service market. We are organized into two major operating segments, each of which focuses on a specific line of replacement parts. Our Engine Management Segment manufactures ignition and emission parts, ignition wires, battery cables and fuel system parts. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories, and windshield washer system parts.

We sell our products primarily to warehouse distributors, large retail chains, original equipment manufacturers and original equipment service part operations in the United States, Canada and Latin America. Our customers consist of many of the leading warehouse distributors, such as CARQUEST and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, AutoZone, O’Reilly Automotive, Canadian Tire and Pep Boys. Our customers also include national program distribution groups and specialty market distributors. We distribute parts under our own brand names, such as Standard, BWD, Intermotor, Four Seasons, Factory Air, ACi, Imperial and Hayden and through private labels, such as CARQUEST, NAPA Echlin, NAPA Temp Products and NAPA Belden.

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

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Seasonality. Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year, 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 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 borrowings 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. 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, placed restrictions on the amounts customers can return and instituted a program to better estimate potential future product returns. In addition, with respect to our air conditioning compressors, which are our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not provide acceptable proof that complete air conditioning system repair was performed.

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

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Interim Results of Operations:

Comparison of Three Months Ended September 30, 2011 to Three Months Ended September 30, 2010

Sales. Consolidated net sales for the three months ended September 30, 2011 were $236.2 million, an increase of $8.7 million, or 3.8%, compared to $227.5 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in our Engine Management segment. Revenues remained strong in the quarter as our customers have increased purchases to meet demand as consumers have continued to maintain their primary vehicles for a longer period of time.

The following table summarizes net sales by segment for the quarters ended September 30, 2011 and 2010, respectively:

Three Months Ended September 30,	Engine Management	Temperature Control	Other	Total
2011				
Net sales	$ 165,182	$ 68,148	$2,890	$236,220
Gross margins	43,834	17,343	3,311	64,488
Gross margin percentage	26.5 %	25.4 %	–	27.3 %
2010				
Net sales	$ 153,577	$ 71,774	$2,189	$227,540
Gross margins	39,785	17,157	3,072	60,014
Gross margin percentage	25.9 %	23.9 %	–	26.4 %

Engine Management's net sales increased $11.6 million, or 7.6%, to $165.2 million for the third quarter of 2011. The sales growth was driven primarily by stronger sales in the traditional and retail markets compared to the prior period. In addition, incremental sales of $2.2 million from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales decreased $3.6 million, or 5%, to $68.1 million for the third quarter of 2011. The decrease in net sales as compared to the prior year resulted primarily from the timing of purchases made by both our retail and traditional customers, as customers in these markets purchased significantly higher volumes in the first six months of 2011 as compared to the first six months of 2010.

Gross margins. Gross margins, as a percentage of consolidated net sales, increased to 27.3% in the third quarter of 2011, compared to 26.4% in the third quarter of 2010. The increase resulted from improvements in margins in Engine Management of 0.6 percentage points and in Temperature Control of 1.5 percentage points. The Engine Management gross margin percentage was positively impacted by higher sales volumes including $2.2 million of incremental sales related to the acquisition of the BLD Engine Controls business which began shipping in May 2011. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of a higher mix of compressor production volumes from our low cost manufacturing facility in Reynosa, Mexico.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") decreased by $0.3 million to $41.7 million or 17.6% of consolidated net sales, in the third quarter of 2011, as compared to $42 million or 18.5% of consolidated net sales in the third quarter of 2010. Lower selling, marketing and distribution expenses more than offset the $0.5 million increase in expenses related to the sale of receivables and increases in general and administrative expenses.

Restructuring and integration expenses. Restructuring and integration expenses decreased to $0.3 million in the third quarter of 2011, compared to $1.4 million in the third quarter of 2010. The 2011 expense related primarily to employee severance at our Grapevine, Texas facility, and employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities.

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Components of our restructuring and integration accruals, by segment, were as follows (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at June 30, 2011	$ 3,165	$ 305	$ 702	$ 4,172
Restructuring and integration costs:				
Amounts provided for during 2011	122	153	--	275
Cash payments	(232)	(38)	(98)	(368)
Exit activity liability at September 30, 2011	$ 3,055	$ 420	$ 604	$ 4,079

Other income, net. Other income, net decreased to $0.3 million in the third quarter of 2011 compared to $1.4 million in the same period in 2010. During 2011 and 2010, we recognized $0.3 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, in the third quarter of 2010, we recorded a $1.5 million gain on the sale our Reno, Nevada distribution facility and a $0.2 million loss on the disposal of equipment.

Operating income. Operating income was $22.8 million in the third quarter of 2011, compared to $18.1 million in the third quarter of 2010. The increase of $4.7 million was due to higher sales volumes, the increase in gross margins as a percentage of net sales, and lower restructuring and integration expenses and SG&A expenses.

Interest expense. Interest expense decreased by $1.1 million in the third quarter of 2011 compared to the same period in 2010 as average borrowings declined $34.8 million. This decrease includes the impact of the April 2011 maturity of the $12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining $5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the third quarter of 2011 was $8.2 million at an effective tax rate of 36.7% compared to $5.4 million at an effective tax rate of 32.9% for the same period in 2010. The effective tax rate in the third quarter of 2011 and 2010 was favorably impacted by the reversal of previously established reserves of $0.5 million and $1.1 million, respectively, related to certain business combinations and foreign transfer pricing as a result of the expiration of the statue of limitations for the 2007 and prior tax years. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2011 and 2010 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the third quarters of 2011 and 2010, we recorded a loss of $1.1 million and $1.4 million from discontinued operations, respectively. The loss from discontinued operations for the third quarter of 2011 and 2010 reflects a $1.3 million and $1.8 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2011 and 2010 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

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Comparison of Nine Months Ended September 30, 2011 to Nine Months Ended September 30, 2010

Sales. Consolidated net sales for the nine months ended September 30, 2011 were $700.5 million, an increase of $62.5 million, or 9.8%, compared to $637.9 million in the same period of 2010. Net sales increased primarily due to higher traditional and retail market sales in both our Engine Management and Temperature Control segments. Revenues remained strong as our customers have increased purchases to meet demand as consumers have continued to maintain their primary vehicles for a longer period of time.

The following table summarizes net sales and gross margins by segment for the nine months ended September 30, 2011 and 2010, respectively:

Nine Months Ended September 30,	Engine Management	Temperature Control	Other	Total
2011				
Net sales	$ 489,305	$ 201,942	$ 9,208	$ 700,455
Gross margins	123,850	47,269	9,694	180,813
Gross margin percentage	25.3 %	23.4 %	–	25.8 %

Nine Months Ended September 30,	Engine Management	Temperature Control	Other	Total
2010				
Net sales	$ 443,489	$ 185,714	$ 8,736	$ 637,939
Gross margins	110,407	43,117	8,697	162,221
Gross margin percentage	24.9 %	23.2 %	–	25.4 %

Engine Management's net sales increased $45.8 million, or 10.3%, to $489.3 million for the first nine months of 2011. Engine Management's revenue growth was driven by overall strong demand for our products across all market channels. In addition, incremental sales of $4.3 million from our acquisition of the Engine Controls business of BLD Products, Ltd., which began shipping in May 2011, contributed to the increase in our traditional sales volumes.

Temperature Control's net sales increased $16.2 million, or 8.7%, to $201.9 million for the first nine months of 2011. The increase in sales was primarily from traditional and retail channels due to warm weather trends.

Gross margins. Gross margins, as a percentage of consolidated net sales, for the nine months ended September 30, 2011 increased to 25.8% compared to 25.4% the same period of 2010. The increase resulted from a 0.4 percentage point increase in Engine Management margins and a 0.2 percentage point increase in Temperature Control margins. The increase in the Engine Management margins was the result of a higher sales volumes and improving fixed overhead absorption resulting from increased production. The gross margin percentage increase in Temperature Control compared to the prior year was primarily the result of a higher mix of compressor production volumes from our low cost manufacturing facility in Reynosa, Mexico.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") increased by $1.9 million to $122.3 million or 17.5% of consolidated net sales, in the nine months ended September 30, 2011, as compared to $120.5 million or 18.9% of consolidated net sales in like period of 2010. The increase in SG&A expenses is due primarily to sales volume related increases to selling, marketing and distribution expenses and a $1.7 million increase in expenses related to the sale of receivables partially offset by a $3.6 million curtailment gain related to changes made to our domestic and Canadian postretirement plans.

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Restructuring and integration expenses. Restructuring and integration expenses decreased to $0.7 million for the nine months ended September 30, 2011, compared to $3.4 million in the same period of 2010. The 2011 expense related primarily to employee severance and integration costs related to the acquisition of the Engine Controls business of BLD Products, Ltd. and integration expenses related to the wire and cable business. The 2010 expense related primarily to severance and lease termination costs incurred in connection with the announced closures of our Corona, California and Hong Kong, China manufacturing facilities and a charge related to the closure of our Long Island City building.

Other income, net. Other income, net decreased to $0.8 million for the nine months ended September 30, 2011 compared to $2.0 million for the same period in 2010. During 2011 and 2010, we recognized $0.8 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility. In addition, in the first nine months of 2010, we recorded a $1.5 million gain on the sale our Reno, Nevada distribution facility, a $0.2 million gain on the sale of vacant land at one of our locations in the U.K. and a $0.4 million loss on the disposal of equipment.

Operating income. Operating income was $58.5 million in the first nine months of 2011, compared to $40.3 million in 2010. The increase of $18.2 million was due primarily to stronger traditional and retail market sales within our Engine Management and Temperature Control segments, the increase in gross margins as a percentage of net sales, lower restructuring and integration expenses, and the $3.6 million curtailment gain recorded as a result of our postretirement plan amendments offset, in part, by sales volume related increases to selling, marketing and distribution expenses.

Interest expense. Interest expense decreased by $2.5 million to $3.2 million in the nine months ended September 30, 2011, compared to $5.7 million in the same period in 2010 as average borrowings declined $25.3 million. This decrease includes the impact of the April 2011 maturity of the $12.3 million principal amount of the 15% convertible subordinated debentures and the July 2010 prepayment of the remaining $5.1 million outstanding principal amount of the 15% unsecured promissory notes.

Income tax provision. The income tax provision in the nine months ended September 30, 2011 was $21.2 million at an effective tax rate of 37.9%, compared to $13 million and an effective tax rate of 37.2% for the same period in 2010. The effective tax rate in the first nine months of 2011 and 2010 was favorably impacted by the reversal of previously established reserves of $0.5 million and $1.1 million, respectively, related to certain business combinations and foreign transfer pricing as a result of the expiration of the statue of limitations for the 2007 and prior tax years. For further information, see Accounting for Income Taxes in the Summary of Significant Accounting Policies of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Loss from discontinued operation. Loss from discontinued operations, net of income tax, reflects adjustments made to our indemnity liability in line with information contained in actuarial studies obtained in August 2011 and 2010 and other information available and considered by us, and legal expenses incurred associated with our asbestos-related liability. During the nine months ended September 30, 2011 and 2010, we recorded a loss of $1.7 million and $2.3 million from discontinued operations, respectively. The loss from discontinued operations for the nine months ended 2011 and 2010 reflects a $1.3 million and $1.8 million pre-tax adjustment, respectively, to increase our indemnity liability in line with the August 2011 and 2010 actuarial studies, as well as legal fees incurred in litigation. As discussed more fully in Note 14 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

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Restructuring and Integration Costs

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2010 and September 30, 2011 and activity for the nine months ended September 30, 2011 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$6,220	$2,435	$8,655
Restructuring and integration costs:			
Amounts provided for during 2011	239	504	743
Non-cash usage, including asset write-downs	--	(343)	(343)
Cash payments	(4,402)	(574)	(4,976)
Exit activity liability at September 30, 2011	$2,057	$2,022	$4,079

Restructuring Costs

Voluntary Separation Program

During 2008 as part of an initiative to improve the effectiveness and efficiency of operations, and to reduce costs in light of economic conditions, we implemented certain organizational changes and offered eligible employees a voluntary separation package. The restructuring accrual relates to severance and other retiree benefit enhancements to be paid through 2015. Of the original restructuring charge of $8 million, we have $1.7 million remaining as of September 30, 2011 that is expected to be paid in the amounts of $0.4 million in 2011, $0.5 million in 2012 and $0.8 million for the period 2013-2015.

Activity, by segment, for the nine months ended September 30, 2011 related to the voluntary separation program, consisted of the following (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2010	$ 970	$ 321	$915	$2,206
Restructuring costs:				
Amounts provided for during 2011	--	--	--	--
Cash payments	(167)	(54)	(311)	(532)
Exit activity liability at September 30, 2011	$ 803	$ 267	$604	$1,674

Integration Expenses

Overhead Cost Reduction Program

Beginning in 2007 in connection with our efforts to improve our operating efficiency and reduce costs, we announced our intention to focus on company-wide overhead and operating expense cost reduction activities, such as closing excess facilities and reducing redundancies. Integration expenses remaining under this program to date relate primarily to the closure of our production operations in Corona, California and Edwardsville, Kansas. We expect that all payments related to the current liability will be made within twelve months.

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Activity for the nine months ended September 30, 2011 related to our overhead cost reduction program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$853	$686	$1,539
Integration costs:			
Amounts provided for during 2011	194	309	503
Non-cash usage, including asset write-downs	--	(343)	(343)
Cash payments	(804)	(284)	(1,088)
Exit activity liability at September 30, 2011	$243	$368	$611

Reynosa Integration Program

During 2008, we closed our Long Island City, New York and Puerto Rico manufacturing facilities and integrated these operations in Reynosa, Mexico. In connection with the shutdown of the manufacturing operations at Long Island City, we incurred severance costs and costs associated with equipment removal, capital expenditures and environmental clean-up. As of September 30, 2011, the reserve balance related to environmental clean-up at Long Island City of $1.7 million is included in other exit costs.

In connection with the shutdown of the manufacturing operations at Long Island City, we entered into an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and its Local 365 (“UAW”). As part of the agreement, we incurred a withdrawal liability from a multi-employer plan. The pension plan withdrawal liability is related to trust asset under-performance in a plan that covers our former UAW employees at the Long Island City facility and was payable quarterly for 20 years at $0.3 million per year, which commenced in December 2008. In June 2011, we agreed to settle our pension withdrawal liability for $2.8 million and recorded a gain of $0.3 million in connection with the settlement.

Activity for the nine months ended September 30, 2011 related to the Reynosa integration program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$3,161	$1,749	$4,910
Integration costs:			
Amounts provided for during 2011	(225)	70	(155)
Cash payments	(2,877)	(165)	(3,042)
Exit activity liability at September 30, 2011	$59	$1,654	$1,713

Engine Controls Relocation

During April 2011, we acquired the Engine Controls business of BLD Products, Ltd., a subsidiary of Qualitor Inc. As a result of our acquisition, we will incur integration costs within our Engine Management Segment related to employee severance and the relocation of certain machinery and equipment to our Reynosa, Mexico manufacturing facility. We expect that all related payments will be made within twelve months.

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Activity for the nine months ended September 30, 2011 related to the engine controls relocation program, consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2010	$--	$--	$--
Integration costs:			
Amounts provided for during 2011	270	125	395
Cash payments	(189)	(125)	(314)
Exit activity liability at September 30, 2011	$81	$--	$81

Integration activity, by segment, for the nine months ended September 30, 2011 related to our aggregate integration programs consisted of the following (in thousands):

	Engine Management	Temperature Control	Total
Exit activity liability at December 31, 2010	$ 5,580	$ 869	$ 6,449
Integration costs:			
Amounts provided for during 2011	626	117	743
Non-cash usage, including asset write-downs	(343)	--	(343)
Cash payments	(3,611)	(833)	(4,444)
Exit activity liability at September 30, 2011	$ 2,252	$ 153	$ 2,405

Liquidity and Capital Resources

Operating Activities. During the first nine months of 2011, cash provided by operations amounted to $57.3 million compared to $4.9 million in the same period of 2010. The year-over-year increase in cash provided by operations is primarily the result of the increase in net earnings reflecting higher sales volumes, the decrease in inventory levels and the increased impact of our factoring program on our accounts receivables.

Investing Activities. Cash used in investing activities was $31 million in the first nine months of 2011, compared to $7.6 million in the first nine months of 2010. Investing activities in 2011 included a cash payment of $27 million related to the acquisition of the Engine Controls business of BLD Products, Ltd., cash receipts of $1.3 million related to the note issued in connection with the sale of our European distribution business in 2009, and cash receipts of $1.3 million related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships.

Investing activities in 2010 included cash receipts of $1 million related to the note issued in connection with the divestiture of certain of our joint venture equity ownerships, cash receipts of $2.6 million from the sale of our Wilson, North Carolina building, our Reno Nevada building and the sale of the vacant land at one of our locations in the U.K. In addition, investing activities in 2010 included a $2 million payment related to the acquisition of certain products lines by our Temperature Control Segment. Capital expenditures in the first nine months of 2011 were $6.7 million compared to $9.1 million in the comparable period last year.

Financing Activities. Cash used in financing activities was $22.2 million in the first nine months of 2011, compared to cash provided by financing activities of $5.1 million in the same period of 2010. The excess of cash provided by operations over cash used in investing activities in the first nine months of 2011 was used to pay down borrowings under our revolving credit facility and to pay at maturity the principal balance of $12.3 million of our 15% convertible subordinated debentures and to purchase $3.3 million of treasury stock pursuant to our $5 million stock repurchase program. Dividends of $4.8 million and $3.4 million were paid in the first nine months of 2011 and 2010, respectively.

In November 2010, we entered into a Third Amended and Restated Credit Agreement with General Electric Capital Corporation, as agent, and a syndicate of lenders for a secured revolving credit facility. This restated credit agreement replaces our prior credit facility with General Electric Capital Corporation. The restated credit agreement (as amended in September 2011) provides for a line of credit of up to $200 million (inclusive of the Canadian revolving credit facility described below) and expires in March 2015. Direct borrowings under the restated credit agreement bear interest at the LIBOR rate plus the applicable margin (as defined), or floating at the index rate plus the applicable margin, at our option. The interest rate may vary depending upon our borrowing availability. The restated credit agreement is guaranteed by certain of our subsidiaries and secured by certain of our assets.

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In September 2011, we amended our restated credit agreement (1) to extend the maturity date of our credit facility to March 2015, (2) to reduce the margin added to the LIBOR rate to 1.75% - 2.25%, (3) to reduce the margin added to the index rate to 0.75% - 1.25% and (4) to provide us with greater flexibility regarding permitted acquisitions and stock repurchases.

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $121 million available for us to borrow pursuant to the formula at September 30, 2011. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $41.8 million and $52.9 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the weighted average interest rate on our restated credit agreement was 2.1%, which consisted of $40 million in direct borrowings at 2% and an index loan of $1.8 million at 4%. At December 31, 2010, the weighted average interest rate on our restated credit agreement was 3.1%, which consisted of $52 million at 3.1% and an index loan of $0.9 million at 4.5%. During the nine months ended September 30, 2011 our average daily index loan balance was $5.4 million compared to $7.7 million for the nine months ended September 30, 2010 and $7.1 million for the year ended December 31, 2010.

At any time that our average borrowing availability over the previous thirty days is less than $30 million or if our borrowing availability is $20 million or less, and until such time that we have maintained an average borrowing availability of $30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of September 30, 2011, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

In May 2010, we amended our Canadian Credit Agreement with GE Canada Finance Holding Company, for itself and as agent for the lenders. The amended Canadian Credit Agreement provided for the conversion of the then existing $10 million line of credit into a revolving credit facility. The Canadian $10 million line of credit is part of the $200 million available for borrowing under our restated credit agreement with General Electric Capital Corporation.

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of September 30, 2011, we have no outstanding borrowings under the Canadian Credit Agreement.

In May 2009, we exchanged $12.3 million aggregate principal amount of our outstanding 6.75% convertible subordinated debentures due 2009 for a like principal amount of newly issued 15% convertible subordinated debentures due 2011. The convertible subordinated debentures were subordinated in right of payment to all of our existing and future senior indebtedness. On April 15, 2011, we settled at maturity the $12.3 million outstanding principal amount of the 15% convertible subordinated debentures with funds from our revolving credit facility.

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During 2010 and 2009, we entered into capital lease obligations related to certain equipment for use in our operations of $0.2 million and $0.4 million, respectively. As of September 30, 2011, our remaining capital lease obligations totaled $0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In August 2011, our Board of Directors authorized the purchase of up to $5 million of our common stock under a stock repurchase program. During the three months and nine months ended September 30, 2011, we purchased 256,499 shares of our common stock under the program at a total cost of $3.3 million. In October 2011, we purchased an additional 65,751 shares of our common stock at a total cost of $0.8 million, leaving approximately $0.9 million available for future stock repurchases under the program.

In order to reduce our accounts receivable balances and improve our cash flow, we sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $159 million and $449.7 million of receivables during the three months and nine months ended September 30, 2011, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of $2.3 million and $6.4 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months and nine months ended September 30, 2011, respectively, and $1.8 million and $4.8 million for the comparable periods in 2010.

We anticipate that our present sources of funds, including funds from operations and additional borrowings, will continue to be adequate to meet our financing needs over the next twelve months. We continue to evaluate alternative sources to further improve the liquidity of our business. The timing, terms, size and pricing of any alternative sources of financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing. In addition, we have a substantial amount of indebtedness which could, among other things, increase our vulnerability to general adverse economic and industry conditions, make it more difficult to satisfy our obligations, limit our ability to pay future dividends, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and require that a portion of our cash flow from operations be used for the payment of interest on our indebtedness instead of for funding working capital, capital expenditures, acquisitions or for other corporate purposes. If we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected. For further information regarding the risks of our business, please refer to the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2010.

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The following table summarizes our contractual commitments as of September 30, 2011 and expiration dates of commitments through 2020:

(in thousands)	2011	2012	2013	2014	2015	2016- 2020	Total
Lease obligations	$1,892	$7,404	$6,448	$5,333	$4,938	$5,738	$31,753
Postretirement and pension benefits	351	1,161	1,196	1,228	6,869	2,426	13,231
Severance payments related to restructuring and integration	560	709	439	234	54	61	2,057
Total commitments	$2,803	$9,274	$8,083	$6,795	$11,861	$8,225	$47,041

Indebtness under our revolving credit facilities of $41.8 million as of September 30, 2011 is not included in the table above as it is reported as a current liability in our consolidated balance sheets.

Summary of Significant Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. You should be aware that preparation of our consolidated quarterly financial statements in this Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We can give no assurances that actual results will not differ from those estimates.

Revenue Recognition. We derive our revenue primarily from sales of replacement parts for motor vehicles from both our Engine Management and Temperature Control Segments. We recognize revenues when products are shipped and title has been transferred to a customer, the sales price is fixed and determinable, and collection is reasonably assured. For some of our sales of remanufactured products, we also charge our customers a deposit for the return of a used core component which we can use in our future remanufacturing activities. Such deposit is not recognized as revenue but rather carried as a core liability. The liability is extinguished when a core is actually returned to us. We estimate and record provisions for cash discounts, quantity rebates, sales returns and warranties in the period the sale is recorded, based upon our prior experience and current trends. As described below, significant management judgments and estimates must be made and used in estimating sales returns and allowances relating to revenue recognized in any accounting period.

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

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

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We utilize cores (used parts) in our remanufacturing processes for air conditioning compressors. The production of air conditioning compressors involves the rebuilding of used cores, which we acquire generally either in outright purchases or from returns pursuant to an exchange program with customers. Under such exchange programs, we reduce our inventory, through a charge to cost of sales, when we sell a finished good compressor, and put back to inventory at standard cost through a credit to cost of sales the used core exchanged at the time it is eventually received from the customer.

Sales Returns and Other Allowances and Allowance for Doubtful Accounts. We must make estimates of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At September 30, 2011, the allowance for sales returns was $32.6 million. Similarly, we must make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At September 30, 2011, the allowance for doubtful accounts and for discounts was $7 million.

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

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

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

At September 30, 2011, we had a valuation allowance of $29.4 million, due to uncertainties related to our ability to utilize some of our deferred tax assets. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. During 2009 and 2010 we experienced positive earnings trends which resulted in cumulative taxable income in the U.S. for the year ended December 31, 2010. The first nine months of 2011 has continued with positive earnings. If such earnings trends and our tax position continue, and based upon current expectations for future income in the U.S., we are likely to realize the benefits of a significant portion of our net U.S. deferred tax assets in the near term, perhaps as early as the fourth quarter of 2011. We would realize this non-cash benefit through a reduction in our deferred tax valuation allowance, which would primarily be reflected in the tax provision and would benefit net income in the period of such reduction.

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In accordance with generally accepted accounting practices, we recognize in our financial statements only those tax positions that meet the more-likely-than-not-recognition threshold. We establish tax reserves for uncertain tax positions that do not meet this threshold. Interest and penalties associated with income tax matters are included in the provision for income taxes in our consolidated statement of operations.

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

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

To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Intangible and other long-lived assets are reviewed for impairment whenever events such as product discontinuance, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may not be recoverable. In addition, identifiable intangible assets having indefinite lives are reviewed for impairment on an annual basis. In reviewing for impairment, we compare the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets fair value and their carrying value.

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

Retirement and Postretirement Medical Benefits. Each year, we calculate the costs of providing retiree benefits under the provisions of Accounting Standards Codification 712, “Nonretirement Postemployment Benefits” and Accounting Standards Codification 715, “Retirement Benefits.” The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan benefits the employees will be entitled to. The key assumptions used in making these calculations are the eligibility criteria of participants and the discount rate used to value the future obligation. The discount rate reflects the yields available on high-quality, fixed-rate debt securities.

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

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

Asbestos Reserve. We are responsible for certain future liabilities relating to alleged exposure to asbestos-containing products. In accordance with our accounting policy, our most recent actuarial study as of August 31, 2011 estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.5 million to $66.5 million for the period through 2059. As a result, in September 2011 an incremental $1.3 million provision in our discontinued operation was added to the asbestos accrual increasing the reserve to approximately $27.5 million as of that date. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements. In addition, according to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation, are estimated to range from $26.2 million to $63 million during the same period. We will continue to perform an annual actuarial analysis during the third quarter of each year for the foreseeable future. Based on this analysis and all other available information, we will continue to reassess the recorded liability and, if deemed necessary, record an adjustment to the reserve, which will be reflected as a gain or loss from discontinued operation. The aforementioned estimated settlement payments and legal costs do not reflect any limited coverage that we may obtain pursuant to agreements with insurance carriers for certain asbestos-related claims.

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

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the FASB amended Accounting Standard Codification ("ASC") 220, Comprehensive Income. The amendment eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us is January 1, 2012 with full retrospective application required. As a result, the adoption of this standard will change how we present other comprehensive income, as it is currently presented as part of our consolidated statement of changes in stockholders' equity.

Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us is January 1, 2012. Early adoption is permitted. We will consider this new standard when conducting our annual impairment test of goodwill.

In December 2010, the FASB issued ASU 2010-28, which updated ASC 350, Intangibles – Goodwill and Other. Pursuant to ASC 350, goodwill is tested for impairment using a two-step approach. Initially, the fair value of a reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; a second step of comparing the carrying amount to its implied fair value is required, as this is an indication that the reporting unit goodwill may be impaired. The new standard sets forth a requirement that the second step test must be performed in circumstances where a reporting unit has a zero or negative carrying amount and there are qualitative factors which indicate that it is more likely than not that an impairment exists. The new standard is effective for annual reporting periods beginning after December 15, 2010, which for us was January 1, 2011. Currently, none of our reporting units have a zero or negative carrying amount. As a result, the adoption of this standard will not have an immediate impact on the manner in which we conduct our impairment testing.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU 2009-13, which will update ASC 605, Revenue Recognition, and changes the accounting for certain revenue arrangements. The new standard sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010, which for us was January 1, 2011. The adoption of these provisions did not have a material impact on our consolidated financial position, results of operations and cash flows.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, primarily related to foreign currency exchange and interest rates. These exposures are actively monitored by management. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than one of our subsidiary's functional currency. Similarly, we are exposed to market risk as the result of changes in interest rates, which may affect the cost of our financing. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes. As of September 30, 2011, we do not have any derivative financial instruments.

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the British Pound, the Euro, the Polish zloty, the Mexican Peso and the Hong Kong dollar. As of September 30, 2011 and December 31, 2010, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Our percentage of variable rate debt to total debt was 99.2% and 80.6% at September 30, 2011 and December 31, 2010, respectively.

Other than the aforementioned, there have been no significant changes to the information presented in Item 7A (Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2010.

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

(b) Changes in Internal Control Over Financial Reporting.

During the quarter ended September 30, 2011, we have not made any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We continue to review, document and test our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business. These efforts may lead to various changes in our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. 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 September 30, 2011, 2,095 cases were outstanding for which we may be responsible for any related liabilities. In the second quarter of 2011, we increased the number of outstanding cases to unbundle previously outstanding consolidated cases. Since inception in September 2001 through September 30, 2011, the amounts paid for settled claims are approximately $11.9 million. In September 2007, we entered into an agreement with an insurance carrier to provide us with limited insurance coverage for the defense and indemnity costs associated with certain asbestos-related claims. We submitted various asbestos-related claims for coverage under this agreement, receiving approximately $2.9 million in reimbursement for settlement claims and defense costs, and this agreement has now expired. In addition, in May 2010 we entered into an agreement with an excess insurance carrier to provide us with limited insurance coverage for defense and indemnity costs associated with asbestos-related claims. We have submitted claims to this carrier and have received $0.8 million in reimbursement for settlement claims and defense costs.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study performed by an independent actuarial firm with expertise in assessing asbestos-related liabilities, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of settlement discussions. As is our accounting policy, we engage actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability. The methodology used to project asbestos-related liabilities and costs in the study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; and (4) an analysis of our settlements to date in order to develop average settlement values.

The most recent actuarial study was performed as of August 31, 2011. The updated study has estimated an undiscounted liability for settlement payments, excluding legal costs and any potential recovery from insurance carriers, ranging from $27.5 million to $66.5 million for the period through 2059. The change from the prior year study was a $1.8 million increase for the low end of the range and a $0.4 million decrease for the high end of the range. Based on the information contained in the actuarial study and all other available information considered by us, we concluded that no amount within the range of settlement payments was more likely than any other and, therefore, recorded the low end of the range as the liability associated with future settlement payments through 2059 in our consolidated financial statements. Accordingly, an incremental $1.3 million provision in our discontinued operation was added to the asbestos accrual in September 2011 increasing the reserve to approximately $27.5 million. According to the updated study, legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operation in the accompanying statement of operations, are estimated to range from $26.2 million to $63 million during the same period.

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

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In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleges antitrust violations by us and a number of other auto parts manufacturers and retailers and seeks injunctive relief and unspecified monetary damages. In August 2005, we filed a motion to dismiss the complaint, following which the plaintiff filed an amended complaint dropping, among other things, all claims under the Sherman Act. The remaining claims allege violations of the Robinson-Patman Act. Motions to dismiss those claims were filed by us in February 2006. Plaintiff filed opposition to our motions, and we subsequently filed replies in June 2006. Oral arguments were originally scheduled for September 2006, however the court adjourned these proceedings until a later date to be determined. Subsequently, the judge initially assigned to the case recused himself, and a new judge has been assigned before whom further preliminary proceedings have been held culminating in a decision and order dated September 16, 2010 granting the motion to dismiss and, in view of an intervening change in pleading standards, deferring decision on whether to grant plaintiff leave to amend to allow an opportunity to propose curative amendments. On October 18, 2010, the plaintiff filed an amended complaint changing certain alleged claims relating to the Robinson-Patman Act. By Order dated October 26, 2010, the court directed that the Third Amended Complaint be deemed withdrawn and gave plaintiffs until November 9, 2010 to file a motion for leave to amend identifying the curative amendments to the Second Amended Complaint setting forth why the amendments accord with the rules. The motion was timely filed, opposed on December 9, 2010, which opposition was replied to on December 24, 2010. On September 29, 2011, the court dismissed the complaint with prejudice, and on October 27, 2011 the plaintiff filed an appeal. We believe that we have meritorious defenses to the plaintiff’s claims and will continue to vigorously oppose this lawsuit.

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

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information relating to the Company's purchases of its common stock for the third quarter of 2011:

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 (2)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
July 1-31, 2011	—	—	—	—
August 1-31, 2011	—	—	—	—
September 1-30, 2011	256,499	$12.81	256,499	$ 1,715,400 (2)
Total	256,499	$12.81	256,499	$ 1,715,400 (2)

(1) All shares were purchased through the publicly announced stock repurchase program in open-market transactions.

(2) In August 2011, our Board of Directors authorized the purchase of up to $5 million of our common stock under a stock repurchase program. At September 30, 2011, approximately $1.7 million remained available for future stock repurchases. In October 2011, we purchased an additional 65,751 shares of our common stock at a total cost of $0.8 million, leaving approximately $0.9 million available for future repurchases under the program.

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ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.
(Registrant)

Date: November 3, 2011

/s/ James J. Burke
James J. Burke
Vice President Finance,
Chief Financial Officer
(Principal Financial and Accounting Officer)

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STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

Exhibit Number

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101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

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