STANDARD MOTOR PRODUCTS INC
Form 10-Q
October 30, 2018

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

FORM 10-Q

(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, 2018

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 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of the close of business on October 26, 2018, there were 22,431,618 outstanding shares of the registrant's Common Stock, par value $2.00 per share.

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)	Three Months Ended September 30, 2018 (Unaudited)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018 (Unaudited)	Nine Months Ended September 30, 2017
Net sales	$296,619	$281,058	$845,081	$876,165
Cost of sales	209,313	198,523	603,897	618,854
Gross profit	87,306	82,535	241,184	257,311
Selling, general and administrative expenses	60,137	54,963	175,604	172,726
Restructuring and integration expenses	6	1,132	3,073	3,914
Other income, net	15	316	328	946
Operating income	27,178	26,756	62,835	81,617
Other non-operating income, net	351	482	800	2,372
Interest expense	1,254	595	3,137	1,785
Earnings from continuing operations before taxes	26,275	26,643	60,498	82,204
Provision for income taxes	7,002	9,535	15,801	30,468
Earnings from continuing operations	19,273	17,108	44,697	51,736
Loss from discontinued operations, net of income taxes	(3,524)	(3,983)	(5,014)	(5,113)
Net earnings	$15,749	$13,125	$39,683	$46,623
Per Share Data:				
Net earnings per common share – Basic:				
Earnings from continuing operations	$0.86	$0.75	$1.99	$2.27
Discontinued operations	(0.16)	(0.17)	(0.22)	(0.22)
Net earnings per common share – Basic	$0.70	$0.58	$1.77	$2.05
Net earnings per common share – Diluted:				
Earnings from continuing operations	$0.84	$0.74	$1.95	$2.22
Discontinued operations	(0.15)	(0.17)	(0.22)	(0.22)
Net earnings per common share – Diluted	$0.69	$0.57	$1.73	$2.00
Dividend declared per share	$0.21	$0.19	$0.63	$0.57
Average number of common shares	22,424,962	22,660,157	22,464,697	22,774,927
Average number of common shares and dilutive common shares	22,938,925	23,174,700	22,954,649	23,287,052

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
	(Unaudited)		(Unaudited)	
Net earnings	$ 15,749	$ 13,125	$ 39,683	$ 46,623
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	719	1,595	(2,997)	7,051
Pension and postretirement plans:				
Amortization of:				
Unrecognized gain	(10)	(165)	(31)	(496)
Unrecognized actuarial gains	—	—	12	472
Income tax related to pension and postretirement plans	4	66	8	10
Pension and postretirement plans, net of tax	(6)	(99)	(11)	(14)
Total other comprehensive income (loss), net of tax	713	1,496	(3,008)	7,037
Comprehensive income	$ 16,462	$ 14,621	$ 36,675	$ 53,660

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,321	$ 17,323
Accounts receivable, less allowances for discounts and doubtful accounts of $5,537 and $4,967 for 2018 and 2017, respectively	163,309	140,057
Inventories	318,420	326,411
Unreturned customer inventories	21,295	—
Prepaid expenses and other current assets	11,681	12,300
Total current assets	542,026	496,091
Property, plant and equipment, net of accumulated depreciation of $190,015 and $191,081 for 2018 and 2017, respectively	91,735	89,103
Goodwill	67,387	67,413
Other intangibles, net	50,263	56,261
Deferred income taxes	34,907	32,420
Investments in unconsolidated affiliates	33,785	31,184
Other assets	16,284	15,095
Total assets	$ 836,387	$ 787,567
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 45,000	$ 57,000
Current portion of other debt	5,980	4,699
Accounts payable	84,031	77,990
Sundry payables and accrued expenses	30,879	40,012
Accrued customer returns	53,717	35,916
Accrued core liability	30,002	11,899
Accrued rebates	35,329	35,346
Payroll and commissions	24,013	23,035
Total current liabilities	308,951	285,897
Long-term debt	26	79
Other accrued liabilities	18,039	14,561
Accrued asbestos liabilities	35,319	33,376
Total liabilities	362,335	333,913
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	104,876	100,057
Retained earnings	381,503	357,153

Accumulated other comprehensive income	(7,117)	(4,109)
Treasury stock – at cost (1,520,524 shares and 1,424,025 shares in 2018 and 2017, respectively)	(53,082)	(47,319)
Total stockholders' equity	474,052	453,654
Total liabilities and stockholders' equity	$ 836,387	$ 787,567

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$39,683	$46,623
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	17,745	17,439
Amortization of deferred financing cost	258	258
Increase to allowance for doubtful accounts	40	889
Increase to inventory reserves	2,753	1,579
Amortization of deferred gain on sale of building	(218)	(786)
Equity income from joint ventures	(603)	(970)
Employee Stock Ownership Plan allocation	1,918	1,619
Stock-based compensation	5,614	5,663
(Increase) decrease in deferred income taxes	(2,556)	700
Loss on discontinued operations, net of tax	5,014	5,113
Change in assets and liabilities:		
Increase in accounts receivable	(23,428)	(27,753)
(Increase) decrease in inventories	2,761	(18,746)
(Increase) decrease in prepaid expenses and other current assets	1,202	(4,805)
Increase in accounts payable	5,193	90
Increase in sundry payables and accrued expenses	12,828	8,728
Net change in other assets and liabilities	(619)	1,120
Net cash provided by operating activities	67,585	36,761
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of and investments in businesses	(9,852)	—
Capital expenditures	(15,633)	(17,710)
Other investing activities	37	6
Net cash used in investing activities	(25,448)	(17,704)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) under line-of-credit agreements	(12,000)	18,188
Net borrowings (payments) of other debt and capital lease obligations	1,463	(35)
Purchase of treasury stock	(9,271)	(20,000)
Increase in overdraft balances	1,382	658
Dividends paid	(14,144)	(12,990)
Net cash used in financing activities	(32,570)	(14,179)
Effect of exchange rate changes on cash	431	724
Net increase in cash and cash equivalents	9,998	5,602
CASH AND CASH EQUIVALENTS at beginning of period	17,323	19,796
CASH AND CASH EQUIVALENTS at end of period	$27,321	$25,398

Supplemental disclosure of cash flow information:
Cash paid during the period for:

Interest	$2,896	$1,456
Income taxes	$11,829	$30,181

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2018
(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2017	$47,872	$100,057	$357,153	$(4,109)	$(47,319)	$453,654
Cumulative effect adjustment (Note 2)	—	—	(1,189)	—	—	(1,189)
Net earnings	—	—	39,683	—	—	39,683
Other comprehensive income (loss), net of tax	—	—	—	(3,008)	—	(3,008)
Cash dividends paid	—	—	(14,144)	—	—	(14,144)
Purchase of treasury stock	—	—	—	—	(9,115)	(9,115)
Stock-based compensation	—	4,054	—	—	1,560	5,614
Employee Stock Ownership Plan	—	765	—	—	1,792	2,557
Balance at September 30, 2018	$47,872	$104,876	$381,503	$(7,117)	$(53,082)	$474,052

See accompanying notes to consolidated financial statements (unaudited).

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

Standard Motor Products, Inc. and subsidiaries (referred to as the “Company,” “we,” “us,” or “our”) is engaged in the manufacture and distribution of replacement parts for motor vehicles in the automotive aftermarket industry with a complementary focus on heavy duty, industrial equipment and the original equipment service market.

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. The unaudited 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. 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.

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

Reclassification

Certain prior period amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2018 presentation.

Note 2. Summary of Significant Accounting Policies

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

There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017, except for changes made as a result of the adoption of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, described under the heading, “Recently Issued Accounting Pronouncements” below and in Note 3, “Net Sales.”

Recently Issued Accounting Pronouncements

Standards that were adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09") which replaces numerous requirements in U.S. generally accepted accounting principles, including industry-specific requirements, and provides companies with a single comprehensive revenue recognition model for recognizing revenue from contracts with customers. Under the new guidance, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are (1) the full retrospective method, in which case the standard would be applied to each prior reporting period presented, with the cumulative effect of applying the standard recognized at the earliest period presented, or (2) the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

Effective January 1, 2018, we adopted the requirements of ASU 2014-09, Revenue from Contracts with Customers, using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis.

The adoption of the new standard did not result in a material difference between the recognition of revenue under ASU 2014-09 and prior accounting standards. For the majority of our net sales, revenue continues to be recognized when products are shipped from our distribution facilities, or when received by our customers, depending upon the terms of the contract. Under the new revenue standard, (1) the return of cores from customers used in our manufacturing processes for air conditioning compressors, diesel injectors, and diesel pumps is estimated and recorded as unreturned customer inventories at the time of sale, and (2) overstock returns are recorded gross of expected recoveries. Adoption of the new standard resulted in the recording of unreturned customer inventories, and an increase in accrued core liabilities and accrued customer returns, with partially offsetting changes in net sales and cost of sales, and no material change to our net income on an ongoing basis.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2018 for the adoption of ASU 2014-09 is as follows (in thousands):

	Balance at December 31, 2017	Adjustments Due to Adoption of ASU 2014-09	Balance at January 1, 2018
Balance Sheet			
Unreturned customer inventories	$ —	$ 19,950	$ 19,950
Accrued customer returns	35,916	6,670	42,586
Accrued core liability	11,899	14,469	26,368
Retained earnings	357,153	(1,189)	355,964

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The adoption of ASU 2014-09 resulted in the following changes to our consolidated balance sheet as of September 30, 2018 and our consolidated statement of operations for the three months and nine months ended September 30, 2018 (in thousands):

	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change
Balance Sheet			
Unreturned customer inventories	$ 21,295	$ —	$ 21,295
Prepaid expenses and other current assets	11,681	11,907	(226)
Accrued customer returns	53,717	45,934	7,783
Accrued core liability	30,002	16,165	13,837
Retained earnings	381,503	382,054	(551)

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change
Statement of Operations						
Net sales	$296,619	$298,440	$(1,821)	$845,081	$844,449	$ 632
Cost of sales	209,313	210,930	(1,617)	603,897	604,129	(232)
Earnings from continuing operations operations before taxes	26,275	26,479	(204)	60,498	59,634	864
Provision for income taxes	7,002	7,051	(49)	15,801	15,575	226
Net earnings	15,749	15,904	(155)	39,683	39,045	638

See Note 3 for further information regarding our adoption of ASU 2014-09.

The following table provides a brief description of the impact of additional recently adopted accounting pronouncements on our financial statements:

Standard	Description	Date of adoption	Effects on the financial statements or other significant matters
ASU 2016-15, Statement of Cash Flows	This standard is intended to reduce diversity in practice and to provide guidance as to how certain cash receipts and cash payments are presented and classified in the statement of cash flows.	January 1, 2018	The retrospective adoption of the new standard did not result in any changes in our reporting of cash receipts and cash payments in our

			consolidated statement of cash flows.
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard requires employers that present operating income in their consolidated statement of operations to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in other non-operating income (expense). The new standard requires retrospective reclassification of the effects of the new standard on the statement of operations.	January 1, 2018	The adoption of the new standard resulted in the reclassification of all components of net periodic pension cost and net periodic postretirement benefit cost, other than the service cost component, in our statement of operations from selling, general and administrated expenses, to other non-operating income (expense). We adopted the new standard retrospectively, and as such, all prior period amounts have been reclassified for comparative purposes.

Standards that are not yet adopted as of September 30, 2018

Leases

In February 2016, the FASB issued ASU 2016-02, Leases, ("ASU 2016-02"), which outlines the need to recognize a right-of-use ("ROU") asset and a lease liability for all leases with a term longer than twelve months. For income statement purposes, the FASB retained the dual model, requiring leases to be classified as either operating or financing. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The new standard is effective for annual reporting periods beginning after December 15, 2018, which for us is January 1, 2019, and interim periods within those annual periods. The new standard will require that we recognize all of our leases, including our current operating leases, on the balance sheet. The new standard requires adoption using a modified retrospective approach and provides a number of optional practical expedients in transition.

In July 2018, the FASB issued ASU 2018-11, Targeted Improvements, ("ASU 2018-11"), which provides an alternative modified retrospective transition method. Under this new transition method, a reporting entity would initially apply the new lease requirements at the effective date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Comparative financial information for the prior periods presented would not be restated but instead would continue to be reported under accounting standards in effect in those prior periods.

To date, we have taken an inventory of all of our operating leases, which consists primarily of real estate, equipment and auto leases, have reviewed key lease agreements, and have begun a review of contracts for embedded leases. We continue to evaluate lease terms, lease payments and appropriate discount rates to use in calculating the ROU asset and lease liability. We anticipate using the alternative modified retrospective method of adoption permitted pursuant to ASU 2018-11, whereby financial information will not be updated, and the disclosure required under the new standard will not be provided, for dates and periods before January 1, 2019. In addition, we expect to elect the "package of practical expedients," which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs and permits the use-of-hindsight in determining the lease term.

We do not expect that the adoption of this standard will have a material effect on our statement of operations, or our operating cash flows. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new ROU assets and lease liabilities on our balance sheet for our operating leases, and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption, and will be continuously assessing the impact of the new standard on our systems, processes and controls through January 1, 2019, our planned adoption date.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

The following table provides a brief description of additional recently issued accounting pronouncements that have not yet been adopted as of September 30, 2018, and that could have an impact on our financial statements:

Standard	Description	Date of adoption	Effects on the financial statements or other significant matters
ASU 2017-04, Simplifying the Test for Goodwill Impairment	This standard is intended to simplify the accounting for goodwill impairment. ASU 2017-04 removes Step 2 of the test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	January 1, 2020, with early adoption permitted	The new standard should be applied prospectively. We will consider the new standard when performing our annual impairment test and evaluate when we will adopt the new standard.
ASU 2016-13, Financial Instruments – Credit Losses	This standard creates a single model to measure impairment on financial assets, which includes trade account receivables. An estimate of expected credit losses on trade account receivables over their contractual life will be required to be recorded at inception, based on historical information, current conditions, and reasonable and supportable forecasts.	January 1, 2020, with early adoption permitted	We do not anticipate that the adoption of this standard will have a material impact on manner in which we estimate our allowance for doubtful accounts on trade accounts receivable, or on our consolidated financial statements.

Note 3. Net Sales

Significant Accounting Policy

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. Shipping and handling costs, as well as freight to customers, are included in distribution expenses as part of selling, general and administrative expenses.

Revenue Recognition

We derive our revenue primarily from sales of replacement parts for motor vehicles from both our Engine Management and Temperature Control Segments. 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.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (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. Revision to these estimates is made when necessary, based upon changes in these factors. We regularly study trends of such claims.

Disaggregation of Net Sales

We disaggregate our net sales from contracts with 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 three months and nine months ended September 30, 2018 and 2017 (in thousands):

Three months ended September 30, 2018 (a)	Engine Management	Temperature Control	Other (c)	Total
Geographic Area:				