

STANDARD MOTOR PRODUCTS, INC.
Form 10-K
February 20, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10 K
(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from ____ to ____

Commission file number: 1 4743

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$2.00 per share	New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting common stock based on the closing price on the New York Stock Exchange on June 30, 2018 (the last business day of registrant's most recently completed second fiscal quarter) of \$48.34 per share held by non-affiliates of the registrant was \$970,447,467. For purposes of the foregoing calculation only, all directors and officers have been deemed to be affiliates, but the registrant disclaims that any of such are affiliates.

As of February 15, 2019, there were 22,434,727 outstanding shares of the registrant's common stock, par value \$2.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report is incorporated herein by reference from the registrant's definitive proxy statement relating to its annual meeting of stockholders to be held on May 16, 2019.

STANDARD MOTOR PRODUCTS, INC.

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PART I

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

ITEM 1. BUSINESS

Overview

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

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

Our Culture

Our Company was founded on the values of ethics, integrity, common decency and respect for others. These values are embodied in our Code of Ethics, which has been adopted by the Board of Directors of the Company to serve as a statement of principles to guide our decision-making and reinforce our commitment to these values in all aspects of our business. We believe that our commitment to our Company, our employees and the communities within which we operate has led to high employee satisfaction and low employee turnover, and our commitment to our customers, suppliers and business parties has resulted in high customer satisfaction, as evidenced by the customer awards that we routinely win, and decades-long customer relationships. We also seek ways to positively contribute to our local communities by operating our facilities with conservation in mind, holding charitable drives, and being a good

neighbor.

The Automotive Aftermarket

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

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

- the number of vehicles on the road;

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·the average age of vehicles on the road; and

·the total number of miles driven per year.

Our Business Strategy

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

The key elements of our strategy are as follows:

Maintain Our Strong Competitive Position in our Engine Management and Temperature Control Businesses. We are a leading independent manufacturer and distributor serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. We believe that our success is attributable to our emphasis on product quality, the breadth and depth of our product lines for both domestic and import vehicles, and our reputation for outstanding value-added services.

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

·providing our customers with full-line coverage of high quality engine management and temperature control products, supported by the highest level of value-added services;

·continuing to maximize our production, supply chain and distribution efficiencies;

·continuing to improve our cost position through increased global sourcing, increased manufacturing at our low-cost plants, and strategic transactions with manufacturers in low-cost regions; and

·focusing on our engineering development efforts including a focus on bringing more product manufacturing in-house.

Provide Superior Value-Added Services and Product Availability. Our goal is to increase sales to existing and new customers by leveraging our skills in rapidly filling orders, maintaining high levels of product availability and offering a product portfolio that provides comprehensive coverage for all vehicle applications. In addition, our marketing support provides insightful customer category management, technical support and award-winning programs, and our technically skilled sales personnel provide our customers with product selection, assortment and application support, and technical training on diagnosing and repairing vehicles equipped with complex systems related to our products.

Expand Our Product Lines. We intend to increase our sales by continuing to develop internally, or through potential acquisitions, the range of engine management and temperature control products that we offer to our customers. We are committed to investing the resources necessary to maintain and expand our technical capability to manufacture product lines that incorporate the latest technologies, including product lines relating to safety, advanced driver assistance and collision avoidance systems.

Broaden Our Customer Base. Our goal is to increase our customer base by (a) leveraging our manufacturing capabilities to secure additional business globally with original equipment vehicle and equipment manufacturers and their service part operations, as well as our existing customer base of large retailers, program distribution groups, warehouse distributors, other manufacturers and export customers, and (b) supporting the service part operations of vehicle and equipment manufacturers with value-added services and product support for the life of the part.

Improve Operating Efficiency and Cost Position. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates.

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We intend to continue to improve our operating efficiency and cost position by:

- increasing cost effective vertical integration in key product lines through internal development;
- focusing on integrated supply chain management, customer collaboration and vendor managed inventory initiatives;
- evaluating additional opportunities to relocate manufacturing to our low-cost plants;
- maintaining and improving our cost effectiveness and competitive responsiveness to better serve our customer base,
- including sourcing certain materials and products from low cost regions such as those in Asia without compromising product quality;
- enhancing company wide programs geared toward manufacturing and distribution efficiency; and
- focusing on company wide overhead and operating expense cost reduction programs.

Cash Utilization. We intend to apply any excess cash flow from operations and the management of working capital primarily to reduce our outstanding indebtedness, pay dividends to our shareholders, expand our product lines by investing in new tooling and equipment, grow revenues through potential acquisitions and repurchase shares of our common stock.

Our Products & Services

Engine Management Segment

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

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

Ignition, Emission Control, Fuel & Safety Related System Products. Replacement parts for ignition, emission, fuel and safety related systems accounted for approximately \$648.3 million, or 59%, of our consolidated net sales in 2018, approximately \$657.3 million, or 59%, of our consolidated net sales in 2017, and approximately \$616.5 million, or 58%, of our consolidated net sales in 2016.

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Wire & Cable Products. Wire and cable parts accounted for approximately \$155.2 million, or 14%, of our consolidated net sales in 2018, approximately \$172.1 million, or 15%, of our consolidated net sales in 2017, and approximately \$149 million, or 14%, of our consolidated net sales in 2016. These products include ignition (spark plug) wire sets, battery cables, pigtailed, sockets and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile's electrical system.

In May 2016, we acquired the North American automotive ignition wire business of General Cable Corporation ("General Cable"). The acquisition included General Cable's automotive ignition wire business in the United States, Canada and Mexico. For additional information regarding our integration efforts related to the acquisition, refer to the information set forth under the caption "Integration Costs" appearing in Note 5 of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Computer-Controlled Technology. Nearly all new vehicles are factory equipped with computer controlled engine management systems that monitor and control ignition, emissions, fuel economy, transmission and many other automotive systems. The on board computers monitor inputs from many types of sensors located throughout the vehicle, and control a myriad of valves, solenoids, coils, switches and motors to manage engine and vehicle performance. Computer-controlled engine management systems enable the engine to operate with improved fuel efficiency and reduced levels of emissions. Our sales of sensors, valves, solenoids and related parts have increased as automobile manufacturers equip their cars with more complex engine management systems.

Government mandated emissions and fuel economy regulations have been implemented throughout the United States. The Clean Air Act imposes strict emissions control test standards on existing and new vehicles, and remains the preeminent legislation in the area of vehicle emissions. As many states have implemented required inspection/maintenance tests, the Environmental Protection Agency, through its rulemaking ability, has also encouraged both manufacturers and drivers to reduce vehicle emissions. Automobiles must now comply with emissions standards from the time they were manufactured and, in most states, until the last day they are in use. This law and other government emissions laws and fuel economy regulations have had a positive impact on sales of our ignition, emissions control and fuel delivery parts since vehicles failing these laws may require repairs utilizing parts sold by us.

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

Temperature Control Segment

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

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

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Compressors. Compressors accounted for approximately \$148.4 million, or 14%, of our consolidated net sales in 2018, approximately \$148.4 million, or 13%, of our consolidated net sales in 2017, and approximately \$148.6 million, or 14%, of our consolidated net sales in 2016.

Other Climate Control Parts. Other climate control parts accounted for approximately \$130 million, or 12%, of our consolidated net sales in 2018, approximately \$130.8 million, or 12%, of our consolidated net sales in 2017, and approximately \$135.1 million, or 13%, of our consolidated net sales in 2016.

Financial Information about our Operating Segments

For additional information related to our operating segments, and the disaggregation of operating segment net sales by geographic area, major product group and major sales channel, see Note 22 “Industry Segment and Geographic Data” and Note 2 “Net Sales”, respectively, of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Our Brands

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

Engine
Management
Products

Temperature
Control
Products

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

Engine
Management

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

Our Customers

We sell our products primarily to:

Automotive aftermarket retailers, such as O'Reilly Automotive, Inc. ("O'Reilly"), Advance Auto Parts, Inc. (operating under the trade names Advance Auto Parts, Autopart International, Carquest and Worldpac) ("Advance"), AutoZone, Inc. ("AutoZone"), and Canadian Tire Corporation, Limited.

Automotive aftermarket distributors, including warehouse distributors and program distribution groups, such as Genuine Parts Co. and National Automotive Parts Association ("NAPA"), Auto Value and All Pro/Bumper to Bumper (Aftermarket Auto Parts Alliance, Inc.), Automotive Distribution Network LLC, The National Pronto Association ("Pronto"), Federated Auto Parts Distributors, Inc. ("Federated"), Pronto and Federated's affiliate, the Automotive Parts Services Group or The Group, and Icahn Automotive Group LLC (doing business as Pep Boys, Auto Plus, AAMCO and Precision Tune Auto Care).

Original equipment manufacturers and original equipment service part operations, such as General Motors Co., FCA US LLC (formerly known as Chrysler Group LLC), Ford Motor Co., Woodward, Inc. and Red Dot Corporation.

Our five largest individual customers accounted for approximately 70% of our consolidated net sales in 2018, 2017 and 2016. During 2018, O'Reilly, NAPA, Advance, and AutoZone accounted for 22%, 17%, 16% and 11% of our consolidated net sales, respectively. Net sales from each of these customers were reported in both our Engine Management and Temperature Control Segments.

Competition

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

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

We are one of the leading independent manufacturers and distributors serving North America and other geographic areas in our core businesses of Engine Management and Temperature Control. In the Engine Management Segment,

we compete with: ACDelco, Delphi Technologies PLC, Denso Corporation, Continental AG, Hitachi, Ltd., Motorcraft, Robert Bosch GmbH, Visteon Corporation, NGK Spark Plug Co., Ltd., Dorman Products, Inc. and several privately-owned companies primarily importing products from Asia. In the Temperature Control Segment, we compete with: ACDelco, MAHLE GmbH, Behr Hella Service GmbH, Denso Corporation, Motorcraft, Sanden International, Inc., Continental AG, and several privately-owned companies.

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

Sales and Distribution

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

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

We sell our products primarily in the United States, with additional sales in Canada, Mexico, Europe, Asia and other Latin American countries. Our sales are substantially denominated in U.S. dollars. For information on revenues and long-lived assets by geographic area, see Note 22 “Industry Segment and Geographic Data” of the Notes to Consolidated Financial Statements in Item 8 of this report.

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

Our customers have come to depend on our sales personnel as a reliable source for technical information and to assist with sales to their customers (e.g., jobber stores and professional technicians). In this manner, we direct a significant portion of our sales efforts to our customers’ customers to generate demand for our products, and we believe that the structure of our sales force facilitates these efforts by enabling us to implement our sales and marketing programs uniformly throughout the distribution channel. One of the ways we generate this demand is by offering in-person training seminars on 30 different topics, which teach approximately 60,000 technicians annually how to diagnose and repair vehicles equipped with complex systems related to our products. We also offer on-demand training webinars online on 144 different topics. Approximately 14,000 technicians were registered to participate in such sessions in 2018.

We offer a variety of strategic customer discounts, allowances and incentives to increase customer purchases of our products. For example, we offer cash discounts for paying invoices in accordance with the specified discounted terms of the invoice. We also offer rebates and discounts to customers as advertising and sales force allowances, and allowances for warranty and overstock returns are also provided. We believe these discounts, allowances and

incentives are a common practice throughout the automotive aftermarket industry, and we intend to continue to offer them in response to competitive pressures and to strategically support the growth of all our products.

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Seasonality

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

Working Capital and Inventory Management

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

We face inventory management issues as a result of overstock returns. We permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. In addition, the seasonality of our Temperature Control Segment requires that we increase our inventory during the winter season in preparation of the summer selling season and customers purchasing such inventory have the right to make returns.

Our profitability and working capital requirements are seasonal due to our sales mix of temperature control products. Our working capital requirements peak near the end of the second quarter, as the inventory build up of air conditioning products is converted to sales and payments on the receivables associated with such sales have yet to be received. These increased working capital requirements are funded by borrowings from our revolving credit facility.

Production and Engineering

We engineer, tool and manufacture many of the components used in the assembly of our products. We also perform our own plastic molding operations, stamping and machining operations, wire extrusion, automated electronics assembly and a wide variety of other processes. In the case of remanufactured components, we conduct our own teardown, diagnostics and rebuilding for air conditioning compressors, diesel injectors, and diesel pumps. We have found this level of vertical integration provides advantages in terms of cost, quality and availability. We intend to continue selective efforts toward further vertical integration to ensure a consistent quality and supply of low cost components. In addition, our strategy includes sourcing an increasing number of finished goods and component parts from low cost regions such as those in Asia.

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Suppliers

We source materials through a global network of suppliers to ensure a consistent, high quality and low cost supply of materials and key components for our product lines. We are not dependent on any single commodity.

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

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

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

Employees

As of December 31, 2018, we employed approximately 4,400 people, with 1,800 people in the United States and 2,600 people in Mexico, Canada, Poland, the U.K., Hong Kong and Taiwan. Of the 4,400 people employed, approximately 2,600 people are production employees. We operate primarily in non union facilities and have binding labor agreements with employees at other unionized facilities. We have approximately 77 production employees in Edwardsville, Kansas who are covered by a contract with The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”) that expires in April 2019. We expect to renew this agreement with the UAW upon mutually agreeable terms. We also have approximately 1,500 employees in Mexico who are covered under union agreements negotiated at various intervals.

We believe that our facilities are in favorable labor markets with ready access to adequate numbers of skilled and unskilled workers, and we believe our relations with our union and non union employees are good. Our employees share our corporate values of ethics, integrity, common decency and respect of others, values which have been established since our company was founded in 1919.

Available Information

We are a New York corporation founded in 1919. Our principal executive offices are located at 37 18 Northern Boulevard, Long Island City, New York 11101, and our main telephone number at that location is (718) 392 0200. Our Internet address is www.smpcorp.com. We provide a link to reports that we have filed with the SEC. However, for those persons that make a request in writing or by e-mail (financial@smpcorp.com), we will provide free of charge our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information are also available, free of charge, at www.sec.gov.

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ITEM 1A. RISK FACTORS

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

Risks Related to Our Operations

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

Our five largest individual customers accounted for approximately 70% of our consolidated net sales in 2018, 2017 and 2016. During 2018, O'Reilly, NAPA, Advance, and AutoZone accounted for 22%, 17%, 16% and 11% of our consolidated net sales, respectively. The loss of one or more of these customers or, a significant reduction in purchases of our products from any one of them, could have a materially adverse impact on our business, financial condition and results of operations. In addition, any consolidation among our key customers may further increase our customer concentration risk.

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

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

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

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

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

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

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

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

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

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

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

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

Our products are required to meet rigorous standards imposed by our customers and our industry. Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship, failure to meet industry published specifications and/or the result of installation error. In the event that there are material deficiencies or defects in the design and manufacture of our products and/or installation error, the affected products may be subject to warranty returns and/or product recalls. Although we maintain a comprehensive quality control program, we cannot give any assurance that our products will not suffer from defects or other deficiencies or that we will not experience material warranty returns or product recalls in the future.

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

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

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

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

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

In 1986, we acquired a brake business, which we subsequently sold in March 1998. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001, and the amounts paid for settlements, awards of asbestos-related damages, and defense of such claims. We do not have insurance coverage for the indemnity and defense costs associated with the claims we face.

At December 31, 2018, approximately 1,430 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2018, the amounts paid for settled claims are approximately \$25.6 million. A substantial increase in the number of new claims or increased settlement payments or awards of asbestos-related damages could have a material adverse effect on our business, financial condition and results of operations.

In accordance with our policy of performing an annual actuarial evaluation in the third quarter of each year, and whenever events or changes in circumstances indicate that additional provisions may be necessary, an actuarial study were performed as of August 31, 2018, which was revised to reflect events occurring through November 20, 2018. Based upon the actuarial studies performed, in 2018, we increased our asbestos liability to \$46.7 million, the low end of the range and recorded an incremental pre-tax provision of \$13.6 million in earnings (loss) from discontinued operations in the accompanying statement of operations. The results of the revised study included an estimate of our undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs, ranging from \$46.7 million to \$83.9 million for the period through 2061. Future legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations, are estimated, according to the revised study, to range from \$45 million to \$83.1 million.

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

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

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

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

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

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

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

Because we purchase various types of raw materials, finished goods, equipment, and component parts from suppliers, we may be materially and adversely affected by the failure of those suppliers to perform as expected. This non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. The risk of non-performance may also result from the insolvency or bankruptcy of one or more of our suppliers. Our suppliers' ability to supply products to us is also subject to a number of risks, including availability and cost of raw materials, destruction of their facilities, or work stoppages. In addition, our failure to promptly pay, or order sufficient quantities of inventory from our suppliers may increase the cost of products we purchase or may lead

to suppliers refusing to sell products to us at all. Our efforts to protect against and to minimize these risks may not always be effective.

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

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

Risks Related to Liquidity

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

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

Increasing our indebtedness could negatively affect our financial health.

We have an existing revolving bank credit facility of \$250 million with JPMorgan Chase Bank, N.A., as agent, and a syndicate of lenders, which we refer to throughout this Report as our revolving credit facility. As of December 31, 2018, our total outstanding indebtedness was \$49.2 million, of which amount \$43.7 million of outstanding indebtedness and approximately \$203.1 million of availability was attributable to this revolving credit facility. Any significant increase in our indebtedness could increase our vulnerability to general adverse economic and industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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In addition, we have granted the lenders under our revolving credit facility a first priority security interest in substantially all of our currently owned and future acquired personal property and other assets. We have also pledged shares of stock in our subsidiaries to those lenders. If we default on any of our indebtedness, or if we are unable to obtain necessary liquidity, our business could be adversely affected.

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

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

- general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control;
- the ability of our customers to pay timely the amounts we have billed; and
- our ability to factor receivables under customer draft programs.

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

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

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

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

Risks Related to External Factors

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

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

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In particular, there has been social unrest in Mexico and any increased violence in or around our manufacturing facilities in Mexico could impact our business by disrupting our supply chain, the delivery of products to customers, and the reluctance of our customers to visit our Mexico facilities. In addition, the increased violence in or around our manufacturing facilities in Mexico could present several risks to our employees who may be directly affected by the violence and may result in a decision by them to relocate from the area, or make it difficult for us to recruit or retain talented employees at our Mexico facilities.

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

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

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

In August 2012, the SEC adopted rules requiring us to provide disclosure regarding the use of specified minerals, known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries. The rules require us to engage in ongoing due diligence efforts, and to disclose the results of our efforts in May of each year. The rules could affect the sourcing and availability of such minerals, or cause us to suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free and/or we are unable to alter our products or sources of supply to avoid such materials. We may also face difficulties in satisfying customers who may require that our products be certified as having conflict-free minerals, which could place us at a competitive disadvantage if we are unable to do so and lead to a loss of revenue.

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

The nature of our operations exposes us to the risk of claims with respect to such matters, and we can give no assurance that violations of such laws have not occurred or will not occur or that material costs or liabilities will not be incurred in connection with such claims. We are currently monitoring our environmental remediation efforts at one of our facilities and our reserve balance related to the environmental clean-up at this facility is \$1.6 million at December 31, 2018. The environmental testing and any remediation costs at such facility may be covered by several insurance policies, although we can give no assurance that our insurance will cover any environmental remediation claims. We also maintain insurance to cover our existing U.S. and Canadian facilities. We can give no assurance that

the future cost of compliance with existing environmental laws and the liability for known environmental claims pursuant to such environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. In addition, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We maintain our executive offices in Long Island City, New York. The table below describes our principal facilities as of December 31, 2018.

Location	State or Country	Principal Business Activity	Approx. Square Feet	Owned or Expiration Date of Lease
Engine Management				
Ft. Lauderdale	FL	Distribution	23,300	Owned
Ft. Lauderdale	FL	Distribution	30,000	Owned
Mishawaka	IN	Manufacturing	153,100	Owned
Edwardsville	KS	Distribution	363,500	Owned
Independence	KS	Manufacturing	337,400	Owned
Long Island City	NY	Administration	75,800	2023
Greenville	SC	Manufacturing	184,500	Owned
Disputanta	VA	Distribution	411,000	Owned
Reynosa	Mexico	Manufacturing	175,000	2025
Reynosa	Mexico	Manufacturing	153,000	2023
Bialystok	Poland	Manufacturing	108,400	2022
Temperature Control				
Lewisville	TX	Administration and Distribution	415,000	2024
St. Thomas	Canada	Manufacturing	40,000	Owned
Reynosa	Mexico	Manufacturing	82,000	2019
Reynosa	Mexico	Manufacturing	118,000	2021
Other				
Mississauga	Canada	Administration and Distribution	82,400	2023
Irving	TX	Training Center	13,400	2021

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ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is incorporated herein by reference to the information set forth in Item 8, “Financial Statements and Supplementary Data” of this Report under the captions “Asbestos” and “Other Litigation” appearing in Note 23, “Commitments and Contingencies” of the Notes to Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock trades publicly on the New York Stock Exchange (“NYSE”) under the trading symbol “SMP.” The last reported sale price of our common stock on the NYSE on February 15, 2019 was \$49.21 per share. As of February 15, 2019, there were 464 holders of record of our common stock.

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

There have been no unregistered offerings of our common stock during the fourth quarter of 2018.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

For information related to our stock repurchases, see Note 13, “Stockholders’ Equity,” of the Notes to Consolidated Financial Statements in Item 8 of this Report.

The following table provides information relating to the Company’s purchases of its common stock for the fourth quarter of 2018:

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 (2)
October 1-31, 2018				