

**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, 2021**

**or**

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

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number: 001-04743**

**Standard Motor Products, Inc.**

(Exact name of registrant as specified in its charter)

**New York**

**11-1362020**

(State or other jurisdiction of incorporation or organization)

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

**37-18 Northern Blvd., Long Island City, New York**

**11101**

(Address of principal executive offices)

(Zip Code)

**Registrant's telephone number, including area code:**

**(718) 392-0200**

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

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

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

**None**

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

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

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

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

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2021 (the last business day of registrant's most recently completed second fiscal quarter) of \$43.35 per share held by non-affiliates of the registrant was \$868,423,747. 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 17, 2022, there were 21,962,762 outstanding shares of the registrant's common stock, par value \$2.00 per share.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Report is incorporated herein by reference from the registrant's definitive proxy statement relating to its annual meeting of stockholders to be held on May 19, 2022.

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## STANDARD MOTOR PRODUCTS, INC.

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## PART I

*In this Annual Report on Form 10-K, “Standard Motor Products,” “we,” “us,” “our,” “SMP,” 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 or loss in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in our supply chain financing arrangements, such as changes in terms, termination of contracts and/or the impact of rising interest rates; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs, including procurement costs resulting from higher tariffs, and inflationary cost increases in raw materials, labor and transportation, 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); the effects of widespread public health crises, including the coronavirus (COVID-19) pandemic; climate-related risks, such as physical risks and transition risks; 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 manufacturer and distributor of premium replacement parts utilized in the maintenance, repair and service of vehicles in the automotive aftermarket industry. In addition, we continue to increase our supplier capabilities with a complementary focus on specialized original equipment parts for manufacturers across multiple industries such as agriculture, heavy duty, and construction equipment. We believe that our extensive design and engineering capabilities have afforded us opportunities to expand our product coverage in our aftermarket business and enter newer specialized markets that require application-specific knowledge, such as those mentioned above.

Our business strategy centers on providing our customers with full-line product coverage as well as a suite of services tailored to our customers’ needs. This combination of broad product coverage along with specificity in our customer service helps drive higher end-user demand for our products.

We sell our products primarily to automotive aftermarket retailers, warehouse distributors, original equipment manufacturers and original equipment service part operations in the United States, Canada, Europe, Asia, Mexico and other Latin American countries.

#### The Automotive Aftermarket

The automotive aftermarket replacement parts business is a mature industry that primarily tends to follow trends, such as:

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

Other general trends including economic factors such as the level of light vehicle production can have a more indirect impact on the aftermarket, and a more direct impact on the specialized industries discussed above.

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.

In 2021, we completed three acquisitions that expanded our business into original equipment (OE) specialized markets that complement our core aftermarket business. In addition to providing access to product technologies suitable to the aftermarket, and manufacturing and engineering capabilities to support our operating strategy to bring more product manufacturing in-house, these acquisitions provide geographic expansion in Europe and Asia.

## **Our Business Strategy**

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

The key elements of our strategy are as follows:

- *Maintain Our Strong Aftermarket 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:

- strengthening our capabilities as a leading manufacturer of parts and ensuring our global manufacturing footprint continues to meet the demands and expectations of our customers worldwide;
- providing our customers with full-line coverage of high quality engine management and temperature control products and new technologies for most years, makes and models of vehicles on the road;
- supporting our products with the highest level of value-added services;
- supply chain excellence through supplier and customer focused initiatives, and 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;
- focusing on our engineering development efforts including a focus on bringing more product manufacturing in-house; and

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- further expanding our parts coverage to include a broader product mix in categories such as electrification, including electric vehicles (EVs) and hybrid electric vehicles (HEVs), and connectivity as well as safety-related systems, such as various sensors including anti-lock brake (ABS), vehicle speed, tire pressure monitoring (TPMS), park assist and Advanced Driver Assistance Systems (ADAS) components to meet the growing needs of our customers.
- *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. Although the automotive industry continues to experience supply chain disruptions related to COVID-19 (particularly with respect to goods sourced from China), we believe that, with respect to product availability and fill rates, we have benefited from our geographically diversified manufacturing footprint and our strategy to bring more product manufacturing in-house. 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 related to our products. In addition, we have a team dedicated to providing in-person and virtual technical training on diagnosing and repairing vehicles equipped with complex systems.
- *Expand Our Product Lines.* Vehicle manufacturers continue to introduce new technologies and systems creating opportunities for us to expand our product lines. In addition, 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. We believe that the three complementary acquisitions consummated in 2021 (discussed above) and our internal product development efforts better position us to satisfy customer demand for both traditional, internal combustion engine (or ICE) applications, and non-ICE (electric or hybrid electric) applications. We estimate that approximately half of our product offering is powertrain neutral, or suitable for electric, hybrid electric and/or alternative energy vehicles.
- *Diversify our Business.* We seek to diversify our business primarily by (a) leveraging our manufacturing and distribution capabilities to secure additional business globally with original equipment manufacturers; (b) supporting the service part operations of vehicle and equipment manufacturers with value-added services and product support for the life of the part; (c) developing new product lines that complement our existing product offering and have the potential for high growth; (d) expanding our product offering in the medium and heavy duty, commercial vehicle, construction and agricultural equipment, power sports, and other segments; and (e) executing our acquisition strategy.
- *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.
- *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.

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- *Environmental, Social & Governance.* We support and seek continuous improvement in the pursuit of environmental, social and corporate governance (ESG) practices that embody our culture and what we believe it means to be a good corporate citizen.

**Our Products & Services**Engine Management Segment

Our Engine Management Segment manufactures and distributes a full line of critical components for most years, makes and models of vehicles on the road, including new technologies. Key product categories within our engine management portfolio include: (i) ignition, such as electronic ignition control modules, camshaft and crankshaft position sensors, ignition wires and coils; (ii) electrical, such as switches and relays; (iii) emissions, such as exhaust gas recirculation valves, pressure and temperature sensors and variable valve timing (VVT) components; (iv) fuel, such as mass airflow sensors, fuel pressure sensors, electronic throttle bodies and fuel injectors, including diesel injectors and pumps (new and remanufactured); and (v) safety-related systems, such as various sensors including anti-lock brake (ABS), vehicle speed, tire pressure monitoring (TPMS) and park assist sensors.

We continuously look to expand our product offering. Recently, we have done so by adding late-model coverage for existing product categories, and new product categories in response to new and evolving vehicle technologies, including diesel control modules, pumps and components, turbochargers, evaporation emission control system components, exhaust gas temperature sensors, active grill shutters, battery current sensors, and Advanced Driver Assistance Systems (ADAS) components, including blind spot detection sensors, cruise control distance sensors, lane departure sensor cameras and park assist backup cameras. For example, our offering includes more than seventy product categories for one of the first mass-produced hybrid electric vehicles (HEVs). As more HEVs enter the aftermarket, we intend to expand our product offering to service this important segment.

*Ignition, Emission Control, Fuel & Safety Related System Products.* Replacement parts for ignition, emission, fuel and safety related systems accounted for \$786.5 million, or 61%, of our consolidated net sales in 2021, \$691.7 million, or 61%, of our consolidated net sales in 2020, and \$706 million, or 62%, of our consolidated net sales in 2019.

As the use and complexity of vehicle systems continue to develop and proliferate, we expect to identify and benefit from new sales opportunities. All new vehicles are factory-equipped with numerous electronic control modules designed to monitor and control the internal combustion process and the emissions, transmission, safety and comfort systems of the vehicle. 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. Our sales of sensors, switches, actuators, valves, solenoids and related parts have increased as automobile manufacturers continue to equip their cars with these more complex engine management systems.

New sales opportunities have also arisen in the United States as a result of government regulations regarding safety and emissions. Legally, 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. 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. Similarly, as government-mandated safety devices, such as anti-lock braking systems and air bags 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.

*Wire & Cable Products.* Wire and cable parts accounted for \$151.4 million, or 12%, of our consolidated net sales in 2021, \$144 million, or 13%, of our consolidated net sales in 2020, and \$143.2 million, or 13%, of our consolidated net sales in 2019. These products include spark plug wire sets, battery cables, pigtails, sockets and a wide range of electrical wire, terminals, connectors and tools for servicing an automobile's electrical system.

[Index](#)Temperature Control Segment

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

We continuously look to improve our cost position through strategic transactions with manufacturers in low cost regions. In 2014, we formed Foshan GWOYNG SMP Vehicle Climate Control & Cooling Products Co. Ltd., a China-based joint venture that manufactures light vehicle and heavy duty air conditioning accumulators, filter driers, hose assemblies, and switches; in 2017, we formed Foshan FGD SMP Automotive Compressor Co., Ltd., a China-based joint venture that manufactures light vehicle and heavy duty belt driven air conditioning compressors; and in 2019, we acquired a minority interest ownership position in Foshan Che Yijia New Energy Technology Co., Ltd., a China-based manufacturer of electric air conditioning compressors. We believe that these transactions will enhance our position as a basic low-cost manufacturer and a leading supplier of temperature control parts and allow an opportunity for growth in the China OE market, while providing key complementary manufacturing capabilities and synergy opportunities with our other manufacturing facilities. The synchronization and complimentary strategies between our operational and distribution facilities provides a more reliable supply of products, and supports our customers' needs for consistent and reliable service levels.

*Compressors.* Compressors accounted for \$206.7 million, or 16%, of our consolidated net sales in 2021, \$163.1 million, or 14%, of our consolidated net sales in 2020, and \$160.5 million, or 14%, of our consolidated net sales in 2019. Included in consolidated net sales for the compressor product line is the revenue generated from the sale of kits.

*Other Climate Control Parts.* Other climate control parts accounted for \$141.7 million, or 11%, of our consolidated net sales in 2021, \$118.9 million, or 11%, of our consolidated net sales in 2020, and \$117.9 million, or 10%, of our consolidated net sales in 2019.

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 19 "Industry Segment and Geographic Data" and Note 20 "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 aftermarket products under our own brands, such as:

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**Intermotor**®  
Genuine Import Parts

**STANDARD** Diesel

Engine  
Management  
Products

**BWD**  
**SELECT**  
THE PROFESSIONAL CHOICE

**OEM**  
ORIGINAL ENGINE MANAGEMENT

**TeamSmart**  
DODGE

**TECH EXPERT**

**GP**  
by TRW  
**SORENSEN**

**LOCKSmart**

**Pollak**®  
by SMP®

**STABIL**  
GROUP

**TROMBETTA**

Temperature  
Control  
Products

**FOURSEASONS**  
Quality, Coverage, Service

**EVERCO** HD

**ACI** WINDOW & DOOR  
COMPONENTS

**HAYDEN**  
AUTOMOTIVE

**PRO SOURCE**  
HEATER CORES

**FACTORY AIR**

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

Engine  
Management

**NAPA** **ECHLIN**

**NAPA** **Belden**®

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"), 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., Ford Motor Co., Woodward, Inc., Deere & Company, Caterpillar Inc., Daimler Truck AG, Case/New Holland, Eberspacher, Mobile Climate Control, Volvo/Mack Truck, and Harley.

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Our three largest individual customers accounted for approximately 57% of our consolidated net sales in 2021. During 2021, O'Reilly, NAPA and AutoZone accounted for 26%, 17%, and 14% 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;
- continuous product development, engineering & technical advancement;
- extensive market leading product coverage in conjunction with market leading brands;
- knowledgeable category management, including inventory stocking recommendations for our distributors to get the right parts on the shelf for their marketplace needs;
- rigorous product qualification standards to ensure that our parts meet or exceed exacting performance specifications;
- sophisticated parts cataloging systems, including catalogs available online through our website and our mobile application;
- inventory levels and responsive logistical systems sufficient to meet the critical 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, Aptiv 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, Denso Corporation, Motorcraft, Sanden International (U.S.A.), Inc., Continental AG, Dorman Products, Inc., and several privately-owned companies.

Our business operates in highly competitive markets, and we face substantial competition in all markets that we serve. In addition, in the aftermarket, we face competition from automobile manufacturers who supply many of the replacement parts sold by us, although these manufacturers generally supply parts only for cars they sell through OE dealerships.

## **Sales and Distribution**

In the traditional 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.

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In the heavy duty aftermarket, we sell our products to recognized distributors who buy directly from us and sell directly to fleet operators and repair facilities for use in the repair and maintenance of medium to heavy duty vehicles. We also sell our products to the service parts divisions of heavy duty OEMs for distribution into the independent heavy duty aftermarket.

In the original equipment market we sell our products to manufacturers of automotive, heavy duty truck, construction, agriculture, alternative energy, lawn/garden and powersports/marine vehicles and equipment, as well as their tier suppliers and system integrators. We also sell and support the service part divisions of each of our customers.

We sell our products primarily in the United States, with additional sales in Canada, Europe, Asia, Mexico and other Latin American countries. Our sales are substantially denominated in U.S. dollars. For information on revenues and long-lived assets by geographic area, see Note 19 "Industry Segment and Geographic Data" of the Notes to Consolidated Financial Statements in Item 8 of this Report.

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.

Another way we generate demand for our products is through our training program, which offers training seminars to professional automotive technicians. Our training program is accredited by the National Institute for Automotive Service Excellence (ASE) Training Managers Council. Our seminars are taught by ASE certified instructors in real time either in-person or by webinars online and feature more than 30 different topics. We also offer on-demand training webinars online on more than 150 different topics. Through our training program, we typically teach approximately 60,000 technicians annually how to diagnose and repair vehicles equipped with complex systems related to our products, and we have approximately 16,000 technicians who are registered to participate in such sessions through our online platform.

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

## **Seasonality**

Historically, our operating results have fluctuated by quarter, with the greatest sales occurring in the second and third quarters of the year and revenues generally being recognized at the time of shipment. It is in these quarters that demand for our products is typically the highest, specifically in the Temperature Control Segment of our business. In addition to this seasonality, the demand for our Temperature Control products during the second and third quarters of the year may vary significantly with the summer weather and customer inventories. Ordinarily, a warm summer, as we experienced in 2021, would increase the demand for our Temperature Control products, while a somewhat mild summer, as we experienced in 2019, may lessen such demand. While the COVID-19 pandemic caused large shifts in sales demand between quarters in 2020, our business returned to a more normalized pattern of seasonality and variability in demand of our Temperature Control products in 2021. As such, our working capital typically peaks near the end of the second quarter, as the inventory build-up of air conditioning products was converted to sales, and payments on the receivables associated with such sales were yet to be received. During this period, our working capital requirements were funded by borrowing from our revolving credit facility.

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## **Working Capital and Inventory Management**

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

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

Our profitability and working capital requirements are seasonal due to our sales mix of Temperature Control products. Our working capital requirements 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. These increased working capital requirements are funded by borrowings from our revolving credit facility.

## **Production and Engineering**

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

## **Suppliers**

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

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

In the case of cores for air conditioning compressors, diesel injectors, and diesel pumps, 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.

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We believe there is an adequate supply of primary raw materials and cores; however, disruptions in the global economy in 2020 and the lingering impacts into 2021 have impeded global supply chains, resulting in longer lead times and delays in procuring component parts and raw materials, and inflationary cost increases in certain raw materials, labor and transportation. In response to the global supply chain volatility and inflationary cost increases, we have taken, and continue to take, several actions to mitigate the impact by working closely with our suppliers and customers to minimize any potential adverse impacts on our business, including initiating cost savings initiatives and the pass through of higher costs to our customers, which began in the fourth quarter of 2021. We believe that we have also benefited from our geographically diversified manufacturing footprint and our strategy to bring more product manufacturing in-house, especially with respect to product availability and fill rates.

## **Environmental, Social and Governance (ESG) and Human Capital**

### Our Culture

Our Company was founded in 1919 on the values of integrity, common decency and respect for others. These values continue to this day and are embodied in our Code of Ethics, which has been adopted by the Board of Directors of the Company to serve as a statement of principles to guide our decision-making and reinforce our commitment to these values in all aspects of our business. These values also serve as the foundation for our increased focus on many important environmental, social and governance issues, such as environmental stewardship and our efforts to identify and implement practices that reduce our environmental impact while achieving our business goals; our attention to diversity, equity and inclusion, employee development, retention, and health and safety; and our community engagement initiatives, to name a few. We have made significant strides building awareness of the environmental impact of our operations, and challenging ourselves to reduce our impact by reducing our consumption of energy and generation of waste, as well as enhancing our recycling efforts.

### Environmental Stewardship

We have made significant strides building awareness of the environmental impact of our operations, and challenging ourselves to reduce our impact by reducing our consumption of energy, including electricity, natural gas and propane; reducing our generation of waste and increasing the percentage of waste recycled; reducing our use of water and reducing our Scope 1 and Scope 2 greenhouse gas emissions.

We are also focused on several initiatives that are intended to promote a more environmentally-friendly car parc. Through our remanufacturing processes, we divert certain types of used automotive products from traditional waste streams and reprocess them for their original purpose. We remanufacture key product categories within our product portfolio, such as air conditioning compressors, diesel injectors and diesel pumps, resulting in the production of premium automotive products within these categories through processes that we believe save energy and reduce waste. We also bring to market emission control system products, which are designed to reduce emissions and improve fuel economy during vehicle operation, and alternative energy products, which utilize cleaner burning fuels or are designed for electric or hybrid electric vehicles.

### Human Capital

We believe that our commitment to our employees is critical to our continued success, and has led to high employee satisfaction and low employee turnover. To facilitate talent attraction and retention, we strive to have a diverse, inclusive and safe workplace, with opportunities for our employees to grow and develop in their careers, supported by strong compensation, benefits and health and wellness programs, and by programs that build connections between our employees and their communities. Our employees share our corporate values of integrity, common decency and respect of others, values which have been established since our company was founded.

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As of December 31, 2021, we employed approximately 5,000 people, with 2,000 people in the United States and 3,000 people in Mexico, Canada, Poland, the U.K., Germany, Hungary, China, Hong Kong and Taiwan. Of the 5,000 people employed, approximately 2,700 people are production employees. We operate primarily in non-union facilities and have binding labor agreements with employees at other unionized facilities. We have approximately 80 production employees in Edwardsville, Kansas who are covered by a contract with The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”) that expires in August 2022. We also have approximately 1,500 employees in Mexico who are covered under union agreements negotiated at various intervals. For clarification, the employee numbers described above exclude the employees of our joint venture operations.

Although the COVID-19 pandemic has led to some challenges in finding adequate labor, generally we believe that our facilities are in 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.

*Diversity, Equity and Inclusion.* We believe that a diverse workforce is critical to our success, and we continue to focus on the hiring, retention and advancement of women and underrepresented populations. Our recent efforts have been focused in three areas: inspiring innovation through an inclusive and diverse culture; expanding our efforts to recruit and hire world-class diverse talent; and identifying strategic partners to accelerate our inclusion and diversity programs. Over the last 5 years, approximately 50% of our hires and promotions have been women or racially diverse individuals. To further our commitment to diversity, in 2021, we established a Diversity, Equity and Inclusion steering committee to develop key structures within our organization to promote equality, inclusion and awareness among our employees.

*Health, Safety and Wellness.* The success of our business is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety and wellness of our employees. We provide our employees and their families with access to a variety of innovative, flexible and convenient health and wellness programs, including benefits that provide protection and security so they can have peace of mind concerning events that may require time away from work, or that impact their financial well-being; that support their physical and mental health by providing tools and resources to help them improve or maintain their health status and encourage engagement in healthy behaviors; and that offer choice where possible so they can customize their benefits to meet their needs and the needs of their families.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees and which comply with government regulations. These include providing employees with flexible working arrangements, including where appropriate the ability to work from home, and implementing a number of safety policies and practices at all of our facilities.

*Compensation and Benefits.* We provide competitive compensation and benefits programs that meet the needs of our employees. In addition to wages and salaries, these programs include annual cash bonuses, stock awards, a 401(k) Plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, family care resources, and employee assistance programs.

*Talent Development.* We invest significant resources to develop the talent of our high potential employees. We deliver numerous training opportunities, provide rotational assignment opportunities, have expanded our focus on continuous learning and development, and implemented methodologies to manage performance, provide feedback and develop talent.

Our talent development programs are designed to provide employees with the resources they need to help achieve their career goals, build management skills and lead their organizations. We provide a series of employee workshops that support professional growth and development. Our annual review process encourages manager and employee conversations throughout the year to enhance growth and development.

[Index](#)Social Engagement and Community Service

We believe that building connections between our employees, their families and our communities creates a more meaningful, fulfilling and enjoyable workplace. Through our SMP Cares® initiative, we sponsor corporate giving and volunteering programs to encourage our employees to connect with our local communities and engage in the local causes that they are passionate about.

Our volunteering efforts include organizing blood drives with the American Red Cross, and fundraising for the March of Dimes, United Way, the Salvation Army, and many others. In 2021, we collaborated with our employees to donate over \$50,000 to local community organizations, hospitals, schools, shelters, and universities. We are a lifetime trustee of the University of the Aftermarket Foundation (“UAF”), and we donate \$10,000 annually to fund scholarships to support the next generation of technicians and automotive professionals, which we believe is an important way to sustain and give back to our industry. We are also proud to sponsor annual scholarship contests for future automotive technicians, including our Women in Auto Care scholarship that aims to empower women entering the automotive industry. Since our first scholarship contest in 2015, we have awarded \$265,000 in scholarships. We have continued to expand our scholarship program, and in 2021, we awarded ten students each with a \$5,000 scholarship. We continue to encourage participation in these initiatives as we believe they are essential in the support of our core values.

Governance

Our commitment to ESG is spearheaded by our Board of Directors. Specifically, our Nominating and Corporate Governance Committee established an ESG steering committee among our executive officers including our Chief Executive Officer & President, Chief Legal Officer & Secretary, Chief Human Resources Officer, and Senior Vice President of North American Operations. This ESG steering committee is tasked with developing specific strategies to ensure that our operations adhere to our corporate governance values and advance our ESG objectives. The multidisciplinary approach of our steering committee allows it to leverage our expertise in operations, engineering, supply chain, human capital management, finance, legal and other fields to push our ESG initiatives ahead from all angles.

**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](http://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](mailto: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](http://www.sec.gov).

**ITEM 1A. RISK FACTORS**

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

**Risks Related to Our Operations**

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

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Our three largest individual customers accounted for approximately 57% of our consolidated net sales in 2021. During 2021, O'Reilly, NAPA and AutoZone accounted for 26%, 17% and 14% 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, such as the decision, announced in December 2020, of a large retail customer to pursue a private brand strategy for its engine management product line, 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 and/or to pursue a private brand strategy, 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 products, some of which may have substantially greater financial, marketing and other resources than we do.**

The automotive industry is highly competitive, and our success depends on our ability to compete with domestic and international suppliers of automotive products. In the Engine Management Segment, we compete with: ACDelco, Aptiv 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, Denso Corporation, Motorcraft, Sanden International (U.S.A.), Inc., Continental AG, Dorman Products, Inc., and several privately-owned companies. In addition, automobile manufacturers supply many of the replacement parts we sell. Some of our competitors may have larger customer bases and significantly greater financial, technical and marketing resources than we do. These factors may allow our competitors to:

- respond more quickly than we can to new or emerging technologies and changes in customer requirements by devoting greater resources than we can to the development, promotion and sale of automotive 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 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 industry or that companies in the 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.

[Index](#)**There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure.**

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure. This is the result of a number of industry trends, including the impact of offshore suppliers in the marketplace (particularly in China) which do not have the same infrastructure costs as we do, the consolidated purchasing power of large customers, and actions taken by some of our competitors in an effort to “win over” new business. We have in the past reduced prices to remain competitive and may have to do so again in the future. Price reductions have impacted our sales and profit margins and may 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, to maintain a cost structure that will enable us to offer competitive prices, and to pass through higher distribution, raw materials and labor costs to our customers. 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 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. Ordinarily, a warm summer, as we experienced in 2020, would increase the demand for our Temperature Control products, while a somewhat mild summer, as we experienced in 2019, may lessen such demand. While the COVID-19 pandemic caused large shifts in sales demand between quarters in 2020, our business has returned to a more normalized pattern of seasonality and variability in demand of our Temperature Control products in 2021. As such, our working capital requirements peaked near the end of the second quarter, as the inventory build-up of air conditioning products was converted to sales and payments on the receivables associated with such sales were yet to be received. During this period, our working capital requirements were funded by borrowing from our revolving credit facility.

Climate-related physical risks, such as changes to weather patterns and conditions may also impact the pattern of seasonality and variability in demand for our Temperature Control products discussed above, which may impact our quarterly performance and working capital requirements.

**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.

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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 resell. 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, 2021, 1,554 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2021, the amounts paid for settled claims and awards of asbestos-related damages, including interest, were approximately \$53.8 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 to perform an annual actuarial evaluation in the third quarter of each year, an actuarial study was performed as of August 31, 2021. Based upon the results of the August 31, 2021 actuarial study, and all other available information to us, we increased our asbestos liability to the low end of the range, and recorded an incremental pre-tax provision of \$5.3 million in earnings (loss) from discontinued operations in the accompanying statement of operations. The results of the August 31, 2021 study included an estimate of our undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs and any potential recovery from insurance carriers, ranging from \$60.9 million to \$100.2 million for the period through 2065. 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 August 31, 2021 study, to range from \$49.4 million to \$99.3 million for the period through 2065.

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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 the continued benefit of discretionary cost reduction measures implemented in 2020, in response to the COVID-19 pandemic, and carried over into 2021, along with the continued cost savings anticipated from several ongoing and/or recently completed restructuring and integration initiatives. Due to factors outside our control, such as the adoption or modification of domestic and foreign laws, regulations or policies, we may not be able to achieve the level of benefits that we expect to realize in these initiatives, or we may not be able to realize these benefits within the time frames we currently expect. Our ability to achieve any anticipated cost savings could be affected by a number of factors such as changes in the amount, timing and character of charges related to such initiatives, or a substantial delay in the completion of such initiatives. Failure to achieve the benefits of our cost saving initiatives could have a material adverse effect on us. Our cost savings is also predicated upon maintaining our sales levels.

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

Severe weather conditions and natural disasters, such as hurricanes, tornados, earthquakes and floods, could damage our properties and effect our operations, particularly our major manufacturing and distribution operations at foreign facilities in Canada, Mexico, Poland, Germany and Hungary and at our domestic facilities in Florida, Indiana, Kansas, South Carolina, Texas, Virginia, and Wisconsin. In February 2021, our operations in Texas were disrupted due to a severe winter storm that resulted in power grid failure, blackouts and the tragic loss of life across the State of Texas. Moreover, global climate change may cause these natural disasters to occur more frequently and/or with more intense effects, which could prevent us from, or cause delays in our ability to, manufacture and deliver products to our customers, and/or cause us to incur additional costs.

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.

**Disruptions in the supply of raw materials, manufactured components, or equipment could materially and adversely affect our operations and cause us to incur significant cost increases.**

We source various types of raw materials, finished goods, equipment, and component parts from suppliers as part of a global supply chain, and we may be materially and adversely affected by the failure of those suppliers to perform as expected. Although we have had an adequate supply of purchased supplier raw materials, finished goods, equipment and component parts, disruptions in the global economy in 2020 and the lingering impacts into 2021 have impeded global supply chains, resulting in longer lead times and delays in procuring component parts and raw materials, and inflationary cost increases in certain raw materials, labor and transportation. In response to the global supply chain volatility and inflationary cost increases, we have taken, and continue to take, several actions to mitigate the impact by working closely with our suppliers and customers to minimize any potential adverse impacts on our business, including initiating cost savings initiatives and the pass through of higher costs to our customers, which began in the fourth quarter of 2021. We expect these inflationary trends to continue for some time, and while we believe that we will be able to somewhat offset the impact, there can be no assurances that unforeseen future events in the global supply chain affecting the availability of materials and components, and/or increasing commodity pricing, will not have a material adverse effect on our business, financial condition and results of operations.

Additionally, supplier non-performance may consist of delivery delays or failures caused by production issues or delivery of non-conforming products. Our suppliers' ability to supply products to us is also subject to a number of risks, including the availability and cost of raw materials, the destruction of their facilities, work stoppages, cyber attacks on their information technology systems

or other limitations on their business operations, which could be caused by any number of factors, such as labor disruptions, financial distress, severe weather conditions and natural disasters, social unrest, economic and political instability, and public health crises, including the occurrence of a contagious disease or illness, such as the COVID-19 pandemic, war, terrorism or other catastrophic events. In addition, our failure to promptly pay, or order sufficient quantities of inventory from our suppliers may increase the cost of products we purchase or may lead to suppliers refusing to sell products to us at all. Our efforts to protect against and to minimize these risks may not always be effective.

[Index](#)**Our operations could be adversely affected by interruptions or breaches in the security of our computer and information technology systems.**

We rely on information technology systems throughout our organization to conduct day-to-day business operations, including the management of our supply chain and our purchasing, receiving and distribution functions. We also routinely use our information technology systems to send, receive, store, access and use sensitive data relating to our Company and its employees, customers, suppliers, and business partners, including intellectual property, proprietary business information, and other sensitive materials. Additionally, we rely on our information technology systems to enable many of our employees to work remotely as a result of new policies and practices enacted by us in response to the COVID-19 pandemic.

Our information technology systems have been subject to cyber threats, including attempts to hack into our network and computer viruses. Such hacking attempts and computer viruses have not significantly impacted or interrupted our business operations. While we implement security measures designed to prevent and mitigate the risk of cyber attacks, our information technology systems, and the systems of our customers, suppliers and business partners, may continue to be vulnerable to computer viruses, attacks by hackers, or unauthorized access caused by employee error or malfeasance. The exploitation of any such vulnerability could unexpectedly compromise our information security, or the security of our customers, suppliers and other business partners. Furthermore, because the techniques used to carry out cyber attacks change frequently and in many instances are not recognized until after they are used against a target, we may be unable to anticipate these changes or implement adequate preventative measures. If our information technology systems, or the systems of our customers, suppliers or business partners, are subject to cyber attacks, such as those involving significant or extensive system interruptions, sabotage, computer viruses or unauthorized access, we could experience disruptions to our business operations and incur substantial remediation costs, which could have a material adverse effect on our business, financial condition or results of operations.

**The transition risks associated with global climate change may cause us to incur significant costs.**

In addition to the physical risks described above, global climate change has brought about certain risks associated with the anticipated transition to a lower-carbon economy, such as regulatory changes affecting vehicle emissions and fuel efficiency requirements, technological changes in vehicle architectures, changes in consumer demand, carbon taxes, greenhouse gas emissions tracking, and regulation of greenhouse gas emissions from certain sources. Any regulatory changes aimed to reduce or eliminate greenhouse gas emissions may require us to incur increased operating costs, such as to purchase and operate emissions control systems or other such technologies to comply with applicable regulations or reporting requirements. These regulations, as well as shifts in consumer demand due to public awareness and concern of climate change, could affect the timing and scope of their proliferation and may also adversely impact our sales of products designed for the internal combustion engines. As we monitor the rapid developments in this area, we may be required to adjust our business strategy to address the various transition risks posed by climate change.

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

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

***Risks Related to Liquidity*****We are exposed to risks related to our receivables supply chain financing arrangements.**

We are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable without recourse to such customers' financial institutions. To the extent that these arrangements are terminated, our financial condition, results of operations, cash flows and liquidity could be adversely affected by extended payment terms, delays or failures in collecting trade accounts receivables.

The utility of the supply chain financing arrangements also depends upon a reference rate for the purpose of determining the discount rate on the sale of the underlying trade accounts receivable. If the reference rate increases significantly, we may be negatively impacted as we may not be able to pass these added costs on to our customers, which could have a material and adverse effect upon our financial condition, results of operations and cash flows.

**Increasing our indebtedness could negatively affect our financial health.**

We have a senior secured revolving credit facility of \$250 million (with an additional \$50 million accordion feature) 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, 2021, our total outstanding indebtedness was \$128.4 million, of which amount \$125.3 million of outstanding indebtedness and approximately \$122.1 million of availability was attributable to this revolving credit facility. The significant increase in our indebtedness could:

- increase our borrowing costs;
- limit our ability to obtain additional financing or borrow additional funds;

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- require that a substantial portion of our cash flow from operations be used to pay principal and interest in our indebtedness, instead of funding working capital, capital expenditures, acquisitions, dividends, stock repurchases, or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- increase our vulnerability to general adverse economic and industry conditions.

Availability under our revolving credit facility is based on a formula of eligible accounts receivable, eligible drafts presented to financial institutions under our supply chain financing arrangements and eligible inventory. The loss of business of one or more of our key customers or, a significant reduction in purchases of our products from any one of them, could adversely impact availability under our revolving credit facility.

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

**We may not be able to generate the significant amount of cash needed to satisfy our obligations or maintain sufficient liquidity through borrowing capacities.**

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

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

The foregoing factors could result in reduced cash flow, which could have a material adverse effect on us. When cash generated by earnings is not sufficient for the Company's liquidity needs, the Company seeks external financing. Our access to funding sources in amounts adequate to finance our activities on terms that are beneficial to us could be impaired by factors that affect us specifically or the economy generally. During periods of disruptions in the credit and capital markets, potential sources of external financing could be reduced, and borrowing costs could increase. A significant downgrade in the company's credit ratings could increase its borrowing costs and limit access to capital.

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our revolving credit facility, inclusive of the utilization of the \$50 million accordion feature in the 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 we will be able to mitigate the future impact, if any, of the COVID-19 pandemic, disruptions in the supply chain that may lead to a further increase in inventories to support our customers, and significant inflationary cost increases in raw materials, labor and transportation, and that there will be no material adverse developments in our business, liquidity or capital requirements. Because borrowings under the revolving credit facility are secured by substantially all of our assets, including accounts receivable, the loss of business of one or more of our key customers or, a significant reduction in purchases of our products from any one of them, could adversely impact availability under our revolving credit facility. If we are unable to fund our operations through earnings or external financing, 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;

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- reducing or delaying research and development efforts;
- selling assets;
- deferring or refraining from pursuing certain strategic initiatives and acquisitions;
- refinancing our indebtedness; and
- seeking additional funding.

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

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

Our secured revolving credit facility and certain of our supply chain financing arrangements utilize LIBOR for the purpose of determining the interest rate on certain borrowings or the discount rate on the sale of trade accounts receivable, respectively. In July 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that, after the end of 2021, it would no longer compel contributing banks to make rate submissions to the ICE Benchmark Administration (the “IBA”) for the purposes of setting LIBOR. The cessation date for submission and publication of rates for certain tenors of LIBOR has since been extended by the IBA through June 2023; however, in early 2021, the United States Federal Reserve Board and other regulatory bodies issued guidance encouraging banks and other financial market participants to cease entering into new contracts that use U.S. dollar LIBOR as a reference rate as soon as practicable and in any event no later than December 31, 2021. As a result, LIBOR will likely cease to be available or cease to be deemed an appropriate reference rate, and we will likely need to amend our credit agreement and supply chain financing arrangements to utilize an alternative reference rate based on the then prevailing market convention at the time. Although we do not believe that the proposed phase-out of LIBOR will materially impact our business, financial condition or results of operations, we can provide no assurances that any such alternative reference rate will be similar to LIBOR, or produce the same value or economic equivalence of LIBOR, or have the same volume or liquidity as LIBOR prior to its discontinuance.

***Risks Related to External Factors***

**Our business, results of operations and financial condition could be materially adversely affected by the effects of widespread public health crises, including the novel coronavirus (COVID-19) pandemic, that are beyond our control.**

The global outbreak of the novel coronavirus (COVID-19) pandemic has created significant volatility, uncertainty and economic disruption in many countries in which we operate, including the United States, Mexico, Canada, Poland, Germany, Hungary and China, and could, in the future, have a material adverse effect on our business, results of operations and financial condition. Ultimately, the duration and severity of the pandemic may vary depending on the characteristics of the virus and the public health response; therefore, the nature and extent of its impact on our business and operations may be uncertain and beyond our control. Customer demand for our products and customer preferences regarding product mix and distribution channels could be impacted as a result of the COVID-19 pandemic, and significant uncertainty exists with respect to the potential future impact of the pandemic as well as a deterioration of general economic conditions, including rising inflation, disruptions in the supply chain and a possible national or global recession.

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If customer demand were to decrease in future periods, or if customer preferences regarding product mix and distribution channels were to change, we may be required to adjust and reduce production volumes and implement cost reduction and cash preservation initiatives, including potential reductions in capital expenditures and employee furloughs, which could have a material adverse impact on our business, results of operations and financial condition.

In certain countries in which we operate, national, state and local governments implemented a variety of measures in 2020 in response to the COVID-19 pandemic, including by declaring states of emergency, restricting people from gathering in groups or interacting within a certain physical distance (i.e., social distancing), restricting or limiting the operations of businesses deemed to be non-essential, and imposing travel restrictions on individuals, including restrictions requiring individuals to stay at their place of residence except to perform certain activities deemed to be essential. Many of these restrictions have been eased, however, there can be no guarantee that they will not be implemented in the future. As we were deemed to be an essential business, throughout the pandemic we have been able to continue to perform, with certain modifications, all of the material operations at all of our principal facilities, however, we can provide no assurances that we will be able to continue to perform such operations in the future without disruption, such as temporary closures, as a result of new or modifications to existing governmental measures in response to the pandemic. Any restrictions or limitations on our ability to perform such operations in the future without disruption, such as temporary closures, as a result of governmental measures in response to the pandemic could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, the COVID-19 pandemic could have a material adverse effect on the business, operations and financial condition of our customers, suppliers and other supply chain partners as a result of the governmental measures described above, disruptions to their business and operations for reasons similar to those described above, and their ability to manage and mitigate the adverse effects of these and other risks unique to their business and operations that may arise as a result of the pandemic.

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

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

Furthermore, changes in U.S. trade policy, particularly as it relates to China, have resulted in the assessment of increased tariffs on goods that we import into the United States, and have caused uncertainty about the future of free trade generally. We benefit from free trade agreements, such as the U.S.-Mexico-Canada Agreement (USMCA). The repeal or modification of 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.

[Index](#)**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 laws and regulations directly affect automotive consumer products in the United States and abroad. In the United States, these laws and regulations include standards relating to vehicle safety, fuel economy and emissions, among others. Furthermore, increased public awareness and concern regarding climate change may result in new laws and regulations designed to reduce or mitigate the effects of greenhouse gas emissions or otherwise effect the transition to a lower-carbon economy. The modification of existing laws, regulations or policies, or the adoption of new laws, regulations or policies could have a material adverse effect on our business, financial condition and results of operations.

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

The nature of our operations exposes us to the risk of claims with respect to such matters, and we can give no assurance that violations of such laws have not occurred or will not occur or that material costs or liabilities will not be incurred in connection with such claims. We are currently monitoring our environmental remediation efforts at one of our facilities and our reserve balance related to the environmental clean-up at this facility is \$1.5 million at December 31, 2021. The environmental testing and any remediation costs at such facility may be covered by several insurance policies, although we can give no assurance that our insurance will cover any environmental remediation claims. We also maintain insurance to cover our existing U.S. and Canadian facilities. We can give no assurance that the future cost of compliance with existing environmental laws and the liability for known environmental claims pursuant to such environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. In addition, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

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

If we do not respond appropriately to changes in automotive technologies, such as the adoption of new technologies and systems to make traditional, ICE vehicles more efficient, or the adoption of electric or hybrid electric vehicle architectures, we could experience less demand for our products thereby causing a decline in our results of operations or deterioration in our business and financial condition, and we 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 economy and emissions reduction standards, increase in pricing of new cars and new car quality and related warranties. The automobile replacement parts market has been negatively impacted by the fact that the quality of more recent automotive vehicles and their component parts (and related warranties) has improved, thereby lengthening the repair cycle. Generally, if parts last longer, there will be less demand for our products and the average useful life of automobile parts has been steadily increasing in recent years due to innovations in products and technology. In addition, the introduction by original equipment manufacturers of increased warranty and maintenance initiatives has the potential to decrease the demand for our products. When proper maintenance and repair procedures are followed, newer air conditioning (A/C) systems in particular are less prone to leak resulting in fewer A/C system repairs. These factors could have a material adverse effect on our business, financial condition and results of operations.

[Index](#)**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We maintain our executive offices in Long Island City, New York. The table below describes our principal facilities as of December 31, 2021.

<b>Location</b>	<b>State or Country</b>	<b>Principal Business Activity</b>	<b>Approx. Square Feet</b>	<b>Owned or Expiration Date of Lease</b>
<i>Engine Management</i>				
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	142,400	2027
Sheboygan Falls	WI	Manufacturing	22,000	2025
Milwaukee	WI	Manufacturing	84,000	2028
Tijuana	Mexico	Manufacturing	37,500	2023
Kirchheim-Teck	Germany	Distribution	27,500	2031
Pécel	Hungary	Manufacturing	52,400	2031
Wuxi	China	Manufacturing	27,600	2023
<i>Temperature Control</i>				
Lewisville	TX	Administration and Distribution	415,000	2024
St. Thomas	Canada	Manufacturing	40,000	Owned
Reynosa	Mexico	Manufacturing	82,000	2026
Reynosa	Mexico	Manufacturing	117,500	2026
Reynosa	Mexico	Manufacturing	111,800	2024
<i>Other</i>				
Mississauga	Canada	Administration and Distribution	82,400	2023
Irving	TX	Training Center	13,400	2027

[Index](#)**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 21, “Commitments and Contingencies” of the Notes to Consolidated Financial Statements in Item 8 of this Report.

**ITEM 4.       MINE SAFETY DISCLOSURES**

Not applicable.

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

Our common stock trades publicly on the New York Stock Exchange (“NYSE”) under the trading symbol “SMP.” The last reported sale price of our common stock on the NYSE on February 17, 2022 was \$47.63 per share. As of February 17, 2022, there were 507 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 11, “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 2021.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

For information related to our stock repurchases, see Note 12, “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 2021:

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, 2021	—	\$ —	—	\$ —
November 1-30, 2021	6,000	49.04	6,000	29,705,754
December 1-31, 2021	1,000	47.69	1,000	29,656,062
<b>Total</b>	<b>7,000</b>	<b>\$ 49.13</b>	<b>7,000</b>	<b>\$ 29,656,062</b>

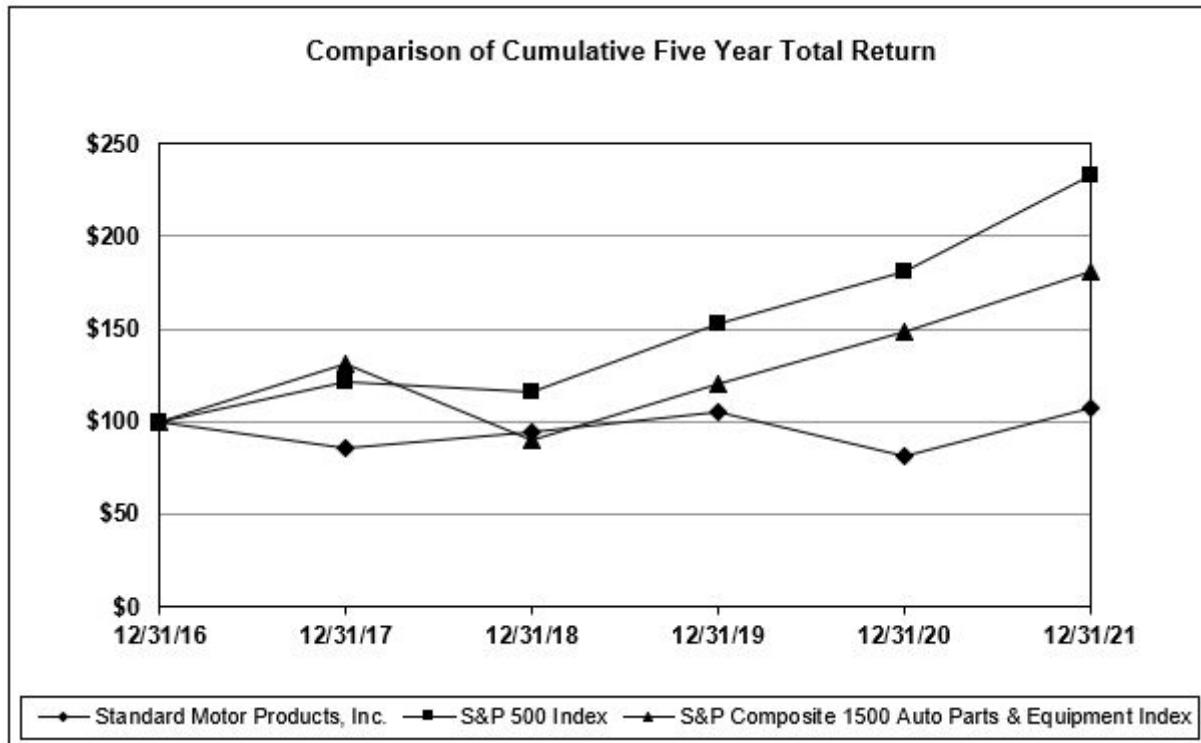
- (1) All shares were purchased through the publicly announced stock repurchase programs in open-market transactions.
- (2) In October 2021, our Board of Directors authorized the purchase of up to \$30 million of our common stock under a stock repurchase program. Stock will be purchased from time to time, in the open market, or through private transactions, as market conditions warrant. Under this program, during the fourth quarter of 2021, we repurchased 7,000 shares of our common stock at a total cost of \$0.3 million. During the year ended December 31, 2021, additional stock repurchases of 615,265 shares were made at a total cost of \$26.5 million under prior Board of Directors authorizations, which are now fully completed.

As of December 31, 2021, there was approximately \$29.7 million available for future stock purchases under the October 2021 program. During the period from January 1, 2022 through February 17, 2022, we have repurchased an additional 64,482 shares of our common stock at a total cost of \$3.1 million, thereby reducing the availability under the program to \$26.6 million.

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## Stock Performance Graph

The following graph compares the five year cumulative total return on the Company's Common Stock to the total returns on the Standard & Poor's 500 Stock Index and the S&P 1500 Auto Parts & Equipment Index, which is a combination of automotive parts and equipment companies within the S&P 400, the S&P 500 and the S&P 600. The graph shows the change in value of a \$100 investment in the Company's Common Stock and each of the above indices on December 31, 2016 and the reinvestment of all dividends. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's Common Stock or the referenced indices.



	S&P 1500 Auto Parts & Equipment Index		
	SMP	S&P 500	
2016	100	100	100
2017	86	122	132
2018	94	116	90
2019	105	153	121
2020	81	181	148
2021	107	233	182

\* Source: S&P Capital IQ

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We are a leading manufacturer and distributor of premium replacement parts utilized in the maintenance, repair and service of vehicles in the automotive aftermarket industry. In addition, we continue to increase our supplier capabilities with a complementary focus on specialized original equipment parts for manufacturers across multiple industries such as agriculture, heavy duty, and construction equipment. We believe that our extensive design and engineering capabilities have afforded us opportunities to expand our product coverage in our aftermarket business and enter newer specialized markets that require application-specific knowledge, such as those mentioned above.

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

**Overview of Financial Performance**

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto. This discussion summarizes the significant factors affecting our results of operations and the financial condition of our business during each of the fiscal years in the three-year period ended December 31, 2021.

(In thousands, except per share data)	<b>December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net sales	\$ 1,298,816	\$ 1,128,588	\$ 1,137,913
Gross profit	376,931	336,655	331,800
Gross profit %	29%	29.8%	29.2%
Operating income	128,999	108,895	94,495
Operating income %	9.9%	9.6%	8.3%
Earnings from continuing operations before income taxes	130,465	107,379	91,796
Provision for income taxes	31,044	26,962	22,745
Earnings from continuing operations	99,421	80,417	69,051
Loss from discontinued operations, net of income taxes	(8,467)	(23,024)	(11,134)
Net earnings	90,954	57,393	57,917
Net earnings attributable to noncontrolling interest	68	—	—
Net earnings attributable to SMP	90,886	57,393	57,917
<b><u>Per share data attributable to SMP – Diluted:</u></b>			
Earnings from continuing operations	\$ 4.39	\$ 3.52	\$ 3.03
Discontinued operations	(0.37)	(1.01)	(0.49)
Net earnings per common share	<u>\$ 4.02</u>	<u>\$ 2.51</u>	<u>\$ 2.54</u>

The post COVID-19 sales momentum we experienced in the second half of 2020 carried over into 2021 resulting in record net sales and earnings from continuing operations. We experienced strong demand across all our product categories as well as a more normalized seasonal trend consistent with years prior to 2020.

Net sales for 2021 were \$1,298.8 million, an increase of \$170.2 million, or 15.1% compared to net sales of \$1,128.6 million in 2020, and an increase of \$160.9 million, or 14.1%, compared to net sales of \$1,137.9 million in 2019.

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The increase in net sales in 2021 reflects the favorable impact of multiple factors including:

- successful customer initiatives in the marketplace,
- the phase-in of new business wins,
- beneficial summer weather,
- continued strong customer demand as evidenced by robust customer POS and fueled by the replenishment of customer inventory levels,
- the partial impact of price increases in the fourth quarter of the year, which were implemented to pass through inflationary increases in raw materials, freight and labor costs, and
- incremental net sales from our soot sensor, Trombetta and Stabil acquisitions.

The combination of the above factors more than offset the impact of lost revenue related to the decision of a large retail customer to pursue a private brand strategy in December 2020.

Gross margin as a percentage of net sales in 2021 was 29% as compared to 29.8% in 2020 and 29.2% in 2019. Gross margins in the first half of 2021 were favorably impacted by greater fixed cost absorption due to higher production volumes as we increased inventories to meet the strong customer demand. The strong gross margins achieved in the first half of 2021 were offset by some compression in the second half of 2021 caused by several factors including lower fixed cost absorption due to lower production levels than those achieved in the second half of 2020, inflationary cost increases in certain raw materials, labor and elevated transportation expense, and the higher mix of heavy duty parts sales from our recent acquisitions, which have a different margin profile than our aftermarket business with lower gross margins but comparable operating margin. While we anticipate continued margin pressure resulting from inflationary headwinds, we believe that our annual cost initiatives coupled with our ability to pass through higher prices to our customers should help to offset much of this impact to our margins.

Operating margin as a percentage of net sales in 2021 was 9.9% as compared to 9.6% in 2020 and 8.3% in 2019. Our operating margins in 2021 were favorably impacted by higher net sales. Included in our operating margin were selling, general and administrative expenses (“SG&A”) of \$247.5 million, or 19.1% of net sales in 2021, \$224.7 million, or 19.9% of net sales in 2020, and \$234.7 million, or 20.6% of net sales in 2019. The higher SG&A expenses in 2021 resulted principally from elevated distribution costs associated with higher sales volumes as well as the impact of increased freight costs, higher employee compensation costs, and incremental expenses from our soot sensor, Trombetta and Stabil acquisitions. We anticipate that our future operating margins will be in line with the operating margins achieved in 2021 and 2020.

Overall, our financial results in 2021 were extremely strong. We posting record net sales and earnings from continuing operations and achieving substantial new business wins with existing customers. Our core automotive aftermarket business remains strong and we have made major strides into new complementary markets with upside potential.

### **Recent Strategic Acquisitions**

As part of our strategic plan for diversification and growth beyond our core automotive aftermarket business, and to further expand internationally with a focus on the European market, we completed three acquisitions in 2021. The acquisitions continue to increase our supplier capabilities with a complementary focus on specialized original equipment parts to manufacturers across multiple industries such as medium and heavy duty vehicles, construction and agricultural equipment, power sports, and other sub-segments. In addition to expanding beyond our core automotive aftermarket business, it also provided geographic expansion as we now have meaningful footprints to grow sales in Europe and Asia.

As we integrate these businesses, we will be able to take advantage of shared customer lists, product portfolios, manufacturing and engineering capabilities, and geographic reach. Many of the products in the acquired businesses are either power-train neutral, or are geared toward electric and alternative energy vehicles and, as such, not limited to applications on internal combustion engine (“ICE”), providing potential synergies and future sales growth opportunities in non-internal combustion engine applications. After these acquisitions, we estimate that approximately half of our product offering is power-train neutral, or suitable for electric, hybrid electric and/or alternative energy vehicles. Following is a brief summary of the acquired businesses.

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In March 2021, we acquired certain Soot Sensor product lines from Stoneridge, Inc. for \$2.9 million. The product line assets acquired manufacture sensors used in the exhaust and emission systems of diesel engines. The acquisition is an excellent fit for our strategy of expansion into the heavy duty market.

In May 2021, we acquired 100% of the capital stock of Trumpet Holdings, Inc., a Delaware corporation, (more commonly known as “Trombetta”), for \$111.7 million. Trombetta has manufacturing facilities in Milwaukee, Wisconsin; Sheboygan Falls, Wisconsin; Tijuana, Mexico, as well as a 70% ownership in a joint venture in Hong Kong, with operations in Shanghai and Wuxi, China (“Trombetta Asia, Ltd.”). Trombetta is a worldwide leader in power switching and power management products and has a long history of supplying high-quality products to a broad group of blue-chip customers across multiple commercial vehicle and off-highway channels, including heavy truck, construction, agricultural, electric vehicle and power sports markets. Few of Trombetta’s products are powertrain-related and thus unaffected by the shift from internal combustion engines. We believe that the combination of Trombetta, along with our existing businesses will create a critical mass that can be a powerful force for growth.

In September 2021, we acquired 100% of the capital stock of Stabil Operative Group GmbH, a German company (“Stabil”), for Euros 13.7 million, or \$16.3 million, subject to certain post-closing adjustments. Stabil is a manufacturer and distributor of a variety of components, including electronic sensors, control units, and clamping devices to the European market, serving both commercial and light vehicle applications. The acquired Stabil business is headquartered on the outskirts of Stuttgart, Germany with facilities in Germany and Hungary. The acquisition is an excellent fit for our strategy of expansion beyond our core aftermarket business into complementary areas, and gives us exposure to a diversified group of blue chip European commercial and light vehicle customers.

For additional information on our recent acquisitions, see Note 2, “Business Acquisitions and Investments,” of the Notes to Consolidated Financial Statements in Item 8 of this Report.

### **Impact of the Coronavirus (“COVID-19”)**

On an ongoing basis, we continue to monitor the impact, if any, of COVID-19 on the global economy, our industry, business, and the markets that we serve. In response to the COVID-19 pandemic, in 2020, we established a committee, comprised of our executive officers, to oversee the Company’s risk identification, management and mitigation strategies regarding the impact of the pandemic on our business and operations. The committee continues to meet on a regular basis, monitoring events related to the pandemic and any appropriate actions to be taken. Among the issues that are actively being monitored by the committee are the general state of economic conditions, governmental measures in response to the pandemic, the spread of the delta and omicron variants, and the enactment of policies and practices to ensure the health and safety of our employees, contractors and customers, as well as customer demand for our products and any potential disruptions in our supply chain.

As related to the performance of our business, we were declared an essential business under national and regional shelter-in-place orders and, as such, our business operations continued throughout 2020. After a downturn in net sales initially in the second quarter of 2020, customer orders strengthened in the last half of the second quarter and continued throughout 2020, resulting in strong net sales for the year ended December 31, 2020. The net sales momentum continued into 2021, as we experienced strong demand for our products, and a seasonal trend that was more in line with years prior to 2020.

Although our business remains strong and we continue to monitor the impact of the pandemic, any uncertain future effect of the pandemic may have a material adverse effect on our business, financial condition and results of operations.

## **Impact of Global Supply Chain Disruption and Inflation**

Disruptions in the global economy in 2020 and the lingering impacts into 2021 have impeded global supply chains, resulted in longer lead times and delays in procuring component parts and raw materials, and resulted in inflationary cost increases in certain raw materials, labor and transportation. In response to the global supply chain volatility and inflationary cost increases, we have taken, and continue to take, several actions to mitigate the impact by working closely with our suppliers and customers to minimize any potential adverse impacts on our business, including implementing cost savings initiatives and the pass through of higher costs to our customers, which began in the fourth quarter of 2021. We believe that we have also benefited from our geographically diversified manufacturing footprint and our strategy to bring more product manufacturing in-house, especially with respect to product availability and fill rates. We expect these inflationary trends to continue for some time, and while we believe that we will be able to somewhat offset the impact, there can be no assurances that unforeseen future events in the global supply chain affecting the availability of materials and components, and/or increasing commodity pricing, will not have a material adverse effect on our business, financial condition and results of operations.

## **Impact of Changes in U.S. Trade Policy**

Changes in U.S. trade policy, particularly as it relates to China, as with much of our industry, have resulted in the assessment of increased tariffs on goods that we, as with much of our industry, import into the United States. Although our operating results in 2021 have been only slightly impacted by the tariff costs associated with Chinese sourced products (due to our diversified manufacturing and distribution footprint), we have taken, and continue to take, several actions to mitigate the impact of the increased tariffs, including but not limited to, price increases to our customers. We do not anticipate that the increased tariffs will have a significant impact on our future operating results. Although we are confident that we will be able to pass along the impact of the increased tariffs to our customers, there can be no assurances that we will be able to pass on the entire increased costs imposed by the tariffs.

## **Environmental, Social, & Governance (“ESG”)**

Our Company was founded in 1919 on the values of integrity, common decency and respect for others. These values continue to this day and are embodied in our Code of Ethics, which has been adopted by the Board of Directors of the Company to serve as a statement of principles to guide our decision-making and reinforce our commitment to these values in all aspects of our business. These values also serve as the foundation for our increased focus on many important environmental, social and governance issues, such as environmental stewardship and our efforts to identify and implement practices that reduce our environmental impact while achieving our business goals; our attention to diversity, equity and inclusion, employee development, retention, and health and safety; and our community engagement initiatives, to name a few. We have made significant strides building awareness of the environmental impact of our operations, and challenging ourselves to reduce our impact by reducing our consumption of energy and generation of waste, as well as enhancing our recycling efforts.

Additionally, we realize the intricate role our employees play to the overall success of our business. Their health and happiness is important, and we continue to look for ways to address their needs and the needs of their families. For example, in 2021 we conducted several surveys on employee engagement, employee satisfaction, and diversity, equity and inclusion to gain a deeper understanding of our employees' well-being so as to ensure that the company's culture remains strong.

## **Comparison of Results of Operations For Fiscal Years 2021 and 2020**

**Sales.** Consolidated net sales for 2021 were \$1,298.8 million, an increase of \$170.2 million, or 15.1%, compared to \$1,128.6 million in the same period of 2020. Consolidated net sales increased in both our Engine Management and Temperature Control Segments, with the majority of our net sales to customers located in the United States.

Consolidated net sales in 2020 were adversely impacted in the first half of 2020 by the COVID-19 pandemic, and were followed by strong net sales in the second half of 2020, as our business improved to pre-COVID-19 levels with our customers' POS sales exceeding their comparable levels in prior periods.

The following table summarizes consolidated net sales by segment and by major product group within each segment for the years ended December 31, 2021 and 2020 (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Engine Management:</b>		
Ignition, Emission Control, Fuel & Safety Related System Products	\$ 786,514	\$ 691,722
Wire and Cable	151,422	143,963
<b>Total Engine Management</b>	<u>937,936</u>	<u>835,685</u>
<b>Temperature Control:</b>		
Compressors	206,697	163,071
Other Climate Control Parts	141,726	118,883
<b>Total Temperature Control</b>	<u>348,423</u>	<u>281,954</u>
<b>All Other</b>	<u>12,457</u>	<u>10,949</u>
<b>Total</b>	<u><u>\$ 1,298,816</u></u>	<u><u>\$ 1,128,588</u></u>

Engine Management's net sales increased \$102.3 million, or 12.2%, to \$937.9 million for the year ended December 31, 2021. Net sales in ignition, emission control, fuel and safety related system products for the year ended December 31, 2021 were \$786.5 million, an increase of \$94.8 million, or 13.7%, compared to \$691.7 million in the same period of 2020. Net sales in the wire and cable product group for the year ended December 31, 2021 were \$151.4 million, an increase of \$7.5 million, or 5.2%, compared to \$144 million in the same period of 2020. Engine Management's increase in net sales for the year ended December 31, 2021 compared to the same period in 2020, reflects the impact of successful customer initiatives in the marketplace, the phase-in of new business wins, continued strong customer demand as evidenced by robust customer POS, the partial impact of price increases in the fourth quarter of the year, which were implemented to pass through inflationary increases in raw materials, freight and labor costs, and incremental net sales from our soot sensor, Trombetta and Stabil acquisitions, along with the favorable year-over-year impact of having lower net sales in the first part of 2020 due to the general weakness in the economy caused by the COVID-19 pandemic. The favorable net sales results achieved by Engine Management in 2021 more than offset the impact of the lower net sales from the decision, in December 2020, of a large retail customer to pursue a private brand strategy.

Incremental net sales from our soot sensor, Trombetta and Stabil acquisitions of \$54.3 million were included in the net sales of the ignition, emission control, fuel and safety related system product group from the date of acquisition through December 31, 2021. Compared to the year ended December 31, 2020, excluding the incremental net sales from the acquisitions, net sales in the ignition, emission control, fuel and safety related product group increased \$40.5 million, or 5.9%, and Engine Management net sales increased \$48 million, or 5.7%.

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Temperature Control's net sales increased \$66.5 million, or 23.6%, to \$348.4 million for the year ended December 31, 2021. Net sales in the compressors product group for the year ended December 31, 2021 were \$206.7 million, an increase of \$43.6 million, or 26.7%, compared to \$163.1 million in the same period of 2020. Net sales in the other climate control parts group for the year ended December 31, 2021 were \$141.7 million, an increase of \$22.8 million, or 19.2%, compared to \$118.9 million for the year ended December 31, 2020. Temperature Control's increase in net sales for the year ended December 31, 2021, when compared to the same period in 2020, reflects the impact of continued strong customer demand stemming from the impact of very warm summer weather conditions and the replenishment of customer inventory levels, along with the favorable year-over-year impact of having lower net sales in the first part of 2020 due to the general weakness in the economy caused by the COVID-19 pandemic. Demand for our Temperature Control products may vary significantly with summer weather conditions and customer inventory levels.

**Gross Margins.** Gross margins, as a percentage of consolidated net sales, decreased to 29% for 2021, compared to 29.8% for 2020. The following table summarizes gross margins by segment for the years ended December 31, 2021 and 2020, respectively (in thousands):

Year Ended December 31,	Engine Management	Temperature Control	Other	Total
<b>2021</b>				
Net sales (a)	\$ 937,936	\$ 348,423	\$ 12,457	\$ 1,298,816
Gross margins	266,961	95,138	14,832	376,931
Gross margin percentage	28.5%	27.3%	—%	29%
<b>2020</b>				
Net sales (a)	\$ 835,685	\$ 281,954	\$ 10,949	\$ 1,128,588
Gross margins	251,747	75,161	9,747	336,655
Gross margin percentage	30.1%	26.7%	—%	29.8%

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

Compared to 2020, gross margins at Engine Management decreased 1.6 percentage points from 30.1% to 28.5%, while gross margins at Temperature Control increased 0.6 percentage points from 26.7% to 27.3%. The gross margin percentage decrease in Engine Management compared to the prior year reflects the impact of the lower gross margins achieved in the second half of 2021 compared to the second half of 2020, resulting from lower fixed cost absorption due to lower production levels than those achieved in the second half of 2020, inflationary cost increases in raw materials, labor and transportation, which began in the second quarter of 2021, and a higher mix of heavy duty OE sales from recent acquisitions, which has a different margin profile than our aftermarket business with lower gross margins but comparable operating margins. Engine Management gross margins in the first half of 2021 were favorably impacted by higher year-over-year absorption due to higher production volumes to build inventory levels, and the impact of year-over-year production variances carried over from the prior year.

The gross margin percentage increase in Temperature Control compared to the prior year reflects the favorable impact of higher year-over-year absorption due to higher production volumes, as well as overall higher sales volume, which more than offset the unfavorable impact in the second half of 2021 of inflationary cost increases in certain raw materials, labor and transportation. While we anticipate continued margin pressures at both Engine Management and Temperature Control resulting from inflationary cost increases, we believe that our annual cost initiatives, and our ability to pass through higher prices to our customers, will help to offset the impact of the inflationary increases on our margins.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses ("SG&A") increased to \$247.5 million, or 19.1% of consolidated net sales in 2021, as compared to \$224.7 million, or 19.9% of consolidated net sales in 2020. The \$22.8 million increase in SG&A expenses as compared to 2020 is principally due to (1) higher distribution costs associated with higher sales volumes and the impact of an increase in freight costs, (2) higher employee compensation costs, and (3) the impact of incremental expenses of \$7.8 million from our soot sensor, Trombetta and Stabil acquisitions, including amortization of intangible assets acquired. The lower year-over-year SG&A expense percentage of consolidated net sales reflects the impact of discretionary cost reduction measures implemented in 2020 and carried over into 2021, and higher year-over-year sales volumes.

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**Intangible Asset Impairment.** In December 2020, a large retail customer informed us of its decision to pursue a private brand strategy for its engine management product line. As a result of this development, products sold under the BWD trademark were significantly reduced. In connection with the decision, we recorded an impairment charge of \$2.6 million in 2020.

**Restructuring and Integration Expenses.** Restructuring and integration expenses were \$0.4 million in 2021 compared to restructuring and integration expenses of \$0.5 million in 2020. Restructuring and integration expenses incurred in 2021 relate to the relocation in our Engine Management Segment of certain inventory, machinery, and equipment acquired in our March 2021 soot sensor acquisition; while restructuring and integration expenses incurred in 2020 relate to (1) the increase in environmental cleanup costs for ongoing monitoring and remediation in connection with the prior closure of our manufacturing operations at our Long Island City, New York location, and (2) costs related to the residual relocation activities in our Engine Management segment in connection with our integration of the Pollak business of Stoneridge, Inc., acquired in April 2019.

**Operating Income.** Operating income was \$129 million, or 9.9%, of consolidated net sales in 2021, compared to \$108.9 million, or 9.6%, of consolidated net sales in 2020. The year-over-year increase in operating income of \$20.1 million is the result of the impact of higher consolidated net sales and the impact of the impairment charge in 2020 related to the BWD trademark, which more than offset the impact of lower gross margins as a percentage of consolidated net sales and higher SG&A expenses. Operating income of 9.9% of consolidated net sales achieved in 2021 is in line historical operating margin percentages achieved.

**Other Non-Operating Income (Expense), Net.** Other non-operating income, net was \$3.5 million in 2021, compared to \$0.8 million in 2020. The year-over-year increase in other non-operating income, net results primarily from the increase in year-over-year equity income from our joint ventures and the favorable impact of changes in foreign currency exchange rates. During the first quarter of 2020, our joint ventures in China experienced temporary shutdowns due to the impact of the COVID-19 pandemic, resulting in significantly lower equity income. In March 2020, the joint ventures reopened and resumed manufacturing and distribution.

**Interest Expense.** Interest expense decreased to \$2 million in 2021, compared to \$2.3 million in 2020. The year-over-year decrease in interest expense reflects the impact of lower year-over-year average interest rates on our revolving credit facility, which more than offset the impact of slightly higher average outstanding borrowings in 2021 when compared to 2020.

**Income Tax Provision.** The income tax provision for 2021 was \$31 million at an effective tax rate of 23.8%, compared to \$27 million at an effective tax rate of 25.1% in 2020. The lower effective tax rate in 2021 compared to 2020 results primarily from the increased year-over-year income tax benefit from the exercise of restricted stock, and changes in the mix of U.S. and foreign income.

**Loss From Discontinued Operations.** Loss from discontinued operations, net of income tax, reflects information contained in the actuarial studies performed as of August 31, 2021 and 2020, and in December 2020 to reflect events that occurred in the fourth quarter of 2020, as well as other information available and considered by us, and legal expenses and other costs associated with our asbestos-related liability. During the years ended December 31, 2021 and 2020, we recorded a net loss of \$8.5 million and \$23 million from discontinued operations, respectively. The loss from discontinued operations for the year ended December 31, 2021 and 2020 includes a \$5.3 million and \$25.7 million pre-tax provision, respectively, to increase our indemnity liability in line with the 2021 and 2020 actuarial studies; and legal expenses and other miscellaneous expenses, before taxes, of \$6.1 million and \$5.4 million for 2021 and 2020, respectively. As discussed more fully in Note 21 "Commitments and Contingencies" in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

**Net Earnings Attributable to Noncontrolling Interest.** In May 2021, we acquired the Trombetta business for \$111.7 million. As part of the acquisition, we acquired a 70% ownership in a joint venture in Hong Kong, with operations in Shanghai and Wuxi, China (“Trombetta Asia, Ltd.”). Net earnings attributable to the noncontrolling interest of \$68,000 during the year ended December 31, 2021 represents 30% of the net earnings of Trombetta Asia, Ltd. from the date of acquisition through December 31, 2021.

### **Comparison of Results of Operations For Fiscal Years 2020 and 2019**

For a detailed discussion on the comparison of fiscal year 2020 to fiscal year 2019, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

### **Restructuring and Integration Programs**

For a detailed discussion on the restructuring and integration costs, see Note 3, “Restructuring and Integration Expense,” of the Notes Consolidated Financial Statements in Item 8 of this Report.

### **Liquidity and Capital Resources**

**Operating Activities.** During 2021, cash provided by operating activities was \$85.6 million compared to \$97.9 million in 2020. The decrease in cash provided by operating activities resulted primarily from the increase in inventories compared to the decrease in inventories in the prior year, the smaller year-over-year increase in sundry payables and accrued expenses, and the larger year-over-year increase in prepaid expenses and other current assets, partially offset by the increase in net earnings, the decrease in accounts receivable compared to the increase in accounts receivable in the prior year, and the larger year-over-year increase in accounts payable.

Net earnings during 2021 were \$91 million compared to \$57.4 million in 2020. During 2021 (1) the decrease in accounts receivable was \$28.5 million compared to the year-over-year increase in accounts receivable of \$71.9 million in 2020; (2) the increase in inventories was \$107.6 million compared to the year-over-year decrease in inventories of \$18 million in 2020; (3) the increase in accounts payable was \$33 million compared to the year-over-year increase in accounts payable of \$7.4 million in 2020; (4) the increase in prepaid expenses and other current assets was \$0.8 million compared to the year-over-year increase in prepaid expenses and other current assets of \$0.4 million in 2020; and (5) the increase in sundry payables and accrued expenses was \$13.4 million compared to the year-over-year increase in sundry payables and accrued expenses of \$40.7 million in 2020. The decrease in accounts receivable during 2021 reflects the impact of \$50 million of receivables presented to financial institutions at December 31, 2020, pursuant to our supply chain financing arrangements, that were collected in 2021; while the increase in inventories during 2021 reflects actions taken to meet continued strong customer demand, to replenish stock levels, which were depleted after record sales in the last half of 2020, and to serve as a hedge against the global disruptions in the supply chain. We continue to actively manage our working capital to maximize our operating cash flow.

**Investing Activities.** Cash used in investing activities was \$151.2 million in 2021 compared to \$17.8 million in 2020. Investing activities during 2021 consisted of (1) the payment of \$15.4 million, net of \$0.9 million of cash acquired, for our acquisition of 100% of the capital stock of Stabil Operative Group GmbH, a German company, (“Stabil”); (2) the payment of \$107.1 million, net of \$4.6 million of cash acquired, for our acquisition of 100% of the capital stock of Trumpet Holdings, Inc., a Delaware corporation, (“Trombetta”); (3) the payment of \$2.9 million for our acquisition of certain assets of the soot sensor product lines from Stoneridge, Inc.; and (4) capital expenditures of \$25.9 million. Investing activities in 2020 consisted of capital expenditures of \$17.8 million.

**Financing Activities.** Cash provided by financing activities was \$69 million in 2021 compared to cash used in financing activities of \$71.5 million in 2020. During 2021, we (1) increased our borrowings under our revolving credit facility by \$115.3 million; (2) increased our borrowings under lease obligations and our Polish overdraft facility by \$3 million; (3) made cash payments for the repurchase of shares of our common stock of \$26.8 million; and (4) paid dividends of \$22.2 million. Cash provided by operating activities, along with borrowings under our revolving credit agreement, lease obligations and Polish overdraft facility were used to fund our investing activities, purchase shares of our common stock and pay dividends.

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Cash used in financing activities was \$71.5 million in 2020. During 2020, we (1) reduced our borrowings under our revolving credit facility by \$42.5 million; (2) reduced our borrowings under lease obligations and our Polish overdraft facility by \$4.2 million; (3) made cash payments for the repurchase of shares of our common stock of \$13.5 million; and (4) paid dividends of \$11.2 million. Cash provided by operating activities was used to pay down our revolving credit facility, our lease obligations and Polish overdraft facility, and to fund our investing activities, purchase shares of our common stock and pay dividends.

Dividends of \$22.2 million and \$11.2 million were paid in 2021 and 2020, respectively. In January 2020, our Board of Directors voted to increase our quarterly dividend from \$0.23 per share in 2019 to \$0.25 per share in 2020. In April 2020, in response to the impact of the COVID-19 pandemic on our business, our Board of Directors approved to temporarily suspend our quarterly cash dividend payments and stock repurchases. In September 2020, our Board of Directors approved to reinstate our stock repurchase program; and in October 2020, our Board of Directors approved the reinstatement of our quarterly cash dividend of \$0.25 per share. In February 2021, our Board of Directors voted to maintain our quarterly dividend at \$0.25 per share in 2021; and in February 2022, our Board of Directors voted to increase our quarterly dividend from \$0.25 per share in 2021 to \$0.27 per share in 2022.

### **Comparison of Liquidity and Capital Resources For Fiscal Years 2020 and 2019**

For a detailed discussion of our Liquidity and Capital Resources comparison of fiscal year 2020 to fiscal year 2019, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

#### ***Liquidity***

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

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

Borrowings under the amended credit agreement are secured by substantially all of our assets, including accounts receivable, inventory and certain fixed assets, and those of certain of our subsidiaries. Availability under the amended credit agreement is based on a formula of eligible accounts receivable, eligible drafts presented to the banks under our supply chain financing arrangements and eligible inventory. After taking into account outstanding borrowings under the amended credit agreement, there was an additional \$122.1 million available for us to borrow pursuant to the formula at December 31, 2021. The loss of business of one or more of our key customers or, a significant reduction in purchases of our products from any one of them, could adversely impact availability under our revolving credit facility.

Outstanding borrowings under the credit agreement, which are classified as current liabilities, were \$125.3 million and \$10 million at December 31, 2021 and 2020, respectively; while letters of credit outstanding under the credit agreement were \$2.6 million and \$2.8 million at December 31, 2021 and 2020, respectively. Borrowings under the credit agreement have been classified as current liabilities based upon accounting rules and certain provisions in the agreement.

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At December 31, 2021, the weighted average interest rate on our amended credit agreement was 1.4%, which consisted of \$125 million in direct borrowings at 1.4% and an alternative base rate loan of \$0.3 million at 3.5%. At December 31, 2020, the weighted average interest rate on our amended credit agreement was 1.4%, which consisted of \$10 million in direct borrowings. Our average daily alternative base rate loan balance was \$1.1 million and \$1.5 million during 2021 and 2020, respectively.

At any time that our borrowing availability is less than the greater of either (a) \$25 million, or 10% of the commitments if fixed assets are not included in the borrowing base, or (b) \$31.25 million, or 12.5% of the commitments if fixed assets are included in the borrowing base, the terms of the amended credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain a fixed charge coverage ratio of 1:1 at the end of each fiscal quarter (rolling four quarters). As of December 31, 2021, we were not subject to these covenants. The amended credit agreement permits us to pay cash dividends of \$20 million and make stock repurchases of \$20 million in any fiscal year subject to a minimum availability of \$25 million. Provided specific conditions are met, the amended credit agreement also permits acquisitions, permissible debt financing, capital expenditures, and cash dividend payments and stock repurchases of greater than \$20 million.

In February 2022, our Polish subsidiary, SMP Poland sp. z.o.o., amended its overdraft facility with HSBC Continental Europe (Spolka Akcyjna) Oddzial w Polsce, formerly HSBC France (Spolka Akcyjna) Oddzial w Polsce. The amended overdraft facility provides for borrowings of up to Zloty 30 million (approximately \$8 million). Availability under the amended facility commences in March 2022 and ends in June 2022, with automatic three-month renewals until June 2027, subject to cancellation by either party, at its sole discretion, at least 30 days prior to the commencement of the three-month renewal period. Borrowings under the overdraft facility will bear interest at a rate equal to WIBOR + 1.5% and are guaranteed by Standard Motor Products, Inc., the ultimate parent company. At December 31, 2021 and 2020, borrowings under the overdraft facility were Zloty 12.3 million (approximately \$3 million) and Zloty 0.4 million (approximately \$0.1 million), respectively.

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

Pursuant to these agreements, we sold \$818.8 million and \$695.1 million of receivables for the years ended December 31, 2021 and 2020, respectively, which was reflected as a reduction of accounts receivable in the consolidated balance sheet at the time of sale. Receivables presented at financial institutions and not yet collected as of December 31, 2021 and December 31, 2020 were approximately \$1.3 million and \$50 million, respectively, and remained in our accounts receivable balance for those periods. A charge in the amount of \$11.5 million, \$12.2 million and \$22 million related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019, respectively.

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

In March 2020, our Board of Directors authorized the purchase of up to \$20 million of our common stock under a stock repurchase program. Stock repurchases under this program, during the years ended December 31, 2021 and 2020, were 150,273 and 323,867 shares of our common stock, respectively, at a total cost of \$6.5 million and \$13.5 million, respectively, thereby completing the 2020 Board of Directors authorization.

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In February 2021, our Board of Directors authorized the purchase of up to an additional \$20 million of our common stock under a stock repurchase program. Stock repurchases under this program, during the year ended December 31, 2021, were 464,992 shares of our common stock at a total cost of \$20 million, thereby completing the 2021 Board of Directors authorization.

In October 2021, our Board of Directors authorized the purchase of up to an additional \$30 million of our common stock under a stock repurchase program. Stock will be purchased under the programs from time to time, in the open market or through private transactions, as market conditions warrant. Stock repurchases under this program, during the year ended December 31, 2021, were 7,000 shares of our common stock, at a total cost of \$0.3 million. As of December 31, 2021, there was approximately \$29.7 million available for future stock purchases under the program. During the period from January 1, 2022 through February 17, 2022, we have repurchased an additional 64,482 shares of our common stock at a total cost of \$3.1 million, thereby reducing the availability under the program to \$26.6 million.

***Material Cash Commitments***

Material cash commitments as of December 31, 2021 consist of required cash payments to service our outstanding borrowings of \$125.3 million under our amended revolving credit agreement with JPMorgan Chase Bank, N.A., as agent, and the future minimum cash requirements of \$44.9 million through 2031 under operating leases. All of our other cash commitments as of December 31, 2021 are not material. For additional information related to our material cash commitments, see Note 7, "Leases," and Note 11, "Credit Facilities and Long-Term Debt," of the Notes to Consolidated Financial Statements in Item 8 of this Report.

We anticipate that our cash flow from operations, available cash and available borrowings under our revolving credit facility, inclusive of the utilization of the \$50 million accordion feature in the 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 we will be able to mitigate the future impact, if any, of the COVID-19 pandemic, disruptions in the supply chain that may lead to a further increase in inventories to support our customers, and significant inflationary cost increases in raw materials, labor and transportation, and that there will be no material adverse developments in our business, liquidity or capital requirements. If material adverse developments were to occur in any of these areas, there can be no assurance that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our revolving credit facility in amounts sufficient to enable us to pay the principal and interest on our indebtedness, or to fund our other liquidity needs. In addition, if we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected.

For further information regarding the risks in our business, refer to Item 1A, "Risk Factors," of this Report.

**Critical Accounting Policies and Estimates**

We have identified the two accounting policies and estimates 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 and estimates on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies and estimates affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 of the notes to our consolidated financial statements.

You should be aware that preparation of our consolidated annual and quarterly financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, 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. Although we do not believe that there is a reasonable likelihood that there will be a material change in the future estimates, or in the assumptions that we use in calculating the estimates, the uncertain future effects, if any, of the COVID-19 pandemic, and other unforeseen changes in the industry, or business, could materially impact the estimates, and may have a material adverse effect on our business, financial condition and results of operations.

[Index](#)**Valuation of Long-Lived and Intangible Assets and Goodwill**

At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consist of customer relationships, trademarks and trade names, patents, developed technology and intellectual property, and non-compete agreements. Intangible assets acquired through business combinations are subject to potential adjustments within the measurement period, which is up to one year from the acquisition date. Valuing intangible assets requires the use of significant estimates and assumptions. As related to valuing customer relationships, significant estimates and assumptions used include but are not limited to: (1) forecasted revenues attributable to existing customers; (2) forecasted earnings before interest and taxes ("EBIT") margins; (3) customer attrition rates; and (4) the discount rate. 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 believe that the fair value of acquired identifiable net assets, including intangible assets, are based upon reasonable estimates and assumptions.

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

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative impairment test would not be required. If we are unable to reach this conclusion, then we would perform a goodwill quantitative impairment test. In performing the quantitative test, the fair value of the reporting unit is compared to its carrying amount. A charge for impairment is recognized by the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

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

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

[Index](#)**Asbestos Litigation**

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study of the asbestos related liabilities performed by an independent actuarial firm, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of such claims. As is our accounting policy, we consider the advice of actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability; and perform an actuarial evaluation in the third quarter of each year and whenever events or changes in circumstances indicate that additional provisions may be necessary. The methodology used to project asbestos-related liabilities and costs in our actuarial study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; (4) an analysis of our settlements and awards of asbestos-related damages to date; and (5) an analysis of closed claims with pay ratios and lag patterns in order to develop average future settlement values. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range of settlement payments and awards of asbestos-related damages was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required. Future legal costs are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations.

We plan to perform an annual actuarial evaluation during the third quarter of each year for the foreseeable future and whenever events or changes in circumstances indicate that additional provisions may be necessary. Given the uncertainties associated with projecting such matters into the future and other factors outside our control, we can give no assurance that additional provisions will not be required. We will continue to monitor events and changes in circumstances surrounding these potential liabilities in determining whether to perform additional actuarial evaluations and whether additional provisions may be necessary, which will be reported in earnings (loss) from discontinued operations in the accompanying statement of operations. 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. See Note 21, "Commitments and Contingencies," of the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information.

**Recently Issued Accounting Pronouncements**

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk, primarily related to foreign currency exchange and interest rates. These exposures are actively monitored by management. Our exposure to foreign exchange rate risk is due to certain costs, revenues and borrowings being denominated in currencies other than one of our subsidiary's functional currency. Similarly, we are exposed to market risk as the result of changes in interest rates, which may affect the cost of our financing. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes. As of December 31, 2021, we did not have any derivative financial instruments.

**Exchange Rate Risk**

We have exchange rate exposure, primarily, with respect to the Canadian Dollar, the Euro, the British Pound, the Polish Zloty, the Hungarian Forint, the Mexican Peso, the Taiwan Dollar, the Chinese Yuan Renminbi and the Hong Kong Dollar. As of December 31, 2021, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore, the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the incremental effect of such a change on our foreign currency denominated revenues.

**Interest Rate Risk**

We manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our debt portfolio. To manage a portion of our exposure to interest rate changes, we have in the past entered into interest rate swap agreements. We invest our excess cash in highly liquid short-term investments. Substantially all of our debt is variable rate debt as of December 31, 2021 and 2020. Based upon our current level of borrowings under our revolving credit facility and our Polish overdraft facility, and our excess cash, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate would have an immaterial impact on our earnings or cash flows.

In addition, we are party to several supply chain financing arrangements, in which we may sell certain of our customers' trade accounts receivable to such customers' financial institutions. We sell our undivided interests in certain of these receivables at our discretion when we determine that the cost of these arrangements is less than the cost of servicing our receivables with existing debt. During the year ended December 31, 2021, we sold \$818.8 million of receivables. Depending upon the level of sales of receivables pursuant these agreements, the effect of a hypothetical, instantaneous and unfavorable change of 100 basis points in the margin rate may have an approximate \$8.2 million negative impact on our earnings or cash flows. The charge related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations.

Index**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. During 2021, the Company acquired Trumpet Holdings, Inc, ("Trombetta") and Stabil Operative Group GmbH ("Stabil"), and have excluded from our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Trombetta's and Stabil's internal control over financial reporting associated with 13.8% of total assets and 3.5% of total revenues included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 *Internal Control - Integrated Framework*. Based on our assessment using those criteria, and after consideration of the aforementioned exclusion, we concluded that, as of December 31, 2021, our internal control over financial reporting is effective.

Our independent registered public accounting firm, KPMG LLP, has audited our consolidated financial statements as of and for the year ended December 31, 2021 and has also audited the effectiveness of our internal control over financial reporting as of December 31, 2021. KPMG's report appears on the following pages of this "Item 8. Financial Statements and Supplementary Data."

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

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

### *Opinion on Internal Control Over Financial Reporting*

We have audited Standard Motor Products, Inc.’s and Subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes and financial statement Schedule II, Valuation and Qualifying Accounts (collectively, the consolidated financial statements), and our report dated February 23, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Trumpet Holdings, Inc. (“Trombetta”) and Stabil Operative Group GmbH, (“Stabil”) during 2021, and management excluded from its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021, Trombetta and Stabil’s internal control over financial reporting associated with 13.8% of total assets and 3.5% of total revenues included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Trombetta and Stabil.

### *Basis for Opinion*

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

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

### *Definition and Limitations of Internal Control Over Financial Reporting*

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

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

/s/ KPMG LLP

New York, New York  
February 23, 2022

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – CONSOLIDATED FINANCIAL STATEMENTS**

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

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Standard Motor Products, Inc. and Subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes and financial statement Schedule II, Valuation and Qualifying Accounts (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2022 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

[Index](#)**Critical Audit Matters**

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

*Asbestos liability and litigation*

As discussed in Notes 1 and 21 to the consolidated financial statements, the Company is involved in asbestos litigation and has a potential asbestos liability. As of December 31, 2021, the accrued asbestos liability was \$60.5 million. The Company's asbestos liability represents the low end of the actuarially determined range of the undiscounted liability for settlement payments and awards of asbestos related damages, excluding legal costs and any potential recovery from insurance carriers.

We identified the assessment of the asbestos liability recorded as a critical audit matter. This required subjective auditor judgment, due to the nature of the estimate and assumptions, including the applicability of those assumptions to the current facts and circumstances, as well as judgments about future events and uncertainties. Specialized skills were needed to evaluate the Company's key assumptions. The key assumptions included future claim filings, closed with pay ratios, closed with pay lag patterns, settlement values, large claims, and ratios of allocated loss adjustment exposure (ALAE) to indemnity. Minor changes to these key assumptions could have had a significant effect on the Company's assessment of the accrual for the asbestos liability.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the asbestos liability estimation process. This included controls related to the key assumptions and the claims data utilized in the process, and the potential need for an updated actuarial valuation. We evaluated the asbestos related legal cases settled during the year and the number of open cases as of year-end by reading letters received directly from the Company's external and internal legal counsel. We tested a selection of claims data used in the actuarial model by comparing the selection items to underlying claims documentation. We involved an actuarial professional with specialized skills and knowledge, who assisted in evaluating (1) the future claim filings assumption by developing an independent expectation and comparing it against the Company's future claim filing assumption, and (2) the closed with pay ratios, closed with pay lag patterns, settlement values, large claims, and ratios of ALAE to indemnity by comparing them to the Company's historical experience.

*Fair value of acquisition date intangible assets*

As discussed in Note 2 in the consolidated financial statements, in May 2021, the Company acquired Trumpet Holdings, Inc., ("Trombetta) for a purchase price of \$111.7 million. As a result of the transaction, the Company acquired certain intangible assets, including customer relationship intangible assets with an acquisition date fair value of \$39.4 million.

We identified the evaluation of the fair value of the acquisition date customer relationship intangible assets acquired in the Trombetta transaction as a critical audit matter. A high degree of subjective auditor judgment was required to evaluate the key assumptions used to determine the acquisition-date fair value of the acquired customer relationship assets. The key assumptions developed by the Company included the following for which there was limited observable market information, and the calculated fair value of such assets was sensitive to possible changes to these key assumptions:

- forecasted revenues attributable to existing customers
- forecasted earnings before interest and taxes (EBIT) margins
- customer attrition rate
- discount rate.

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The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's acquisition-date valuation process, including the controls over the development of the key assumptions listed above. We evaluated the Company's forecasted revenues attributable to existing customers and EBIT margins by comparing these forecasted assumptions to historical information of Trombetta. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating (1) the estimated annual attrition rate by comparing it to historical data of the Company, and (2) the Company's discount rate by comparing the rate against a discount rate range that was independently developed using publicly available market data for comparable companies.

/s/ KPMG LLP

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

New York, New York  
February 23, 2022

[Index](#)**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2021	2020	2019
(Dollars in thousands, except share and per share data)			
Net sales	\$ 1,298,816	\$ 1,128,588	\$ 1,137,913
Cost of sales	921,885	791,933	806,113
Gross profit	376,931	336,655	331,800
Selling, general and administrative expenses	247,547	224,670	234,715
Intangible asset impairment	—	2,600	—
Restructuring and integration expenses	392	464	2,585
Other income (expense), net	7	(26)	(5)
Operating income	128,999	108,895	94,495
Other non-operating income, net	3,494	812	2,587
Interest expense	2,028	2,328	5,286
Earnings from continuing operations before income taxes	130,465	107,379	91,796
Provision for income taxes	31,044	26,962	22,745
Earnings from continuing operations	99,421	80,417	69,051
Loss from discontinued operations, net of income tax benefit of \$2,975, \$8,089 and \$3,912	(8,467)	(23,024)	(11,134)
Net earnings	90,954	57,393	57,917
Net earnings attributable to noncontrolling interest	68	—	—
Net earnings attributable to SMP (a)	<u>\$ 90,886</u>	<u>\$ 57,393</u>	<u>\$ 57,917</u>
<b>Net earnings attributable to SMP</b>			
Earnings from continuing operations	\$ 99,353	\$ 80,417	\$ 69,051
Discontinued operations	(8,467)	(23,024)	(11,134)
Total	<u>\$ 90,886</u>	<u>\$ 57,393</u>	<u>\$ 57,917</u>
<b>Per share data attributable to SMP</b>			
Net earnings per common share – Basic:			
Earnings from continuing operations	\$ 4.49	\$ 3.59	\$ 3.09
Discontinued operations	(0.39)	(1.02)	(0.50)
Net earnings per common share – Basic	<u>\$ 4.10</u>	<u>\$ 2.57</u>	<u>\$ 2.59</u>
Net earnings per common share – Diluted:			
Earnings from continuing operations	\$ 4.39	\$ 3.52	\$ 3.03
Discontinued operations	(0.37)	(1.01)	(0.49)
Net earnings per common share – Diluted	<u>\$ 4.02</u>	<u>\$ 2.51</u>	<u>\$ 2.54</u>
Dividend declared per share	<u>\$ 1.00</u>	<u>\$ 0.50</u>	<u>\$ 0.92</u>
Average number of common shares	<u>22,147,479</u>	<u>22,374,123</u>	<u>22,378,414</u>
Average number of common shares and dilutive common shares	<u>22,616,456</u>	<u>22,825,885</u>	<u>22,818,451</u>

(a) Throughout this Form 10-K, “SMP” refers to Standard Motor Products, Inc. and subsidiaries.

See accompanying notes to consolidated financial statements.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2021	2020 <small>(In thousands)</small>	2019
Net earnings	\$ 90,954	\$ 57,393	\$ 57,917
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(2,462)	2,929	1,024
Pension and postretirement plans	(16)	(16)	(19)
Total other comprehensive income (loss), net of tax	(2,478)	2,913	1,005
Total comprehensive income	88,476	60,306	58,922
Comprehensive income (loss) attributable to noncontrolling interest, net of tax:			
Net earnings	68	—	—
Foreign currency translation adjustments	15	—	—
Comprehensive income (loss) attributable to noncontrolling interest, net of tax	83	—	—
Comprehensive income attributable to SMP	\$ 88,393	\$ 60,306	\$ 58,922

See accompanying notes to consolidated financial statements.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(Dollars in thousands, except share data)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 21,755	\$ 19,488
Accounts receivable, less allowances for discounts and expected credit losses of \$6,170 and \$5,822 in 2021 and 2020, respectively	180,604	198,039
Inventories	468,755	345,502
Unreturned customer inventories	22,268	19,632
Prepaid expenses and other current assets	17,823	15,875
Total current assets	711,205	598,536
Property, plant and equipment, net	102,786	89,105
Operating lease right-of-use assets	40,469	29,958
Goodwill	131,652	77,837
Other intangibles, net	106,234	54,004
Deferred incomes taxes	36,126	44,770
Investments in unconsolidated affiliates	44,087	40,507
Other assets	25,402	21,823
Total assets	\$ 1,197,961	\$ 956,540
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable	\$ 125,298	\$ 10,000
Current portion of other debt	3,117	135
Accounts payable	137,167	100,018
Sundry payables and accrued expenses	57,182	47,078
Accrued customer returns	42,412	40,982
Accrued core liability	23,663	22,014
Accrued rebates	42,472	46,437
Payroll and commissions	45,058	35,938
Total current liabilities	476,369	302,602
Long-term debt	21	97
Noncurrent operating lease liabilities	31,206	22,450
Other accrued liabilities	25,040	25,929
Accrued asbestos liabilities	52,698	55,226
Total liabilities	585,334	406,304
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	105,377	105,084
Retained earnings	532,319	463,612
Accumulated other comprehensive income	(8,169)	(5,676)
Treasury stock - at cost (1,911,792 shares and 1,586,923 shares in 2021 and 2020, respectively)	(75,819)	(60,656)
Total SMP stockholders' equity	601,580	550,236
Noncontrolling interest	11,047	—
Total stockholders' equity	612,627	550,236
Total liabilities and stockholders' equity	\$ 1,197,961	\$ 956,540

See accompanying notes to consolidated financial statements.

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 90,954	\$ 57,393	\$ 57,917
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	27,243	26,323	25,809
Amortization of deferred financing cost	228	228	225
Increase (decrease) to allowance for expected credit losses	451	396	(295)
Increase (decrease) to inventory reserves	(585)	5,962	4,858
Intangible asset impairment	—	2,600	—
Equity (income) from joint ventures	(3,295)	(820)	(2,865)
Employee Stock Ownership Plan allocation	2,513	2,301	2,519
Stock-based compensation	9,479	8,101	6,917
(Increase) decrease in deferred income taxes	(1,801)	(8,334)	4,736
Increase in tax valuation allowance	466	864	358
Loss on discontinued operations, net of tax	8,467	23,024	11,134
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	28,464	(71,933)	2,789
(Increase) decrease in inventories	(107,609)	17,984	(17,901)
Increase in prepaid expenses and other current assets	(843)	(370)	(8,296)
Increase (decrease) in accounts payable	33,046	7,428	(1,950)
Increase (decrease) in sundry payables and accrued expenses	13,430	40,651	(2,957)
Net changes in other assets and liabilities	(15,044)	(13,902)	(6,070)
Net cash provided by operating activities	<u>85,564</u>	<u>97,896</u>	<u>76,928</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of and investments in businesses, net of cash acquired	(125,419)	—	(43,490)
Net proceeds from sale of Grapevine, Texas facility	—	—	4,801
Capital expenditures	(25,875)	(17,820)	(16,185)
Other investing activities	45	21	62
Net cash used in investing activities	<u>(151,249)</u>	<u>(17,799)</u>	<u>(54,812)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net borrowings (repayments) under line-of-credit agreements	115,298	(42,460)	8,771
Net borrowings (repayments) of other debt and lease obligations	3,048	(4,248)	(911)
Purchase of treasury stock	(26,862)	(13,482)	(10,738)
Dividends paid	(22,179)	(11,218)	(20,593)
Increase (decrease) in overdraft balances	247	(108)	93
Dividends paid to noncontrolling interest	(540)	—	—
Net cash provided by (used in) financing activities	<u>69,012</u>	<u>(71,516)</u>	<u>(23,378)</u>
Effect of exchange rate changes on cash	(1,060)	535	496
Net increase (decrease) in cash and cash equivalents	2,267	9,116	(766)
CASH AND CASH EQUIVALENTS at beginning of year	19,488	10,372	11,138
CASH AND CASH EQUIVALENTS at end of year	<u>\$ 21,755</u>	<u>\$ 19,488</u>	<u>\$ 10,372</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 1,721	\$ 2,187	\$ 5,030
Income taxes	<u>\$ 26,323</u>	<u>\$ 24,640</u>	<u>\$ 22,267</u>

See accompanying notes to consolidated financial statements.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****Years Ended December 31, 2021, 2020 and 2019**

	Capital in Excess of		Accumulated Other Comprehensive Income (Loss)			Treasury Stock	Total SMP	Non- controlling Interest	Total
	Common Stock	Par Value	Retained Earnings						
<b>(In thousands)</b>									
BALANCE AT DECEMBER 31, 2018	\$ 47,872	\$ 102,470	\$ 380,113	\$ (9,594)	\$ (53,660)	\$ 467,201	\$ —	\$ 467,201	
Net earnings	—	—	57,917	—	—	57,917	—	—	57,917
Other comprehensive loss, net of tax	—	—	—	1,005	—	1,005	—	—	1,005
Cash dividends paid (\$0.92 per share)	—	—	(20,593)	—	—	(20,593)	—	—	(20,593)
Purchase of treasury stock	—	—	—	—	(10,738)	(10,738)	—	—	(10,738)
Stock-based compensation	—	(473)	—	—	7,390	6,917	—	—	6,917
Employee Stock Ownership Plan	—	745	—	—	1,774	2,519	—	—	2,519
 BALANCE AT DECEMBER 31, 2019	 47,872	 102,742	 417,437	 (8,589)	 (55,234)	 504,228	 —	 504,228	
Net earnings	—	—	57,393	—	—	57,393	—	—	57,393
Other comprehensive income, net of tax	—	—	—	2,913	—	2,913	—	—	2,913
Cash dividends paid (\$0.50 per share)	—	—	(11,218)	—	—	(11,218)	—	—	(11,218)
Purchase of treasury stock	—	—	—	—	(13,482)	(13,482)	—	—	(13,482)
Stock-based compensation	—	1,712	—	—	6,389	8,101	—	—	8,101
Employee Stock Ownership Plan	—	630	—	—	1,671	2,301	—	—	2,301
 BALANCE AT DECEMBER 31, 2020	 47,872	 105,084	 463,612	 (5,676)	 (60,656)	 550,236	 —	 550,236	
Noncontrolling interest in business acquired	—	—	—	—	—	—	11,504	11,504	
Net earnings	—	—	90,886	—	—	90,886	68	90,954	
Other comprehensive loss, net of tax	—	—	—	(2,493)	—	(2,493)	15	(2,478)	
Cash dividends paid (\$1.00 per share)	—	—	(22,179)	—	—	(22,179)	—	(22,179)	
Purchase of treasury stock	—	—	—	—	(26,862)	(26,862)	—	(26,862)	
Dividends paid to noncontrolling interest	—	—	—	—	—	—	(540)	(540)	
Stock-based compensation	—	159	—	—	9,320	9,479	—	9,479	
Employee Stock Ownership Plan	—	134	—	—	2,379	2,513	—	2,513	

BALANCE AT  
DECEMBER 31,  
2021

<u>\$ 47,872</u>	<u>\$ 105,377</u>	<u>\$ 532,319</u>	<u>\$ (8,169)</u>	<u>\$ (75,819)</u>	<u>\$ 601,580</u>	<u>\$ 11,047</u>	<u>\$ 612,627</u>
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See accompanying notes to consolidated financial statements.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Summary of Significant Accounting Policies*****Principles of Consolidation***

Standard Motor Products, Inc. and subsidiaries (referred to hereinafter in these notes to the consolidated financial statements as “we,” “us,” “our,” “SMP,” or the “Company”) is a leading automotive parts manufacturer and distributor of engine management and temperature control systems of motor vehicles in the automotive aftermarket industry with a complementary focus on the heavy duty, industrial equipment and original equipment service markets.

The consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership, except in instances where the minority shareholder maintains substantive participating rights, in which case we follow the equity method of accounting. In instances where we have more than a 50% equity ownership and the minority shareholder does not maintain substantive participating rights, our consolidated financial statements include the accounts of the company on a consolidated basis with its net income and equity reported at amounts attributable to both our equity position and that of the noncontrolling interest. Investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest but have the ability to exercise significant influence. All significant inter-company items have been eliminated.

***Use of Estimates***

The preparation of consolidated 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 assurances that actual results will not differ from those estimates. Although we do not believe that there is a reasonable likelihood that there will be a material change in the future estimates, or in the assumptions that we use in calculating the estimates, the uncertain future effects, if any, of the COVID-19 pandemic, and other unforeseen changes in the industry, or business, could materially impact the estimates, and may have a material adverse effect on our business, financial condition and results of operations. Some of the more significant estimates include allowances for doubtful accounts, cash discounts, valuation of inventory, valuation of long-lived assets, goodwill and other intangible assets, depreciation and amortization of long-lived assets, product liability exposures, asbestos, environmental and litigation matters, valuation of deferred tax assets, share based compensation and sales returns and other allowances.

***Reclassification***

Certain prior period amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2021 presentation.

***Cash and Cash Equivalents***

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Allowance for Expected Credit Losses and Cash Discounts***

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

***Inventories***

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

We also evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve on the full value of the inventory. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates our estimate of future demand. Future projected demand requires management judgment and is based upon (a) our review of historical trends and (b) our estimate of projected customer specific buying patterns and trends in the industry and markets in which we do business. Using rolling twelve month historical information, we estimate future demand on a continuous basis. The historical volatility of such estimates has been minimal. We maintain provisions for inventory reserves of \$46.2 million and \$49.4 million as of December 31, 2021 and 2020, respectively.

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

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Property, Plant and Equipment***

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

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

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

***Leases***

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

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

***Valuation of Long-Lived and Intangible Assets and Goodwill***

At acquisition, we estimate and record the fair value of purchased intangible assets, which primarily consist of customer relationships, trademarks and trade names, patents, developed technology and intellectual property, and non-compete agreements. Intangible assets acquired through business combinations are subject to potential adjustments within the measurement period, which is up to one year from the acquisition date. Valuing intangible assets requires the use of significant estimates and assumptions. As related to valuing customer relationships, significant estimates and assumptions used include but are not limited to: (1) forecasted revenues attributable to existing customers; (2) forecasted earnings before interest and taxes (“EBIT”) margins; (3) customer attrition rates; and (4) the discount rate. 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 believe that the fair value of acquired identifiable net assets, including intangible assets, are based upon reasonable estimates and assumptions.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative impairment test would not be required. If we are unable to reach this conclusion, then we would perform a goodwill quantitative impairment test. In performing the quantitative test, the fair value of the reporting unit is compared to its carrying amount. A charge for impairment is recognized by the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

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

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

#### ***Foreign Currency Translation***

Assets and liabilities of our foreign operations are translated into U.S. dollars at year-end exchange rates. Income statement accounts are translated using the average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) and remains there until the underlying foreign operation is liquidated or substantially disposed of. Foreign currency transaction gains or losses are recorded in the statement of operations under the caption "other non-operating income (expense), net."

#### ***Revenue Recognition***

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Product Warranty and Overstock Returns***

Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship and failure to meet industry published specifications and/or the result of installation error. In addition to warranty returns, we also permit our customers to return new, undamaged products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. At the time products are sold, we accrue a liability for product warranties and overstock returns as a percentage of sales based upon estimates established using historical information on the nature, frequency and average cost of the claim and the probability of the customer return. At the same time, we record an estimate of anticipated customer returns as unreturned customer inventory. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims.

***New Customer Acquisition Costs***

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

***Selling, General and Administration Expenses***

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

***Deferred Financing Costs***

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Accounting for Income Taxes***

Income taxes are calculated using the asset and liability method. Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities, as measured by the current enacted tax rates.

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

The valuation allowance of \$2.1 million as of December 31, 2021 is intended to provide for the uncertainty regarding the ultimate realization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. Based on these considerations, we believe it is more likely than not that we will realize the benefit of the net deferred tax asset of \$36.1 million as of December 31, 2021, which is net of the remaining valuation allowance.

Tax benefits are recognized for an uncertain tax position when, in management's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances and when new information becomes available. Such adjustments are recognized entirely in the period in which they are identified. During the years ended December 31, 2021, 2020 and 2019, we did not establish a liability for uncertain tax positions.

***Environmental Reserves***

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

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### ***Asbestos Litigation***

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study of the asbestos related liabilities performed by an independent actuarial firm, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of such claims. As is our accounting policy, we consider the advice of actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability; and perform an actuarial evaluation in the third quarter of each year and whenever events or changes in circumstances indicate that additional provisions may be necessary. The methodology used to project asbestos-related liabilities and costs in our actuarial study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; (4) an analysis of our settlements and awards of asbestos-related damages to date; and (5) an analysis of closed claims with pay ratios and lag patterns in order to develop average future settlement values. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range of settlement payments and awards of asbestos-related damages was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required. Future legal costs are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations.

We plan to perform an annual actuarial evaluation during the third quarter of each year for the foreseeable future and whenever events or changes in circumstances indicate that additional provisions may be necessary. Given the uncertainties associated with projecting such matters into the future and other factors outside our control, we can give no assurance that additional provisions will not be required. We will continue to monitor events and changes in circumstances surrounding these potential liabilities in determining whether to perform additional actuarial evaluations and whether additional provisions may be necessary, which will be reported in earnings (loss) from discontinued operations in the accompanying statement of operations. 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.

#### ***Loss Contingencies***

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

#### ***Concentrations of Credit Risk***

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

With respect to accounts receivable, such receivables are primarily from warehouse distributors and major retailers in the automotive aftermarket industry located in the U.S. We perform ongoing credit evaluations of our customers' financial conditions. A significant portion of our net sales are concentrated from our three largest individual customers. 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.

For further information on net sales to our three largest customers and our concentration of customer risk, see Note 19, "Industry Segment and Geographic Data."

#### ***Foreign Cash Balances***

Substantially all of the cash and cash equivalents, including foreign cash balances, at December 31, 2021 and 2020 were uninsured. Foreign cash balances at December 31, 2021 and 2020 were \$16.8 million and \$16.4 million, respectively.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### ***Recently Issued Accounting Pronouncements***

##### ***Standards that were adopted***

<b>Standard</b>	<b>Description</b>	<b>Date of adoption</b>	<b>Effects on the financial statements or other significant matters</b>
ASU 2019-12, <i>Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes</i>	This standard is intended to simplify the accounting for income taxes by removing certain ASC Topic 740 exceptions in performing intra-period tax allocations among income statement components, in calculating certain deferred tax liabilities related to outside basis differences, and in calculating income taxes in interim periods with year-to-date losses. In addition, this standard is also intended to improve consistency and add simplification by clarifying and amending the reporting of franchise taxes and other taxes partially based on income, the recognition of deferred income taxes related to the step-up in tax basis goodwill, and the reporting in interim periods of the recognition of the enactment of tax laws or rate changes.	January 1, 2021	The adoption of the technical clarifications in the standard did not materially impact our accounting for income taxes, our consolidated financial statements and related disclosures.

##### ***Standards that are not yet adopted as of December 31, 2021***

The following table provides a brief description of recently issued accounting pronouncements that have not yet been adopted as of December 31, 2021, and that could have an impact on our financial statements:

<b>Standard</b>	<b>Description</b>	<b>Date of adoption / Effective date</b>	<b>Effects on the financial statements or other significant matters</b>
ASU 2020-04, <i>Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting</i>	This standard is intended to provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The new standard is applicable to contracts that reference LIBOR, or another reference rate, expected to be discontinued due to reference rate reform.	Effective March 12, 2020 through December 31, 2022	The new standard may be applied as of the beginning of an interim period that includes March 12, 2020 through December 31, 2022. As certain of our contracts reference LIBOR, including our revolving credit facility and supply chain financing arrangements, we are currently reviewing the optional guidance in the standard to determine its impact upon the discontinuance of LIBOR. At this time, we do not believe that the new guidance, nor the discontinuance of LIBOR, will have a material impact on our consolidated financial statements and related disclosures.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### **2. Business Acquisitions and Investments**

##### **2021 Business Acquisitions**

###### *Acquisition of Capital Stock of Stabil Operative Group GmbH (“Stabil”)*

In September 2021, we acquired 100% of the capital stock of Stabil Operative Group GmbH, a German company (“Stabil”), for Euros 13.7 million, or \$16.3 million, subject to certain post-closing adjustments. Stabil is a manufacturer and distributor of a variety of components, including electronic sensors, control units, and clamping devices to the European Original Equipment (“OE”) market, serving both commercial and light vehicle applications. The acquired Stabil business was paid for with cash funded by borrowings under our revolving credit facility with JPMorgan Chase Bank, N.A., as agent, and is headquartered on the outskirts of Stuttgart, Germany with facilities in Germany and Hungary. The acquisition, to be reported as part of our Engine Management Segment, aligns with our strategy of expansion beyond our core aftermarket business into complementary areas, and gives us exposure to a diversified group of blue chip European commercial and light vehicle OE customers.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values, subject to final agreement of post-closing adjustments, which we do anticipate will be significant (in thousands):

Purchase price	\$ 16,290
Assets acquired and liabilities assumed:	
Receivables	\$ 2,852
Inventory	5,126
Other current assets (1)	1,628
Property, plant and equipment, net	1,810
Operating lease right-of-use assets	4,971
Intangible assets	5,471
Goodwill	4,827
Current liabilities	(4,190)
Noncurrent operating lease liabilities	(4,454)
Deferred income taxes	(1,751)
Net assets acquired	\$ 16,290

(1) The other current assets balance includes \$0.9 million of cash acquired.

Intangible assets acquired of \$5.5 million consist of customer relationships that will be amortized on a straight-line basis over the estimated useful life of 20 years. Goodwill of \$4.8 million was allocated to the Engine Management Segment. The goodwill reflects relationships, business specific knowledge and the replacement cost of an assembled workforce associated with personal reputations. The intangible assets and goodwill are not deductible for tax purposes.

Revenues from the acquired business included in our consolidated statement of operations from the acquisition date through December 31, 2021 were \$7.2 million.

###### *Acquisition of Capital Stock of Trumpet Holdings, Inc. (“Trombetta”)*

In May 2021, we acquired 100% of the capital stock of Trumpet Holdings, Inc., a Delaware corporation, (more commonly known as “Trombetta”), for \$111.7 million, subject to certain post-closing adjustments. In December 2021, the post-closing adjustments were finalized at approximately \$30,000, thereby reducing the purchase price. Trombetta is a leading provider of power switching and power management products to Original Equipment (“OE”) customers in various markets. The acquired Trombetta business was paid for in cash funded by borrowings under our revolving credit facility with JPMorgan Chase Bank, N.A., as agent, and has manufacturing facilities in Milwaukee, Wisconsin; Sheboygan Falls, Wisconsin; Tijuana, Mexico, as well as a 70% ownership in a joint venture in Hong Kong, with operations in Shanghai and Wuxi, China (“Trombetta Asia, Ltd.”). The acquisition, to be reported as part of our Engine Management Segment, aligns with our strategy of expansion into the OE heavy duty market.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values, subject to finalization of amounts related to deferred income taxes, which we do not anticipate will be significant (in thousands):

Purchase price	\$ 111,711
Assets acquired and liabilities assumed:	
Receivables	\$ 9,173
Inventory	12,460
Other current assets (1)	5,193
Property, plant and equipment, net	4,939
Operating lease right-of-use assets	3,847
Intangible assets	54,700
Goodwill	49,250
Current liabilities	(5,072)
Noncurrent operating lease liabilities	(3,065)
Deferred income taxes	(8,210)
Subtotal	123,215
Fair value of acquired noncontrolling interest	(11,504)
Net assets acquired	\$ 111,711

(1) The other current assets balance includes \$4.6 million of cash acquired.

Intangible assets acquired of \$54.7 million consist of customer relationships of \$39.4 million that will be amortized on a straight-line basis over the estimated useful life of 20 years; developed technology of \$13.4 million that will be amortized on a straight-line basis over the estimated useful life of 15 years; and a trade name of \$1.9 million that will be amortized on a straight-line basis over the estimated useful life of 10 years. Goodwill of \$49.3 million was allocated to the Engine Management Segment. The goodwill reflects relationships, business specific knowledge and the replacement cost of an assembled workforce associated with personal reputations. The intangible assets and goodwill are not deductible for tax purposes.

Revenues from the acquired business included in our consolidated statement of operations from the acquisition date through December 31, 2021 were \$37.8 million.

#### Acquisition of Particulate Matter Sensor Business of Stoneridge, Inc. ("Soot Sensor")

In March 2021, we agreed to acquire certain Soot Sensor product lines from Stoneridge, Inc. The product lines to be acquired manufacture sensors used in the exhaust and emission systems of diesel engines. The product lines acquired were located in Stoneridge's facilities in Lexington, Ohio and Tallinn, Estonia. We are not acquiring these facilities, nor any of Stoneridge's employees, and will be relocating the production lines to our engine management plants in Independence, Kansas and Bialystok, Poland, respectively. The acquisition, to be reported as part of our Engine Management Segment, aligns with our strategy of expansion into the OE heavy duty market. Customer relationships to be acquired include Volvo, CNHi and Hino.

The product lines located in Stoneridge's facility in Lexington, Ohio were acquired in March 2021 for \$2.1 million, while the product lines located in Stoneridge's facility in Tallinn, Estonia were acquired in November 2021 for \$0.8 million. The acquired product lines were paid for with cash funded by borrowings under our revolving credit facility with JPMorgan Chase Bank, N.A. The assets acquired include inventory, machinery & equipment and certain intangible assets.

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	\$ 2,924
Assets acquired and liabilities assumed:	
Inventory	\$ 1,032
Machinery and equipment, net	1,137
Intangible assets	755
Net assets acquired	\$ 2,924

Intangible assets acquired of approximately \$0.8 million consist of customer relationships that will be amortized on a straight-line basis over the estimated useful life of 10 years.

Revenues from the acquired business included in our consolidated statement of operations from the acquisition date through December 31, 2021 were \$9.3 million.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. Restructuring and Integration Expense**

The aggregated liabilities included in “sundry payables and accrued expenses” and “other accrued liabilities” in the consolidated balance sheet relating to the restructuring and integration activities as of and for the years ended December 31, 2021 and 2020, consisted of the following (in thousands):

	<b>Workforce Reduction</b>	<b>Other Exit Costs</b>	<b>Total</b>
Exit activity liability at December 31, 2019	\$ 336	\$ —	\$ 336
Restructuring and integration costs:			
Amounts provided for during 2020 (1)	—	464	464
Cash payments	(157)	(214)	(371)
Reclassification of environmental liability (1)	—	(250)	(250)
Exit activity liability at December 31, 2020	\$ 179	\$ —	\$ 179
Restructuring and integration costs:			
Amounts provided for during 2021	—	392	392
Cash payments	(100)	(392)	(492)
Exit activity liability at December 31, 2021	\$ 79	\$ —	\$ 79

- (1) Included in restructuring and integration costs in 2020 is a \$0.3 million increase in environmental cleanup costs related to ongoing monitoring and remediation in connection with the prior closure of our manufacturing operations at our Long Island City, New York location. The environmental liability has been reclassified to accrued liabilities as of December 31, 2020.

**Integration Costs***Particulate Matter Sensor (“Soot Sensor”) Product Line Relocation*

In connection with our acquisitions in March 2021 and November 2021 of certain soot sensor product lines from Stoneridge, Inc., we incurred certain integration expenses in connection with the relocation of certain inventory, machinery, and equipment from Stoneridge’s facilities in Lexington, Ohio and Tallinn, Estonia to our existing facilities in Independence, Kansas and Bialystok, Poland, respectively. Integration expenses recognized and cash payments made of \$392,000, during the year ended December 31, 2021, related to these relocation activities in our Engine Management segment. Total relocation expenses of approximately \$600,000 are expected to be incurred related to the relocations. We anticipate that the soot sensor product line relocation will be completed by the end of the second quarter of 2022.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### *Pollak Relocation*

In connection with our April 2019 acquisition of certain assets and liabilities of the Pollak business of Stoneridge, Inc., we incurred certain integration expenses in connection with the relocation of certain inventory, machinery, and equipment from Pollak's distribution and manufacturing facilities in El Paso, Texas, Canton, Massachusetts, and Juarez, Mexico, to our existing facilities in Disputanta, Virginia, Reynosa, Mexico and Independence, Kansas.

The Pollak Relocation has been completed. Integration expense recognized and cash payments made of \$214,000 during the year ended December 31, 2020 related to residual relocation activities in our Engine Management segment. There is no remaining aggregate liability related to the Pollak Relocation as of December 31, 2020.

#### ***Restructuring Costs***

##### *Plant Rationalization Programs*

The 2016 Plant Rationalization Program, which included the shutdown and sale of our Grapevine, Texas facility, and the 2017 Orlando Rationalization Program, which included the shutdown of our Orlando, Florida facility, have been substantially completed. Cash payments made of \$100,000 and \$157,000 during the years ended December 31, 2021 and 2020, respectively, and the remaining aggregate liability related to the programs as of December 31, 2021 of \$79,000 consists of severance payments to former employees terminated in connection with these programs.

#### **4. Sale of Receivables**

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

Pursuant to these agreements, we sold \$818.8 million and \$695.1 million of receivables for the years ended December 31, 2021 and 2020, respectively. Receivables presented at financial institutions and not yet collected as of December 31, 2021 and December 31, 2020 were approximately \$1.3 million and \$50 million, respectively, and remained in our accounts receivable balance for those periods. All receivables sold were reflected as a reduction of accounts receivable in the consolidated balance sheet at the time of sale. A charge in the amount of \$11.5 million, \$12.2 million and \$22 million related to the sale of receivables is included in selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019, respectively.

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. Inventories**

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	(In thousands)	
Finished goods	\$ 296,739	\$ 225,523
Work-in-process	16,010	10,711
Raw materials	156,006	109,268
Subtotal	468,755	345,502
Unreturned customer inventories	22,268	19,632
Total inventories	\$ 491,023	\$ 365,134

**6. Property, Plant and Equipment**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(In thousands)	
Land, buildings and improvements	\$ 40,882	\$ 38,833
Machinery and equipment	159,967	148,578
Tools, dies and auxiliary equipment	63,944	60,102
Furniture and fixtures	30,688	30,347
Leasehold improvements	14,081	11,948
Construction-in-progress	21,012	13,691
Total property, plant and equipment	330,574	303,499
Less accumulated depreciation	227,788	214,394
Total property, plant and equipment, net	\$ 102,786	\$ 89,105

Depreciation expense was \$18.2 million in 2021, \$17.8 million in 2020 and \$17.4 million in 2019.

**7. Leases*****Quantitative Lease Disclosures***

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following tables provide quantitative disclosures related to our operating leases and includes all operating leases acquired in the Stabil and Trombetta acquisitions from the date of the acquisition (in thousands):

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Balance Sheet Information</b>		
<b>Assets</b>		
Operating lease right-of-use assets	\$ 40,469	\$ 29,958
<b>Liabilities</b>		
Sundry payables and accrued expenses	\$ 10,544	\$ 8,719
Noncurrent operating lease liabilities	<u>31,206</u>	<u>22,450</u>
Total operating lease liabilities	<u><u>\$ 41,750</u></u>	<u><u>\$ 31,169</u></u>
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	5.3 Years	5 Years
<b>Weighted Average Discount Rate</b>		
Operating leases	3%	3.6%
<b>Expense and Cash Flow Information</b>		
<b>Lease Expense</b>		
Operating lease expense (a)	\$ 10,051	\$ 9,203
<b>Supplemental Cash Flow Information</b>		
Cash Paid for the amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 9,985	\$ 9,087
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases (b)	\$ 20,975	\$ 3,180
	<b>Year Ended, December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Minimum Lease Payments</b>		
At December 31, 2021, we are obligated to make minimum lease payments through 2031, under operating leases, which are as follows (in thousands):		
2022	\$ 10,707	
2023	9,537	
2024	7,165	
2025	5,860	
2026	5,109	
Thereafter	6,562	
Total lease payments	<u>\$ 44,940</u>	
Less: Interest	<u>(3,190)</u>	
Present value of lease liabilities	<u><u>\$ 41,750</u></u>	

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. Goodwill and Other Intangible Assets*****Goodwill***

We assess the impairment of long-lived and identifiable intangibles assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. With respect to goodwill, we test for impairment on an annual basis or in interim periods if an event occurs or circumstances change that may indicate the fair value of a reporting unit is below its carrying amount. We completed our annual impairment test of goodwill as of December 31, 2021.

When performing our evaluation of goodwill for impairment, if we conclude qualitatively that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative impairment test would not be required. If we are unable to reach this conclusion, then we would perform a goodwill quantitative impairment test. In performing the quantitative test, the fair value of the reporting unit is compared to its carrying amount. A charge for impairment is recognized by the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

As of December 31, 2021, we performed a qualitative assessment of the likelihood of a goodwill impairment for both the Engine Management and Temperature Control reporting units. Based upon our qualitative assessment, we determined that it was not more likely than not that the fair value of the each of the Engine Management and Temperature Control reporting units was less than their respective carrying amounts. As such, we concluded that the quantitative impairment test would not be required, and that there would be no required goodwill impairment charge as of December 31, 2021 at each of the Engine Management and Temperature Control reporting units. While we concluded that we did not have a goodwill impairment charge as of December 31, 2021, and we do not believe that future impairments are probable, we will need to maintain the current ongoing performance levels at each of the Engine Management and Temperature Control reporting units in future periods to sustain their goodwill carrying values.

Changes in the carrying values of goodwill by operating segment during the years ended December 31, 2021 and 2020 are as follows (in thousands):

	<b>Engine Management</b>	<b>Temperature Control</b>	<b>Total</b>
<i>Balance as of December 31, 2019:</i>			
Goodwill	\$ 102,020	\$ 14,270	\$ 116,290
Accumulated impairment losses	(38,488)	—	(38,488)
	\$ 63,532	\$ 14,270	\$ 77,802
<i>Activity in 2020</i>			
Foreign currency exchange rate change	35	—	35
<i>Balance as of December 31, 2020:</i>			
Goodwill	102,055	14,270	116,325
Accumulated impairment losses	(38,488)	—	(38,488)
	\$ 63,567	\$ 14,270	\$ 77,837
<i>Activity in 2021</i>			
Acquisition of Trombettta	49,250	—	49,250
Acquisition of Stabil	4,827	—	4,827
Foreign currency exchange rate change	(262)	—	(262)
<i>Balance as of December 31, 2021:</i>			
Goodwill	155,870	14,270	170,140
Accumulated impairment losses	(38,488)	—	(38,488)
	\$ 117,382	\$ 14,270	\$ 131,652

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Acquired Intangible Assets***

Acquired identifiable intangible assets as of December 31, 2021 and 2020 consist of:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(In thousands)	
Customer relationships	\$ 157,020	\$ 111,701
Patents, developed technology and intellectual property	14,123	723
Trademarks and trade names	8,880	6,980
Non-compete agreements	3,280	3,272
Supply agreements	800	800
Leaseholds	160	160
Total acquired intangible assets	184,263	123,636
Less accumulated amortization (1)	(78,932)	(70,221)
<b>Net acquired intangible assets</b>	<b>\$ 105,331</b>	<b>\$ 53,415</b>

(1) Applies to all intangible assets, except for a related trademark/trade name totaling \$2.6 million, which has an indefinite useful life and, as such, is not being amortized.

In December 2020, a large retail customer informed us of its decision to pursue a private brand strategy for its engine management product line. As a result of this development, revenues sold under the BWD trademark were significantly reduced. In connection with the decision, in 2020, we recorded an impairment charge of \$2.6 million to write-off the BWD intangible asset trademark.

Total amortization expense for acquired intangible assets was \$8.7 million for the year ended December 31, 2021, \$8.2 million for the year ended December 31, 2020, and \$8 million for the year ended December 31, 2019. Based on the current estimated useful lives assigned to our intangible assets, amortization expense is estimated to be \$8.5 million for 2022, \$8.4 million in 2023, \$8.2 million in 2024, \$8.2 million in 2025 and \$69.4 million in the aggregate for the years 2026 through 2041.

For information related to identified intangible assets acquired in the Stabil, Trombetta, and Soot Sensor acquisitions, see Note 2, "Business Acquisitions and Investments," of the notes to our consolidated financial statements.

***Other Intangible Assets***

Other intangible assets include computer software. Computer software as of December 31, 2021 and 2020 totaled \$17.4 million and \$17 million, respectively. Total accumulated computer software amortization as of December 31, 2021 and 2020 was \$16.5 million and \$16.4 million, respectively. Computer software is amortized over its estimated useful life of 3 to 10 years. Amortization expense for computer software was \$0.3 million, \$0.3 million and \$0.4 million for the years ended December 31, 2021, 2020 and 2019, respectively. Fully amortized computer software, no longer in use, of \$0.2 million was written-off during each of the years ended December 31, 2021 and 2020.

**9. Investments in Unconsolidated Affiliates**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(In thousands)	
Foshan GWOYNG SMP Vehicle Climate Control & Cooling Products Co. Ltd.	\$ 20,692	\$ 18,869
Foshan FGD SMP Automotive Compressor Co. Ltd	16,676	15,036
Foshan Che Yijia New Energy Technology Co., Ltd.	3,990	4,174
Orange Electronic Co. Ltd	2,729	2,428
<b>Total</b>	<b>\$ 44,087</b>	<b>\$ 40,507</b>

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### ***Investment in Foshan Che Yijia New Energy Technology Co., Ltd.***

In August 2019, we acquired an approximate 29% minority interest in Foshan Che Yijia New Energy Technology Co., Ltd. (“CYJ”) for approximately \$5.1 million. CYJ is a manufacturer of automotive electric air conditioning compressors and is located in China. Our minority interest in CYJ is accounted for using the equity method of accounting.

In December 2021, Standard Motor Products (Hong Kong), Ltd., (“SMP HK”), a subsidiary of Standard Motor Products, Inc., entered into an unsecured loan agreement with CYJ. Under the terms of the loan agreement, CYJ shall have the right to borrow from SMP HK, as lender, up to an aggregate principal amount of \$4 million, with interest calculated on the basis of simple interest of five percent (5%) per annum and a maturity date of November 30, 2023, subject to extension by SMP HK at its sole discretion. At December 31, 2021, there was no outstanding borrowings under the loan agreement. During the years ended December 31, 2021 and 2020, purchases we made from CYJ were not material.

#### ***Investment in Foshan FGD SMP Automotive Compressor Co. Ltd.***

In November 2017, we formed Foshan FGD SMP Automotive Compressor Co., Ltd., a 50/50 joint venture with Foshan Guangdong Automotive Air Conditioning Co., Ltd. (“FGD”), a China-based manufacturer of automotive belt driven air conditioning compressors. We acquired our 50% interest in the joint venture for approximately \$12.5 million. We determined that due to a lack of a voting majority, and other qualitative factors, we do not control the operations of the joint venture and accordingly, our investment in the joint venture is accounted for under the equity method of accounting. During the years ended December 31, 2021 and 2020, we made purchases from the joint venture of approximately \$32.2 million and \$17.4 million, respectively.

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

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

In March 2018, we acquired an additional 15% equity interest in the joint venture for approximately \$4.2 million, thereby increasing our equity interest in the joint venture to 65%. Although we increased our equity interest in the joint venture to 65%, the minority shareholder maintained participating rights that allowed it to participate in certain significant financial and operating decisions that occur in the ordinary course of business. As a result of the existence of these substantive participating rights of the minority shareholder, we continued to account for our investment in the joint venture under the equity method of accounting. During the years ended December 31, 2021 and 2020, we made purchases from the joint venture of approximately \$15.9 million and \$12.4 million, respectively.

#### ***Investment in Orange Electronic Co. Ltd.***

In January 2013, we acquired an approximate 25% minority interest in Orange Electronic Co., Ltd. (“Orange”) for \$6.3 million. Orange is a manufacturer of tire pressure monitoring system sensors and is located in Taiwan. As of December 31, 2021, our minority interest in Orange of 19.4% is accounted for using the equity method of accounting as we have the ability to exercise significant influence. During the years ended December 31, 2021 and 2020, we made purchases from Orange of approximately \$7.8 million and \$4.4 million, respectively.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. Other Assets**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>	<b>(In thousands)</b>
Deferred compensation	\$ 23,623	\$ 20,775
Deferred financing costs, net	206	431
Other	1,573	617
Total other assets, net	<u>\$ 25,402</u>	<u>\$ 21,823</u>

Deferred compensation consists of assets held in a nonqualified defined contribution pension plan as of December 31, 2021 and 2020, respectively.

**11. Credit Facilities and Long-Term Debt**

Total debt outstanding is summarized as follows:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(In thousands)</b>	<b>(In thousands)</b>
Revolving credit facilities	\$ 125,298	\$ 10,000
Other (1)	3,138	232
Total debt	<u>\$ 128,436</u>	<u>\$ 10,232</u>
Current maturities of debt	\$ 128,415	\$ 10,135
Long-term debt	21	97
Total debt	<u>\$ 128,436</u>	<u>\$ 10,232</u>

(1) Other includes borrowings under our Polish overdraft facility of Zloty 12.3 million (approximately \$3 million) and Zloty 0.4 million (approximately \$0.1 million) as of December 31, 2021 and 2020, respectively.

Maturities of long-term debt are not material for the year ended December 31, 2021 and beyond.

***Revolving Credit Facility***

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

Borrowings under the amended credit agreement are secured by substantially all of our assets, including accounts receivable, inventory and certain fixed assets, and those of certain of our subsidiaries. Availability under the amended credit agreement is based on a formula of eligible accounts receivable, eligible drafts presented to the banks under our supply chain financing arrangements and eligible inventory. After taking into account outstanding borrowings under the amended credit agreement, there was an additional \$122.1 million available for us to borrow pursuant to the formula at December 31, 2020. The loss of business of one or more of our key customers or, a significant reduction in purchases of our products from any one of them, could adversely impact availability under our revolving credit facility.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Outstanding borrowings under the credit agreement, which are classified as current liabilities, were \$125.3 million and \$10 million at December 31, 2021 and 2020, respectively; while letters of credit outstanding under the credit agreement were \$2.6 million and \$2.8 million at December 31, 2021 and 2020, respectively. Borrowings under the credit agreement have been classified as current liabilities based upon accounting rules and certain provisions in the agreement.

At December 31, 2021, the weighted average interest rate on our amended credit agreement was 1.4%, which consisted of \$125 million in direct borrowings at 1.4% and an alternative base rate loan of \$0.3 million at 3.5%. At December 31, 2020, the weighted average interest rate on our amended credit agreement was 1.4%, which consisted of \$10 million in direct borrowings. Our average daily alternative base rate loan balance was \$1.1 million and \$1.5 million during 2021 and 2020, respectively.

At any time that our borrowing availability is less than the greater of either (a) \$25 million, or 10% of the commitments if fixed assets are not included in the borrowing base, or (b) \$31.25 million, or 12.5% of the commitments if fixed assets are included in the borrowing base, the terms of the amended credit agreement provide for, among other provisions, a financial covenant requiring us, on a consolidated basis, to maintain a fixed charge coverage ratio of 1:1 at the end of each fiscal quarter (rolling four quarters). As of December 31, 2021, we were not subject to these covenants. The amended credit agreement permits us to pay cash dividends of \$20 million and make stock repurchases of \$20 million in any fiscal year subject to a minimum availability of \$25 million. Provided specific conditions are met, the amended credit agreement also permits acquisitions, permissible debt financing, capital expenditures, and cash dividend payments and stock repurchases of greater than \$20 million.

#### ***Polish Overdraft Facility***

In February 2022, our Polish subsidiary, SMP Poland sp. z.o.o., amended its an overdraft facility with HSBC Continental Europe (Spolka Akcyjna) Oddzial w Polsce, formerly HSBC France (Spolka Akcyjna) Oddzial w Polsce. The amended overdraft facility provides for borrowings of up to Zloty 30 million (approximately \$8 million). Availability under the amended facility commences in March 2022 and ends in June 2022, with automatic three-month renewals until June 2027, subject to cancellation by either party, at its sole discretion, at least 30 days prior to the commencement of the three-month renewal period. Borrowings under the overdraft facility will bear interest at a rate equal to WIBOR + 1.5% and are guaranteed by Standard Motor Products, Inc., the ultimate parent company. At December 31, 2021 and 2020, borrowings under the overdraft facility were Zloty 12.3 million (approximately \$3 million) and Zloty 0.4 million (approximately \$0.1 million), respectively.

#### ***Deferred Financing Costs***

We have deferred financing costs of approximately \$0.4 million and \$0.7 million as of December 31, 2021 and 2020, respectively. Deferred financing costs as of December 31, 2021 are related to our revolving credit facility. Scheduled amortization for future years, assuming no prepayments of principal is as follows:

#### **(In thousands)**

2022		225
2023		206
Total amortization	\$	431

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### **12. Stockholders' Equity**

We have authority to issue 500,000 shares of preferred stock, \$20 par value, and our Board of Directors is vested with the authority to establish and designate any series of preferred, to fix the number of shares therein and the variations in relative rights as between each series. In December 1995, our Board of Directors established a new series of preferred shares designated as Series A Participating Preferred Stock. The number of shares constituting the Series A Preferred Stock is 30,000. The Series A Preferred Stock is designed to participate in dividends, ranks senior to our common stock as to dividends and liquidation rights and has voting rights. Each share of the Series A Preferred Stock shall entitle the holder to one thousand votes on all matters submitted to a vote of the stockholders of the Company. No such shares were outstanding at December 31, 2021 and 2020.

In March 2020, our Board of Directors authorized the purchase of up to \$20 million of our common stock under a stock repurchase program. Stock repurchases under this program, during the years ended December 31, 2021 and 2020, were 150,273 and 323,867 shares of our common stock, respectively, at a total cost of \$6.5 million and \$13.5 million, respectively, thereby completing the 2020 Board of Directors authorization.

In February 2021, our Board of Directors authorized the purchase of up to an additional \$20 million of our common stock under a stock repurchase program. Stock repurchases under this program, during the year ended December 31, 2021, were 464,992 shares of our common stock at a total cost of \$20 million, thereby completing the 2021 Board of Directors authorization.

In October 2021, our Board of Directors authorized the purchase of up to an additional \$30 million of our common stock under a stock repurchase program. Stock will be purchased under the program from time to time, in the open market or through private transactions, as market conditions warrant. Stock repurchases under this program, during the year ended December 31, 2021, were 7,000 shares of our common stock, at a total cost of \$0.3 million. As of December 31, 2021, there was approximately \$29.7 million available for future stock purchases under the program. During the period from January 1, 2022 through February 17, 2022, we have repurchased an additional 64,482 shares of our common stock at a total cost of \$3.1 million, thereby reducing the availability under the program to \$26.6 million.

#### **13. Stock-Based Compensation Plans**

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

In May 2021, our Board of Directors and Shareholders approved an amendment and restatement to the 2016 Omnibus Incentive Plan (the "Plan"). Under the Plan, which terminates in May 2026, we are authorized to issue, among other things, shares of restricted and performance-based stock to eligible employees and restricted stock to directors of up to 2,050,000 shares; and shares of restricted and performance-based stock to nonemployee directors of up to 350,000 shares. Shares issued under the Plan that are cancelled, forfeited or expire by their terms are eligible to be granted again under the Plan. Awards previously granted under the 2006 Omnibus Incentive Plan are not affected by the plan's termination, while shares not yet granted under the plan are not available for future issuance.

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Restricted Stock and Performance Share Grants***

We currently grant shares of restricted stock to eligible employees and our independent directors and performance-based stock to eligible employees. We grant eligible employees two types of restricted stock (standard restricted shares and long-term retention restricted shares). Standard restricted shares granted to employees become fully vested no earlier than three years after the date of grant. Long-term retention restricted shares granted to selected executives vest at a 25% rate on or within approximately two months of an executive reaching the ages of 60 and 63, and become fully vested on or within approximately two months of an executive reaching the age of 65. Restricted shares granted to directors become fully vested upon the first anniversary of the date of grant.

Performance-based shares issued to eligible employees 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 no earlier than three years after the date of grant. Each period we evaluate the probability of achieving the applicable targets, and we adjust our accrual accordingly. Restricted shares (other than long-term retention restricted shares) and performance shares issued to certain key executives and directors are subject to a one or two year holding period upon the lapse of the vesting period. Forfeitures on stock grants are estimated at 5% for employees and 0% for executives and directors based upon our evaluation of historical and expected future turnover.

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

Under the amended and restated 2016 Omnibus Incentive Plan, 2,050,000 shares are authorized to be issued. At December 31, 2021, under the plan, there were an aggregate of (a) 1,121,445 shares of restricted and performance-based stock grants issued, net of forfeitures, and (b) 928,555 shares of common stock available for future grants. For the year ended December 31, 2021, 211,815 restricted and performance-based shares were granted (159,565 restricted shares and 52,250 performance-based shares).

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

As related to restricted and performance stock shares, we recorded compensation expense of \$9.1 million (\$6.9 million, net of tax), \$7.8 million (\$5.8 million, net of tax) and \$6.5 million (\$4.9 million, net of tax), for the years ended December 31, 2021, 2020 and 2019, respectively. The unamortized compensation expense related to our restricted and performance-based shares was \$16.6 million and \$15.2 million at December 31, 2021 and 2020, respectively and is expected to be recognized over a weighted average period of 4.7 years and 0.4 years for employees and directors, respectively, as of December 31, 2021 and over a weighted average period of 4.6 years and 0.3 years for employees and directors, respectively, as of December 31, 2020.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Our restricted and performance-based share activity was as follows for the years ended December 31, 2021 and 2020:

	Shares	Weighted Average Grant Date Fair Value per Share
Balance at December 31, 2019	852,540	\$ 35.26
Granted	208,200	38.21
Vested	(161,054)	39.23
Forfeited (1)	(60,000)	42.25
Balance at December 31, 2020	839,686	\$ 34.77
Granted	211,815	38.51
Vested	(227,682)	36.10
Forfeited	(16,800)	39.39
Balance at December 31, 2021	807,019	\$ 34.92

(1) Due to the lack of achievement of performance targets, performance-based shares forfeited in the year ended December 31, 2020 were 50,250 shares.

The weighted-average grant date fair value of restricted and performance-based shares outstanding as of December 31, 2021, 2020 and 2019 was \$28.2 million (or \$34.92 per share), \$29.2 million (or \$34.77 per share), and \$30.1 million (or \$35.26 per share), respectively.

#### **14. Employee Benefits**

##### ***Defined Contribution Plans***

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

	<b>U.S. Defined Contribution</b>
Year ended December 31,	
2021	\$ 9,763
2020	9,457
2019	9,080

We maintain a defined contribution Supplemental Executive Retirement Plan for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2021 and 2020, contributions of \$0.5 million and \$0.3 million were made related to calendar year 2020 and 2019, respectively. As of December 31, 2021, we have recorded an obligation of \$0.8 million for 2021.

We also have an Employee Stock Ownership Plan and Trust (“ESOP”) for employees who are not covered by a collective bargaining agreement. In connection therewith, we maintain an employee benefits trust to which we contribute shares of treasury stock. We are authorized to instruct the trustees to distribute such shares toward the satisfaction of our future obligations under the plan. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with its fiduciary duties. During 2021, we contributed to the trust an additional 61,800 shares from our treasury and released 61,800 shares from the trust leaving 200 shares remaining in the trust as of December 31, 2021. The provision for expense in connection with the ESOP was approximately \$2.5 million in 2021, \$2.3 million in 2020 and \$2.5 million in 2019.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Defined Benefit Pension Plan***

We maintain a defined benefit unfunded Supplemental Executive Retirement Plan (“SERP”). The SERP, as amended, is a defined benefit plan pursuant to which we will pay supplemental pension benefits to certain key employees upon the attainment of a contractual participant’s payment date based upon the employees’ years of service and compensation. As there are no current participants in the SERP, there was no benefit obligation outstanding related to the plan as of December 31, 2021 and 2020 and we recorded no expense related to the plan during the years ended December 31, 2021, 2020 and 2019.

***Postretirement Medical Benefits***

We provide certain medical and dental care benefits to 14 former U.S. union employees. The postretirement medical and dental benefit obligation for the former union employees as of December 31, 2021, and the net periodic benefit cost for our postretirement benefit plans for the years ended December 31, 2021, 2020 and 2019 were not material.

**15. Other Non-Operating Income (Expense), Net**

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(In thousands)</b>		
Interest and dividend income	\$ 49	\$ 109	\$ 97
Equity income from joint ventures	3,295	820	2,865
Loss on foreign exchange	(257)	(350)	(502)
Other non-operating income, net	407	233	127
Total other non-operating income, net	\$ 3,494	\$ 812	\$ 2,587

**16. Fair Value Measurements**

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. Income Taxes**

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current:			
Domestic	\$ 26,528	\$ 30,368	\$ 14,632
Foreign	5,851	4,064	3,019
Total current	32,379	34,432	17,651
Deferred:			
Domestic	(1,161)	(7,418)	4,677
Foreign	(174)	(52)	417
Total deferred	(1,335)	(7,470)	5,094
Total income tax provision	\$ 31,044	\$ 26,962	\$ 22,745

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
U.S. Federal income tax rate of 21%	\$ 27,398	\$ 22,550	\$ 19,277
Increase (decrease) in tax rate resulting from:			
State and local income taxes, net of federal income tax benefit	4,579	3,781	3,328
Income tax (tax benefit) attributable to foreign income	(122)	330	191
Other non-deductible items, net	(1,277)	(563)	(409)
Change in valuation allowance	466	864	358
Provision for income taxes	\$ 31,044	\$ 26,962	\$ 22,745

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Deferred tax assets:		
Inventories	\$ 12,181	\$ 12,773
Allowance for customer returns	14,185	13,804
Postretirement benefits	33	42
Allowance for expected credit losses	1,450	1,412
Accrued salaries and benefits	15,585	12,984
Tax credit and NOL carryforwards	5,702	1,451
Accrued asbestos liabilities	15,463	15,372
Other	190	170
	64,789	58,008
Valuation allowance	(2,087)	(1,621)
Total deferred tax assets	62,702	56,387
Deferred tax liabilities:		
Intangible assets acquired, net of amortization	13,450	—
Depreciation	7,589	7,710
Other	5,537	3,907
Total deferred tax liabilities	26,576	11,617
Net deferred tax assets	\$ 36,126	\$ 44,770

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

The valuation allowance of \$2.1 million as of December 31, 2021 is intended to provide for uncertainty regarding the ultimate realization of our U.S. foreign tax credit carryovers and foreign net operating loss carryovers. Based on these considerations, we believe it is more likely than not that we would realize the benefit of the net deferred tax asset of \$36.1 million as of December 31, 2021, which is net of the remaining valuation allowance. At December 31, 2021, we have foreign tax credit carryforwards of approximately \$1.9 million that will expire in varying amounts by 2030.

As related to the taxation of our foreign subsidiaries, we aggregate our foreign earnings and profits, and utilize allowable deductions and available foreign tax credits in computing our U.S. tax. Notwithstanding the U.S. taxation of these amounts, we intend to continue to invest most or all of these earnings indefinitely outside of the U.S., and do not expect to incur any significant additional taxes related to such amounts.

In accordance with generally accepted accounting practices, we recognize in our financial statements only those tax positions that meet the more-likely-than-not recognition threshold. We establish tax reserves for uncertain tax positions that do not meet this threshold. During the years ended December 31, 2021, 2020 and 2019, we did not establish a liability for uncertain tax positions.

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We are subject to taxation in the U.S. and various state, local and foreign jurisdictions. As of December 31, 2021, the Company is no longer subject to U.S. Federal tax examinations for years before 2018. We remain subject to examination by state and local tax authorities for tax years 2017 through 2020. Foreign jurisdictions have statutes of limitations generally ranging from 2 to 6 years. Years still open to examination by foreign tax authorities in major jurisdictions include Canada (2017 onward), Hong Kong (2016 onward), China (2017 onward) Mexico (2017 onward), Poland (2016 onward), and Hungary (2015 onward). We do not presently anticipate that our unrecognized tax benefits will significantly increase or decrease over the next 12 months; however, actual developments in this area could differ from those currently expected.

#### **18. Earnings Per Share**

We present two calculations of earnings per common share. "Basic" earnings per common share equals net earnings attributable to SMP divided by weighted average common shares outstanding during the period. "Diluted" earnings per common share equals net earnings attributable to SMP divided by the sum of weighted average common shares outstanding during the period plus potentially dilutive common shares. Potentially dilutive common shares that are anti-dilutive are excluded from net earnings per common share.

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Net Earnings Attributable to SMP -</b>			
Earnings from continuing operations	\$ 99,353	\$ 80,417	\$ 69,051
Loss from discontinued operations	(8,467)	(23,024)	(11,134)
Net earnings attributable to SMP	<u><u>\$ 90,886</u></u>	<u><u>\$ 57,393</u></u>	<u><u>\$ 57,917</u></u>
<b>Basic Net Earnings Per Common Share Attributable to SMP -</b>			
Earnings from continuing operations per common share	\$ 4.49	\$ 3.59	\$ 3.09
Loss from discontinued operations per common share	(0.39)	(1.02)	(0.50)
Net earnings per common share attributable to SMP	<u><u>\$ 4.10</u></u>	<u><u>\$ 2.57</u></u>	<u><u>\$ 2.59</u></u>
Weighted average common shares outstanding	22,147	22,374	22,378
<b>Diluted Net Earnings Per Common Share Attributable to SMP -</b>			
Earnings from continuing operations per common share	\$ 4.39	\$ 3.52	\$ 3.03
Loss from discontinued operations per common share	(0.37)	(1.01)	(0.49)
Net earnings per common share attributable to SMP	<u><u>\$ 4.02</u></u>	<u><u>\$ 2.51</u></u>	<u><u>\$ 2.54</u></u>
Weighted average common shares outstanding	22,147	22,374	22,378
<i>Plus incremental shares from assumed conversions:</i>			
Dilutive effect of restricted stock and performance-based stock	469	452	440
Weighted average common shares outstanding – Diluted	<u><u>22,616</u></u>	<u><u>22,826</u></u>	<u><u>22,818</u></u>

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Restricted and performance shares	269	268	255

**19. Industry Segment and Geographic Data**

We have two major reportable operating segments, each of which focuses on a specific line of automotive parts in the automotive aftermarket with a complementary focus on the heavy duty, industrial equipment and original equipment service markets. Our Engine Management Segment manufactures and remanufactures ignition and emission parts, ignition wires, battery cables, fuel system parts and sensors for vehicle systems. Our Temperature Control Segment manufactures and remanufactures air conditioning compressors, air conditioning and heating parts, engine cooling system parts, power window accessories and windshield washer system parts.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 1). The following tables contain financial information for each reportable segment (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Net sales (a):</b>			
Engine Management	\$ 937,936	\$ 835,685	\$ 849,161
Temperature Control	348,423	281,954	278,355
Other	12,457	10,949	10,397
Total net sales	\$ 1,298,816	\$ 1,128,588	\$ 1,137,913
<b>Intersegment sales (a):</b>			
Engine Management	\$ 23,599	\$ 15,952	\$ 19,569
Temperature Control	9,024	6,162	6,545
Other	(32,623)	(22,114)	(26,114)
Total intersegment sales	\$ —	\$ —	\$ —
<b>Depreciation and Amortization:</b>			
Engine Management	\$ 21,881	\$ 20,417	\$ 19,463
Temperature Control	3,626	4,035	4,568
Other	1,736	1,871	1,778
Total depreciation and amortization	\$ 27,243	\$ 26,323	\$ 25,809
<b>Operating income (loss):</b>			
Engine Management	\$ 117,367	\$ 111,217	\$ 103,808
Temperature Control	36,997	21,296	13,667
Other	(25,365)	(23,618)	(22,980)
Total operating income	\$ 128,999	\$ 108,895	\$ 94,495
<b>Investment in unconsolidated affiliates:</b>			
Engine Management	\$ 2,729	\$ 2,428	\$ 2,243
Temperature Control	41,358	38,079	36,615
Other	—	—	—
Total investment in unconsolidated affiliates	\$ 44,087	\$ 40,507	\$ 38,858
<b>Capital expenditures:</b>			
Engine Management	\$ 21,922	\$ 13,496	\$ 12,593
Temperature Control	2,586	1,988	2,273
Other	1,367	2,336	1,319
Total capital expenditures	\$ 25,875	\$ 17,820	\$ 16,185
<b>Total assets:</b>			
Engine Management	\$ 845,767	\$ 618,210	\$ 594,953
Temperature Control	257,114	230,111	216,591
Other	95,080	108,219	92,310
Total assets	\$ 1,197,961	\$ 956,540	\$ 903,854

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

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Reconciliation of segment operating income to net earnings:

	Year Ended December 31,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)	(In thousands)	(In thousands)
Operating income	\$ 128,999	\$ 108,895	\$ 94,495
Other non-operating income, net	3,494	812	2,587
Interest expense	2,028	2,328	5,286
Earnings from continuing operations before income taxes	130,465	107,379	91,796
Provision for income taxes	31,044	26,962	22,745
Earnings from continuing operations	99,421	80,417	69,051
Discontinued operations, net of tax	(8,467)	(23,024)	(11,134)
Net earnings	\$ 90,954	\$ 57,393	\$ 57,917

	December 31,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)	(In thousands)	(In thousands)
<b>Long-lived assets (a):</b>			
United States	\$ 315,983	\$ 241,053	\$ 253,384
Asia	80,175	40,621	38,942
Europe	37,892	16,504	17,004
Mexico	12,119	10,586	12,036
Canada	4,461	4,470	4,659
Total long-lived assets	\$ 450,630	\$ 313,234	\$ 326,025

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

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Our three largest individual customers accounted for approximately 57% of our consolidated net sales in 2021. During 2021, O'Reilly, NAPA and AutoZone accounted for 26%, 17% and 14% of our consolidated net sales, respectively. Net sales from each of the customers were reported in both our Engine Management and Temperature Control Segments. The loss of one or more of these customers or, a significant reduction in purchases of our products from any one of them, such as the decision, announced in December 2020, of a large retail customer to pursue a private brand strategy for its engine management product line, 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.

For the disaggregation of our net sales from customers by geographic area, major product group and major sales channels for each of our segments, see Note 20, "Net Sales."

**20. Net Sales***Disaggregation of Net Sales*

We disaggregate our net sales from customers by geographic area, major product group, and major sales channels for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our net sales are affected by economic factors.

The following tables provide disaggregation of net sales information for the years ended December 31, 2021, 2020 and 2019 (in thousands):

<b>Year Ended December 31, 2021 (a)</b>	<b>Engine Management</b>	<b>Temperature Control</b>	<b>Other (b)</b>	<b>Total</b>
<b>Geographic Area:</b>				
United States	\$ 804,398	\$ 329,980	\$ —	\$ 1,134,378
Canada	33,590	16,513	12,457	62,560
Asia	40,668	348	—	41,016
Mexico	25,288	358	—	25,646
Europe	27,293	390	—	27,683
Other foreign	6,699	834	—	7,533
<b>Total</b>	<b>\$ 937,936</b>	<b>\$ 348,423</b>	<b>\$ 12,457</b>	<b>\$ 1,298,816</b>
<b>Major Product Group:</b>				
Ignition, emission control, fuel and safety related system products	\$ 786,514	\$ —	\$ 8,956	\$ 795,470
Wire and cable	151,422	—	(275)	151,147
Compressors	—	206,697	1,434	208,131
Other climate control parts	—	141,726	2,342	144,068
<b>Total</b>	<b>\$ 937,936</b>	<b>\$ 348,423</b>	<b>\$ 12,457</b>	<b>\$ 1,298,816</b>
<b>Major Sales Channel:</b>				
Aftermarket	\$ 692,895	\$ 317,427	\$ 12,457	\$ 1,022,779
OE/OES	218,338	28,922	—	247,260
Export	26,703	2,074	—	28,777
<b>Total</b>	<b>\$ 937,936</b>	<b>\$ 348,423</b>	<b>\$ 12,457</b>	<b>\$ 1,298,816</b>

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

<b>Year Ended December 31, 2020 (a)</b>	<b>Engine Management</b>	<b>Temperature Control</b>	<b>Other (b)</b>	<b>Total</b>
<b>Geographic Area:</b>				
United States	\$ 738,521	\$ 268,680	\$ —	\$ 1,007,201
Canada	25,842	11,679	10,949	48,470
Asia	35,079	165	—	35,244
Mexico	19,336	271	—	19,607
Europe	12,255	351	—	12,606
Other foreign	4,652	808	—	5,460
<b>Total</b>	<b>\$ 835,685</b>	<b>\$ 281,954</b>	<b>\$ 10,949</b>	<b>\$ 1,128,588</b>

**Major Product Group:**

Ignition, emission control, fuel and safety related system products	\$ 691,722	\$ —	\$ 8,172	\$ 699,894
Wire and cable	143,963	—	159	144,122
Compressors	—	163,071	812	163,883
Other climate control parts	—	118,883	1,806	120,689
<b>Total</b>	<b>\$ 835,685</b>	<b>\$ 281,954</b>	<b>\$ 10,949</b>	<b>\$ 1,128,588</b>

**Major Sales Channel:**

Aftermarket	\$ 674,744	\$ 255,716	\$ 10,949	\$ 941,409
OE/OES	142,072	25,070	—	167,142
Export	18,869	1,168	—	20,037
<b>Total</b>	<b>\$ 835,685</b>	<b>\$ 281,954</b>	<b>\$ 10,949</b>	<b>\$ 1,128,588</b>

<b>Year Ended December 31, 2019 (a)</b>	<b>Engine Management</b>	<b>Temperature Control</b>	<b>Other (b)</b>	<b>Total</b>
<b>Geographic Area:</b>				
United States	\$ 760,134	\$ 263,769	\$ —	\$ 1,023,903
Canada	27,439	12,322	10,397	50,158
Asia	24,838	130	—	24,968
Mexico	19,330	705	—	20,035
Europe	13,341	534	—	13,875
Other foreign	4,079	895	—	4,974
<b>Total</b>	<b>\$ 849,161</b>	<b>\$ 278,355</b>	<b>\$ 10,397</b>	<b>\$ 1,137,913</b>

**Major Product Group:**

Ignition, emission control, fuel and safety related system products	\$ 705,994	\$ —	\$ 6,381	\$ 712,375
Wire and cable	143,167	—	477	143,644
Compressors	—	160,485	1,338	161,823
Other climate control parts	—	117,870	2,201	120,071
<b>Total</b>	<b>\$ 849,161</b>	<b>\$ 278,355</b>	<b>\$ 10,397</b>	<b>\$ 1,137,913</b>

**Major Sales Channel:**

Aftermarket	\$ 697,722	\$ 248,420	\$ 10,397	\$ 956,539
OE/OES	129,815	27,915	—	157,730
Export	21,624	2,020	—	23,644
<b>Total</b>	<b>\$ 849,161</b>	<b>\$ 278,355</b>	<b>\$ 10,397</b>	<b>\$ 1,137,913</b>

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

(b) Other consists of the elimination of intersegment sales from our Engine Management and Temperature Control segments as well as sales from our Canadian business unit that does not meet the criteria of a reportable operating segment. Intersegment wire and cable sales for the year ended December 31, 2021 exceeded third party sales from our Canadian business unit.

*Geographic Area*

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



## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### *Major Product Group*

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

#### *Major Sales Channel*

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

#### **21. Commitments and Contingencies**

Total rent expense for the three years ended December 31, 2021 was as follows (in thousands):

	<b>Total</b>	<b>Real Estate</b>	<b>Other</b>
2021 (1)	\$ 12,065	\$ 9,500	\$ 2,565
2020 (1)	11,669	8,290	3,379
2019	11,382	7,909	3,473

- (1) Includes expenses of approximately \$2 million and \$2.5 million for the years ended December 31, 2021 and 2020, respectively, related to non-lease components such as maintenance, property taxes, etc., and operating lease expense for leases with an initial term of 12 months or less, which is not material.

For our operating lease minimal rental payments that we are obligated to make, see Note 7, “Leases.”

#### *Warranties*

We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time depending on the nature of the product. As of December 31, 2021 and 2020, we have accrued \$17.5 million and \$17.7 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Warranty expense for each of the years 2021, 2020 and 2019 were \$91.9 million, \$87.1 million and \$99.3 million, respectively.

The following table provides the changes in our product warranties:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(In thousands)	(In thousands)
Balance, beginning of period	\$ 17,663	\$ 17,175
Liabilities accrued for current year sales	91,908	87,116
Settlements of warranty claims	(92,108)	(86,628)
Balance, end of period	<b>\$ 17,463</b>	<b>\$ 17,663</b>

## STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### ***Letters of Credit***

At December 31, 2021, we had outstanding letters of credit with certain vendors aggregating approximately \$2.6 million. These letters of credit are being maintained as security for reimbursements to insurance companies and as security to the landlord of our administrative offices in Long Island City, New York. The contract amount of the letters of credit is a reasonable estimate of their value as the value for each is fixed over the life of the commitment.

#### ***Change of Control Arrangements***

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

#### ***Asbestos***

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation in the accompanying statement of operations. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001, and the amounts paid for settlements, awards of asbestos-related damages, and defense of such claims. At December 31, 2021, 1,554 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through December 31, 2021, the amounts paid for settled claims and awards of asbestos-related damages, including interest, were approximately \$53.8 million. We do not have insurance coverage for the indemnity and defense costs associated with the claims we face.

In evaluating our potential asbestos-related liability, we have considered various factors including, among other things, an actuarial study of the asbestos related liabilities performed by an independent actuarial firm, our settlement amounts and whether there are any co-defendants, the jurisdiction in which lawsuits are filed, and the status and results of such claims. As is our accounting policy, we consider the advice of actuarial consultants with experience in assessing asbestos-related liabilities to estimate our potential claim liability; and perform an actuarial evaluation in the third quarter of each year and whenever events or changes in circumstances indicate that additional provisions may be necessary. The methodology used to project asbestos-related liabilities and costs in our actuarial study considered: (1) historical data available from publicly available studies; (2) an analysis of our recent claims history to estimate likely filing rates into the future; (3) an analysis of our currently pending claims; (4) an analysis of our settlements and awards of asbestos-related damages to date; and (5) an analysis of closed claims with pay ratios and lag patterns in order to develop average future settlement values. Based on the information contained in the actuarial study and all other available information considered by us, we have concluded that no amount within the range of settlement payments and awards of asbestos-related damages was more likely than any other and, therefore, in assessing our asbestos liability we compare the low end of the range to our recorded liability to determine if an adjustment is required.

In accordance with our policy to perform an annual actuarial evaluation in the third quarter of each year, an actuarial study was performed as of August 31, 2021. The results of the August 31, 2021 study included an estimate of our undiscounted liability for settlement payments and awards of asbestos-related damages, excluding legal costs and any potential recovery from insurance carriers, ranging from \$60.9 million to \$100.2 million for the period through 2065. The change from the updated prior year study, which was in December of 2020, was a \$2.1 million decrease for the low end of the range and a \$1.1 million increase for the high end of the range. The change in the estimated undiscounted liability from the updated prior year study at both the low end and high end of the range reflects our actual experience, our historical data and certain assumptions with respect to events that may occur in the future.

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Based upon the results of the August 31, 2021 actuarial study, in September 2021 we increased our asbestos liability to \$60.9 million, the low end of the range, and recorded an incremental pre-tax provision of \$5.3 million in earnings (loss) from discontinued operations in the accompanying statement of operations. Future legal costs, which are expensed as incurred and reported in earnings (loss) from discontinued operations in the accompanying statement of operations, are estimated, according to the August 31, 2021 study, to range from \$49.4 million to \$99.3 million for the period through 2065. Total operating cash outflows related to discontinued operations, which include settlements, awards of asbestos-related damages and legal costs, net of taxes, were \$8.8 million, \$16.4 million and \$7.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

***Other Litigation***

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

[Index](#)**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**(a) Evaluation of Disclosure Controls and Procedures.

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act, as part of this Report we have furnished a report regarding our internal control over financial reporting as of December 31, 2021. During 2021, we acquired Trumpet Holdings, Inc, ("Trombetta") and Stabil Operative Group GmbH ("Stabil"), and have excluded from our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Trombetta's and Stabil's internal control over financial reporting associated with 13.8% of total assets and 3.5% of total revenues included in the consolidated financial statements of the Company as of and for year ended December 31, 2021. The report is under the caption "Management's Report on Internal Control Over Financial Reporting" in "Item 8. Financial Statements and Supplementary Data," which report is included herein.

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

KPMG LLP, our independent registered public accounting firm, has issued an opinion as to the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. The opinion is under the caption "Report of Independent Registered Public Accounting Firm—Internal Control Over Financial Reporting" in "Item 8. Financial Statements and Supplementary Data" for this attestation report, which is included herein.

(d) Changes in Internal Control Over Financial Reporting.

During the quarter ended December 31, 2021 and subsequent to that date, we have not made changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Index](#)**ITEM 9A. CONTROLS AND PROCEDURES (Continued)**

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

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not Applicable.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item is incorporated herein by reference to the information in our Definitive Proxy Statement to be filed with the SEC in connection with our 2022 Annual Meeting of Stockholders (the “2022 Proxy Statement”) set forth under the captions “Proposal No. 1 - Election of Directors,” “Management Information,” and “Corporate Governance.”

The Board of Directors of the Company has adopted a Code of Ethics that applies to all employees, officers and directors of the Company. The Company’s Code of Ethics is available at [ir.smpcorp.com](http://ir.smpcorp.com) under “Governance Documents.” The Company intends to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Company’s Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by disclosing such information on the Company’s website, at the address specified above.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference to the information in our 2022 Proxy Statement set forth under captions “Corporate Governance,” “Compensation Discussion & Analysis,” “Executive Compensation and Related Information” and “Report of the Compensation and Management Development Committee.”

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference to the information in our 2022 Proxy Statement set forth under the captions “Executive Compensation and Related Information” and “Security Ownership of Certain Beneficial Owners and Management.”

[Index](#)**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item is incorporated herein by reference to the information in our 2022 Proxy Statement set forth under the captions "Corporate Governance" and "Executive Compensation and Related Information."

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Company's independent registered public accounting firm is KMPG LLP, New York, New York (PCAOB ID 185). All other information required by this Item is incorporated herein by reference to the information in our 2022 Proxy Statement set forth under the captions "Audit and Non-Audit Fees."

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)
  - (1) The Index to Consolidated Financial Statements of the Registrant under Item 8 of this Report is incorporated herein by reference as the list of Financial Statements required as part of this Report.
  - (2) The following financial schedule and related report for the years 2021, 2020 and 2019 is submitted herewith:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not required, not applicable or the information is included in the financial statements or notes thereto.

- (3) Exhibits.

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

**ITEM 16. FORM 10-K SUMMARY**

None.

Index**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
EXHIBIT INDEX****Exhibit  
Number**

- 3.1 [Restated By-Laws, dated as of April 8, 2020 \(incorporated by reference to the Company's Current Report on Form 8-K filed as of April 9, 2020\).](#)
- 3.2 [Restated Certificate of Incorporation, filed as of August 1, 1990 \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 3.3 [Certificate of Amendment of the Certificate of Incorporation, filed as of February 27, 1996 \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 10.1 [Amended and Restated Employee Stock Ownership Plan and Trust of Standard Motor Products, Inc., dated as of December 21, 2018.](#)
- 10.2 [2006 Omnibus Incentive Plan of Standard Motor Products, Inc., as amended \(incorporated by reference to the Company's Registration Statement on Form S-8 \(Registration No. 333-174330\), filed as of May 19, 2011\).](#)
- 10.3 [Supplemental Compensation Plan, effective as of October 1, 2001 \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001\).](#)
- 10.4 [Severance Compensation Agreement, dated as of December 12, 2001, between Standard Motor Products, Inc. and James Burke \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001\).](#)
- 10.5 [Amendment to the Standard Motor Products, Inc. Supplemental Compensation Plan, effective as of December 1, 2006 \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2006\).](#)
- 10.6 [Purchase and Sale Agreement, dated as of December 21, 2007, between Standard Motors Products, Inc. and EXII Northern Boulevard Acquisition LLC \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007\).](#)
- 10.7 [Lease Agreement, dated as of March 12, 2008, between Standard Motors Products, Inc. and 37-18 Northern Boulevard LLC \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007\).](#)
- 10.8 [Amendment to Severance Compensation Agreement, dated as of December 15, 2008, between Standard Motor Products, Inc. and James Burke \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009\).](#)

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**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
EXHIBIT INDEX**

**Exhibit  
Number**

- 10.9 [Amended and Restated Supplemental Executive Retirement Plan, dated as of December 31, 2010 \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\).](#)
- 10.10 [Amendment to Severance Compensation Agreement, dated as of March 8, 2011, between Standard Motor Products, Inc. and James Burke \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\).](#)
- 10.11 [Credit Agreement, dated as of October 28, 2015, among Standard Motor Products, Inc., as borrower and the other loan parties thereto, and JPMorgan Chase Bank, N.A., as agent and lender, J.P. Morgan Securities LLC, as sole bookrunner and joint lead arranger, Bank of America, N.A. and Wells Fargo Bank, National Association, as co-syndication agents and joint lead arrangers, and the other lenders thereto \(incorporated by reference to the Company's Current Report on Form 8-K filed as of October 30, 2015\).](#)
- 10.12 [Standard Motor Products, Inc. Amended and Restated 2016 Omnibus Incentive Plan and forms of related award agreements \(incorporated by reference to the Company's Registration Statement on Form S-8 \(Registration No. 333-256362\) filed as of May 21, 2021\).](#)
- 10.13 [First Amendment to Credit Agreement, dated as of December 10, 2018, among Standard Motor Products, Inc. and SMP Motor Products Ltd., as borrowers, JPMorgan Chase Bank, N.A., as agent and lender, and the other lenders thereto \(incorporated by reference to the Company's Current Report on Form 8-K filed as of December 13, 2018\).](#)
- 10.14 [Amended and Restated Consulting Agreement, dated as of February 23, 2021, between Standard Motor Products, Inc. and John P. Gethin \(incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2020\).](#)
- 21 [List of Subsidiaries of Standard Motor Products, Inc.](#)
- 23 [Consent of KPMG LLP, Independent Registered Public Accounting Firm.](#)
- 24 [Power of Attorney \(see signature page to Annual Report on Form 10-K\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

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**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES  
EXHIBIT INDEX**

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

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

## SIGNATURES

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

**STANDARD MOTOR PRODUCTS, INC.**  
**(Registrant)**

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

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

New York, New York  
February 23, 2022

## POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

February 23, 2022      /s/ Eric P. Sills  
                                Eric P. Sills  
                                Chief Executive Officer and President  
                                (Principal Executive Officer)

February 23, 2022      /s/ Nathan R. Iles  
                                Nathan R. Iles  
                                Chief Financial Officer  
                                (Principal Financial and Accounting Officer)

February 23, 2022      /s/ Lawrence I. Sills  
                                Lawrence I. Sills, Director

February 23, 2022      /s/ John P. Gethin  
                                John P. Gethin, Director

February 23, 2022      /s/ Pamela Forbes Lieberman  
                                Pamela Forbes Lieberman, Director

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February 23, 2022      /s/ Patrick S. McClymont  
                                  Patrick S. McClymont, Director

February 23, 2022      /s/ Joseph W. McDonnell  
                                  Joseph W. McDonnell, Director

February 23, 2022      /s/ Alisa C. Norris  
                                  Alisa C. Norris, Director

February 23, 2022      /s/ Pamela S. Puryear, Ph.D.  
                                  Pamela S. Puryear, Director

February 23, 2022      /s/ William H. Turner  
                                  William H. Turner, Director

February 23, 2022      /s/ Richard S. Ward  
                                  Richard S. Ward, Director

**STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES**

## Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2021, 2020 and 2019

<b>Description</b>	<b>Additions</b>				<b>Balance at end of year</b>
	<b>Balance at beginning of year</b>	<b>Charged to costs and expenses</b>	<b>Other</b>	<b>Deductions</b>	
<b><u>Year ended December 31, 2021:</u></b>					
Allowance for expected credit losses	\$ 4,406,000	\$ 450,000	\$ —	\$ 41,000	\$ 4,815,000
Allowance for discounts	1,416,000	13,827,000	—	13,888,000	1,355,000
	<u>\$ 5,822,000</u>	<u>\$ 14,277,000</u>	<u>\$ —</u>	<u>\$ 13,929,000</u>	<u>\$ 6,170,000</u>
Allowance for sales returns	<u>\$ 40,982,000</u>	<u>\$ 129,964,000</u>	<u>\$ —</u>	<u>\$ 128,534,000</u>	<u>\$ 42,412,000</u>
<b><u>Year ended December 31, 2020:</u></b>					
Allowance for expected credit losses	\$ 4,244,000	\$ 392,000	\$ —	\$ 230,000	\$ 4,406,000
Allowance for discounts	968,000	11,488,000	—	11,040,000	1,416,000
	<u>\$ 5,212,000</u>	<u>\$ 11,880,000</u>	<u>\$ —</u>	<u>\$ 11,270,000</u>	<u>\$ 5,822,000</u>
Allowance for sales returns	<u>\$ 35,240,000</u>	<u>\$ 135,448,000</u>	<u>\$ —</u>	<u>\$ 129,706,000</u>	<u>\$ 40,982,000</u>
<b><u>Year ended December 31, 2019:</u></b>					
Allowance for expected credit losses	\$ 4,488,000	\$ (295,000)	\$ —	\$ (51,000)	\$ 4,244,000
Allowance for discounts	1,199,000	10,660,000	—	10,891,000	968,000
	<u>\$ 5,687,000</u>	<u>\$ 10,365,000</u>	<u>\$ —</u>	<u>\$ 10,840,000</u>	<u>\$ 5,212,000</u>
Allowance for sales returns	<u>\$ 33,417,000</u>	<u>\$ 136,777,000</u>	<u>\$ —</u>	<u>\$ 134,954,000</u>	<u>\$ 35,240,000</u>