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STANDARD MOTOR PRODUCTS INC

Form 10-Q/A

January 20, 2006

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

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE
SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

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

COMMISSION FILE NUMBER: 1-4743

STANDARD MOTOR PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

11-1362020

(State or other jurisdiction of
incorporation or organization)

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

37-18 NORTHERN BLVD., LONG ISLAND CITY, N.Y.

11101

(Address of principal executive offices)

(Zip Code)

(718) 392-0200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of the close of business on October 28, 2005, there were 19,849,651 outstanding shares of the registrant's Common Stock, par value \$2.00 per share.

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EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as originally filed on November 9, 2005 (the "Report"), is being filed in response to comments received by us from the Staff of the Securities and Exchange Commission (the "Staff"). This Amendment amends and replaces in its entirety our disclosure in Item 4 of the Report to clarify (1) management's assessment of the effectiveness of our disclosure controls and procedures as of the end of the period covered by the Report and (2) that we design our disclosure controls and procedures to provide reasonable assurance of achieving their desired control objectives.

Except to the extent expressly set forth herein, this Amendment speaks as of the original filing date of our Report and has not been updated to reflect events occurring subsequent to the original filing date other than those required to reflect the effects of the comments received by the Staff. Accordingly, this Amendment should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the Report, including any amendments to those filings.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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) 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.

Grant Thornton LLP, our independent registered public accounting firm, has provided us with an unqualified report on our consolidated financial statements for 2004. However, in the course of conducting its assessment of our internal controls and its audit of our financial statements for our year ended December 31, 2004, Grant Thornton advised management and the audit committee of our board of directors that it had identified the following material weaknesses in our internal controls:

- (1) There were insufficient personnel resources within the accounting and financial reporting function due to accounting staff (including senior level employees) turnover occurring in the fourth quarter of 2004.
- (2) There were deficiencies identified in the following areas of the Company's information technology function which, when considered in the aggregate, constitute a material weakness over financial reporting:
 - o The Company's IT system is decentralized with disparate IT platforms, business solutions and software applications being utilized.
 - o System maintenance policies and procedures (including an enhanced disaster recovery plan) require development and adoption.
 - o Security of systems used for the entry and maintenance of accounting records requires additional documentation and scrutiny to ensure that appropriate access to such systems and the data contained therein is restricted.

- o A policy and procedure to address an overall security framework, including password usage, intrusion detection, system security monitoring and back-up recovery must be written and implemented.
- (3) There were deficiencies in the analysis and reconciliation of general ledger accounts which were indicative of a material weakness in controls over closing procedures, including the (a) month end cut off processes, and (b) the accounting and reporting of restructuring charges.

While these material weaknesses did not have an effect on our reported results, they nevertheless constituted deficiencies in our disclosure controls. In light of these material weaknesses and the requirements enacted by the Sarbanes-Oxley Act of 2002 and the related rules and regulations adopted by the SEC, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures needed improvement and were not effective at a reasonable assurance level. Despite those deficiencies in our disclosure controls, management believes that there were no material inaccuracies or omissions of material facts in this Report.

Since the discovery of the material weaknesses in internal controls described above, management is strengthening the Company's internal control over financial reporting beyond what has existed in prior years, and we have taken various actions to improve our disclosure controls and procedures and to remediate our internal control over financial reporting including, but not limited to, the following:

- (1) We have engaged a search firm to assist us in the hiring of additional senior level accounting staff. In the third quarter of 2005, we hired a Corporate Controller/Chief Accounting Officer and an Assistant Corporate Controller. In addition, we have hired other accounting personnel for our Engine Management division. We intend to continue to fill other accounting positions by the end of 2005. In addition, in the first quarter of 2005, we hired a Financial Compliance Manager to help drive our Sarbanes-Oxley compliance effort.
- (2) We have re-allocated resources to our accounting and finance department to strengthen our accounting function. In particular, in the first quarter of 2005 we transferred one employee from our European operations to become our Engine Management Group Controller; in the second quarter of 2005 we transferred one employee from our Canadian operations to serve in a senior level accounting position in our Engine Management division; and in the third quarter of 2005 we transferred one employee from our Engine Management division to become our Corporate Accounting Manager. In addition, in the fourth quarter of 2004 and third quarter of 2005 we hired, and are continuing to utilize, an outside consultant and temporary employee to assist us with our accounting function.
- (3) In 2004, we retained an independent third party consulting firm to assist us in the preparation, documentation and testing of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We are continuing to utilize this consulting firm with our Sarbanes-Oxley compliance efforts in 2005.

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- (4) As part of our efforts to improve our IT function, we are in the process of:
- o Establishing an enterprise wide information technology strategy to synthesize the disparate IT platforms and to develop policies to unify the business solutions and software applications being employed;
 - o Establishing a plan for uniform upgrades of workstations and software, including virus protection and software fixes;

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- o Establishing a formal policy and procedure to address the overall security framework, including password usage, intrusion detection and system security monitoring;
- o Improving our security measures to safeguard our data, including enhancing our disaster recovery procedures;
- o Improving our policies and procedures for system maintenance and handling back-up and recovery tapes; and
- o Utilizing a consulting firm to assist us with preparing an IT policy and procedures manual to document all of our updated IT procedures/standards on a company-wide basis.

The continued implementation of the initiatives described above is among our highest priorities. We have discussed our corrective actions and future plans with our audit committee and Grant Thornton and, as of the date of this Report, we believe the actions outlined above should correct the above-listed material weaknesses in our internal controls. However, although our disclosure controls and procedures are designed to provide reasonable assurance of achieving their desired control objectives, in designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and are subject to certain limitations, including the exercise of judgment by individuals, the inability to identify unlikely future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will prevent all errors or fraud or ensure that all material information will be made known to management in a timely manner. In addition, we cannot assure you that neither we nor our independent auditors will in the future identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

When in certain of the Company's prior filings under the Exchange Act officers of the Company provided conclusions regarding the effectiveness of our disclosure controls and procedures, they believed that their conclusions were accurate. However, after receiving and assessing the formal advice regarding our internal control over financial reporting that our independent auditors provided in the course of the audit of our financial statements for the year ended December 31, 2004, our Chief Executive Officer and Chief Financial Officer have reached the conclusions set forth above.

We believe that the material weaknesses in our internal controls identified during our Sarbanes-Oxley testing review and described above do not materially affect the fairness or accuracy of the presentation of our financial condition and results of operation in our historical financial statements as set forth in this Report or in our reports previously filed with the SEC under the Exchange Act.

(b) Changes in Internal Control Over Financial Reporting.

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During the quarter ended September 30, 2005 and subsequent to that date, we made and continue to make changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, including the following:

- (1) Hired a new Corporate Controller/Chief Accounting Officer and an Assistant Corporate Controller as well as other accounting personnel. We are continuing a search for additional accounting staff.
- (2) Increased employee training on compliance with Section 404 of the Sarbanes-Oxley Act at our various facilities.
- (3) Continuing to utilize a consulting firm with the requisite experience and expertise to assist us in the implementation and compliance with Section 404 of the Sarbanes-Oxley Act.

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- (4) Improved the documentation of our significant accounting and IT policies, and we are in the process of strengthening the integrity and access controls of our systems.

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

The certifications of the Company's Chief Executive Officer and Chief Financial Officer attached as Exhibits 31.1 and 31.2 to this Report include, in paragraph 4 of such certifications, information concerning the Company's disclosure controls and procedures and internal control over financial reporting. These officers believe these certifications to be accurate, because we did have procedures in place during the quarter ended September 30, 2005 to detect errors in our systems. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

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

SIGNATURE

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

STANDARD MOTOR PRODUCTS, INC.
(Registrant)

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Date: January 20, 2006

/s/ James J. Burke

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

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STANDARD MOTOR PRODUCTS, INC.

EXHIBIT INDEX

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|------|---|
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