FIRST TRUST ENERGY INFRASTRUCTURE FUND
Form N-CSRS
August 06, 2014

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22528

First Trust Energy Infrastructure Fund
(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.
First Trust Portfolios L.P.
120 East Liberty Drive, Suite 400
Wheaton, IL 60187
(Name and address of agent for service)

registrant's telephone number, including area code: 630-765-8000

Date of fiscal year end: November 30

Date of reporting period: May 31, 2014

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FIRST TRUST

E N E R G Y
INFRASTRUCTURE

FUND
(FIF)

SEMI-ANNUAL REPORT
For the Six Months
Ended May 31, 2014

FIRST TRUST
Energy Income Partners, LLC

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements regarding the goals, beliefs, plans or current expectations of First Trust Advisors L.P. ("First Trust" or the "Advisor") and/or Energy Income Partners, LLC ("EIP" or the "Sub-Advisor") and their respective representatives, taking into account the information currently available to them. Forward-looking statements include all statements that do not relate solely to current or historical fact. For example, forward-looking statements include the use of words such as "anticipate," "estimate," "intend," "expect," "believe," "plan," "may," "should," "would" or other words that convey uncertainty of future events or outcomes.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of First Trust Energy Infrastructure Fund (the "Fund") to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. When evaluating the information included in this report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect the judgment of the Advisor and/or Sub-Advisor and their respective representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after the date hereof.

PERFORMANCE AND RISK DISCLOSURE

There is no assurance that the Fund will achieve its investment objective. The Fund is subject to market risk, which is the possibility that the market values of securities owned by the Fund will decline and that the value of the Fund shares may therefore be less than what you paid for them. Accordingly, you can lose money by investing in the Fund. See "Risk Considerations" in the Additional Information section of this report for a discussion of certain other risks of investing in the Fund.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit http://www.ftportfolios.com or speak with your financial advisor. Investment returns, net asset value and common share price will fluctuate and Fund shares, when sold, may be worth more or less than their original cost.

HOW TO READ THIS REPORT

This report contains information that may help you evaluate your investment. It includes details about the Fund and presents data and analysis that provide insight into the Fund's performance and investment approach.

By reading the portfolio commentary by the portfolio management team of the Fund, you may obtain an understanding of how the market environment affected the Fund's performance. The statistical information that follows may help you understand the Fund's performance compared to that of relevant market benchmarks.

It is important to keep in mind that the opinions expressed by personnel of EIP are just that: informed opinions. They should not be considered to be promises or advice. The opinions, like the statistics, cover the period through the date on the cover of this report. The risks of investing in the Fund are spelled out in the prospectus, the statement of additional information, this report and other Fund regulatory filings.

SHAREHOLDER LETTER

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
SEMI-ANNUAL LETTER FROM THE CHAIRMAN AND CEO
MAY 31, 2014

Dear Shareholders:

I am pleased to present you with the semi-annual report for your investment in First Trust Energy Infrastructure Fund (the "Fund").

As a shareholder, twice a year you receive a detailed report about your investment, including portfolio commentary from the Fund's management team, a performance analysis and a market and Fund outlook. Additionally, First Trust Advisors L.P. ("First Trust") compiles the Fund's financial statements for you to review. These reports are intended to keep you up-to-date on your investment, and I encourage you to read this document and discuss it with your financial advisor.

As you are probably aware, the six months covered by this report saw both challenging economic and political issues in the U.S. However, the period was still positive for the markets. In fact, the S&P 500(R) Index, as measured on a total return basis, rose 7.62% during the six months ended May 31, 2014. Of course, past performance can never be an indicator of future performance, but First Trust believes that staying invested in quality products through up and down markets and having a long-term horizon can help investors as they work toward their financial goals.

First Trust continues to offer a variety of products that we believe could fit the financial plans for many investors seeking long-term investment success. Your financial advisor can tell you about the other investments First Trust offers that might fit your financial goals. We encourage you to discuss those goals with your financial advisor regularly so that he or she can help keep you on track and help you choose investments that match your goals.

First Trust will continue to make available up-to-date information about your investments so you and your financial advisor are current on any First Trust investments you own. We value our relationship with you, and thank you for the opportunity to assist you in achieving your financial goals.

Sincerely,

/s/ James A. Bowen

James A. Bowen
Chairman of the Board of Trustees
Chief Executive Officer of First Trust Advisors L.P.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
"AT A GLANCE"
AS OF MAY 31, 2014 (UNAUDITED)

FUND STATISTICS	
Symbol on New York Stock Exchange	FIF
Common Share Price	$22.59
Common Share Net Asset Value ("NAV")	$25.04
Premium (Discount) to NAV	(9.78)%
Net Assets Applicable to Common Shares	$439,508,941
Current Monthly Distribution per Common Share (1)	$0.1100
Current Annualized Distribution per Common Share	$1.3200
Current Distribution Rate on Closing Common Share Price (2)	5.84%
Current Distribution Rate on NAV (2)	5.27%

COMMON SHARE PRICE & NAV (WEEKLY CLOSING PRICE)

	Common Share Price	NAV
5/13	$23.08	$23.86
	23.50	24.02
	23.60	24.02
	21.53	23.10
6/13	23.81	24.03
	24.39	23.82
	24.10	24.98
	23.62	24.90
7/13	24.12	24.97
	25.08	24.59
	23.17	24.46
	22.25	23.79
	22.25	23.98
8/13	22.12	23.64
	22.02	23.20
	21.75	23.18
	22.00	23.75
9/13	21.68	23.72
	21.65	23.48
	21.46	23.71
	21.98	24.17
10/13	23.47	24.63
	21.27	22.56
	21.12	22.32
	21.84	22.58
	21.24	22.49
11/13	21.71	22.31
	20.31	21.92
	19.74	21.52
	19.71	22.18
12/13	20.61	22.61
	20.28	22.34
	20.16	22.41
	20.07	22.38
	20.13	22.46
1/14	20.45	22.88
	20.52	22.89
	20.87	23.36
	20.72	23.13
2/14	20.54	23.04
	20.64	23.02
	20.60	23.07
	20.84	22.98
3/14	20.97	23.41
	21.65	23.82
	21.58	23.82
	21.88	24.34
4/14	21.83	24.34
	22.25	24.53
	22.15	24.52
	22.19	24.79
	22.29	24.90
5/14	22.59	25.04

PERFORMANCE

			Average Annua Total Return
	6 Months Ended 5/31/2014	1 Year Ended 5/31/2014	Inception (9/27/ to 5/31/2014
FUND PERFORMANCE (3)			
NAV	15.82%	20.45%	22.63%
Market Value	7.38%	12.34%	15.99%
INEX PERFORMANCE			
Philadelphia Stock Exchange Utility Index	13.12%	15.33%	11.35%
Alerian MLP Total Return Index	11.62%	18.36%	21.10%
Blended Benchmark (4)	12.43%	16.95%	16.39%

INDUSTRY CLASSIFICATION	% OF TOTAL INVESTMENTS
Pipelines	52.0%
Electric Power	28.0
Natural Gas Utility	7.4
Propane	5.2
Coal	2.9
Marine Transportation	2.0
Gathering & Processing	1.0
Other	1.5
Total	100.0%

TOP 10 HOLDINGS	% OF TOTAL INVESTMENTS
Enbridge Energy Management, LLC	8.2%
Kinder Morgan Management, LLC	7.2
Williams (The) Cos., Inc.	3.9
Kinder Morgan, Inc.	3.9
NextEra Energy, Inc.	3.4
Southern Co.	3.4
UGI Corp.	3.2
TransCanada Corp.	3.1
Northeast Utilities	3.0
Spectra Energy Corp.	2.9
Total	42.2%

(1) Most recent distribution paid or declared through 5/31/2014. Subject to change in the future.

(2) Distribution rates are calculated by annualizing the most recent distribution paid or declared through the report date and then dividing by Common Share price or NAV, as applicable, as of 5/31/2014. Subject to

change in the future.

(3) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.

(4) The blended benchmark consists of the following: Philadelphia Stock Exchange Utility Index (50%) and Alerian MLP Total Return Index (50%).

PORTFOLIO COMMENTARY

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
SEMI-ANNUAL REPORT
MAY 31, 2014

SUB-ADVISOR

ENERGY INCOME PARTNERS, LLC

Energy Income Partners, LLC ("EIP" or the "Sub-Advisor"), located in Westport, CT, was founded in 2003 to provide professional asset management services in the area of energy-related master limited partnerships ("MLPs") and other high-payout securities such as pipeline companies, power utilities and Canadian income equities. EIP mainly focuses on investments in energy-related infrastructure assets such as pipelines, power transmission and distribution, petroleum storage and terminals that receive fee-based or regulated income from their corporate and individual customers. EIP manages or supervises approximately $5.5 billion of assets as of May 31, 2014. Private funds advised by EIP include a partnership for U.S. high net worth individuals and a master-and-feeder fund for institutions. EIP also serves as an advisor to separately managed accounts for individuals and institutions and provides its model portfolio to unified managed accounts and a variable insurance trust. EIP is a registered investment advisor and serves as a Sub-Advisor to three closed-end management investment companies in addition to the First Trust Energy Infrastructure Fund ("FIF" or the "Fund") and an actively managed exchange-traded fund (ETF).

PORTFOLIO MANAGEMENT TEAM

JAMES J. MURCHIE
PORTFOLIO MANAGER
FOUNDER AND CEO OF
ENERGY INCOME PARTNERS, LLC

EVA PAO
CO-PORTFOLIO MANAGER
PRINCIPAL OF
ENERGY INCOME PARTNERS, LLC

COMMENTARY

FIRST TRUST ENERGY INFRASTRUCTURE FUND

The investment objective of the Fund is to seek a high level of total return with an emphasis on current distributions paid to shareholders. The Fund pursues its objective by investing primarily in securities of companies engaged in the energy infrastructure sector. These companies principally include publicly-traded master limited partnerships ("MLPs"), MLP affiliates, Canadian income equities, pipeline companies, utilities and other infrastructure-related companies that derive at least 50% of their revenues from operating or providing services in support of infrastructure assets such as pipelines, power transmission and petroleum and natural gas storage in the petroleum, natural gas and power generation industries (collectively, "Energy Infrastructure Companies"). Under normal market conditions, the Fund invests at least 80% of its managed assets (total asset value of the Fund minus the sum of the Fund's liabilities other than the principal amount of borrowing) in securities of Energy Infrastructure Companies. There can be no assurance that the Fund's investment objective will be achieved. The Fund may not be appropriate for all investors.

MARKET RECAP

As measured by the Alerian MLP Total Return Index ("AMZX") and the Philadelphia Stock Exchange Utility Index ("UTY") (together, the "MLP Benchmarks), the total return for energy-related MLPs and utilities over the six months ended May 31, 2014, was 11.62% and 13.12%, respectively. These figures are according to data collected from several sources, including Alerian Capital Management and Bloomberg. While in the short term, share appreciation of Energy Infrastructure Companies can be volatile, we believe that over the longer term, share appreciation will approximate growth in per share quarterly cash distributions and dividends. Over the last 10 years, growth in per share MLP distributions and utility dividends has averaged 6.6% and 5.4%, respectively. Over the last 12 months, the cash distributions of MLPs increased by about 5.0% and utilities decreased by about -0.8% (source: Alerian Capital Management and Bloomberg).

PERFORMANCE ANALYSIS

On a net asset value ("NAV") basis, the Fund provided a total return(1) of 15.82%, including the reinvestment of dividends, for the six months ended May 31, 2014. This compares, according to collected data, to a 12.43% return of the Blended Benchmark. Unlike the Fund, the indices do not incur fees and expenses. On a market value basis, the Fund had a total return, including the

(1) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan and changes in NAV per share for NAV returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.

PORTFOLIO COMMENTARY (CONTINUED)

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reinvestment of dividends, of 7.38% for the six-month reporting period. On May 31, 2014, the Fund was priced at $22.59, while the NAV was $25.04, a discount of 9.78%. On November 30, 2013, the Fund was priced at $21.71, while the NAV was $22.30, a discount of 2.65%.

The Fund declared regular monthly Common Share distributions of $0.11 per share for each month from December 2013 through May 2014.

The Fund's NAV outperformed the 12.43% return of the Blended Benchmark. Contributing to this was the non-MLP portion of the portfolio which outperformed the UTY index. Outperforming non-MLP positions included utilities, MLP parent corporations and Canadian infrastructure corporations. The MLP portion of the portfolio performed in-line with the MLP index. Income was enhanced by writing covered calls on select portfolio positions.

An important factor that affected the return of the Fund was its use of financial leverage through the use of a line of credit. The Fund has a committed facility agreement with The Bank of Nova Scotia with a maximum commitment amount of $165,000,000. The Fund uses leverage because the Sub-Advisor believes that, over time, leverage can enhance total return for common shareholders. However, the use of leverage can also increase the volatility of the NAV and therefore volatility of the share price. For example, if the prices of securities held by the Fund decline, the effect of changes in Common Share NAV and common shareholder total return loss is magnified by the use of leverage. Conversely, leverage may enhance Common Share returns during periods when the prices of securities held by the Fund generally are rising. Unlike the Fund, AMZX and UTY are not leveraged. Leverage had a positive impact on the performance of the Fund over this reporting period.

MARKET AND FUND OUTLOOK

MLPs continue to play an integral role in the restructuring of more diversified energy conglomerates. This restructuring includes the creation by these more diversified conglomerates of subsidiaries with high dividend payout ratios that contain assets with stable cash flows such as pipelines, storage terminals and electric power assets with long-term fixed-price contracts. The restructuring can also include the divestiture by some of the parent companies of most or all of their cyclical businesses, leaving the parent company looking very similar to an old-fashioned pipeline utility with a large holding in a subsidiary MLP. In our view, these diversified energy conglomerates are restructuring so that their regulated infrastructure assets that have predictable cash flows may be better valued by the market. This results in a better financing tool to raise capital for the new energy infrastructure projects related to the rapid growth of North American oil and gas production. This phenomenon is beginning to spread to the power utility industry but instead of spinning out an MLP, diversified power companies are spinning out a regular "C" corporation with a higher dividend payout ratio (relative to earnings) and a resulting higher yield. Three such "Yield-Co.'s" have been created in the last year and EIP expects more will be created.

The MLP asset class has experienced four Initial Public Offerings ("IPOs") in 2014, as of May 31, 2014. In addition, there was secondary financing activity for MLPs during the reporting period as MLPs continued to fund their ongoing investments in new pipelines, processing and storage facilities. There have been 23 secondary equity offerings for MLPs, as of May 31, 2014, which raised $7.2 billion in proceeds. This compares to $20.3 billion raised in all of 2013. MLPs also found access to the public debt markets, raising $13.4 billion in 15 offerings through May 31, 2014. This compares to $19.9 billion in calendar year 2013 (source: Barclays Capital).

Capital spending for utilities has remained relatively unchanged. As measured by UTY, capital expenditures for the power utility industry were $81.8 billion in 2012 and $80.8 billion in 2013. The expenditures are in response to needs such as reliability, interconnection, modernization and growing demand. These capital investments are supported, in part, by federal and state regulation, which allows companies to recoup investments they have made in the rates they charge their customers.

The Fund continues to weight the portfolio toward Energy Infrastructure Companies with mostly non-cyclical cash flows, investment-grade ratings, conservative balance sheets, modest and/or flexible organic growth commitments and liquidity on their revolving lines of credit. Since the Fund invests in securities that tend to have high dividend payout ratios (as measured versus earnings), securities with unpredictable cyclical cash flows make them a poorer fit with the portfolio, in the opinion of the Sub-Advisor. While there are some businesses within the Fund's portfolio whose cash flows are cyclical, they are usually small and analyzed in the context of each company's financial and operating leverage and payout ratio.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
PORTFOLIO OF INVESTMENTS
MAY 31, 2014 (UNAUDITED)

SHARES	DESCRIPTION
COMMON STOCKS - 97.2%	
	ELECTRIC UTILITIES - 22.6%
163,400	American Electric Power Co., Inc. (a)..
78,200	Duke Energy Corp. (a)..
160,400	Emera, Inc. (CAD) (a)..
176,800	Fortis, Inc. (CAD) (a)...
62,000	IDACORP, Inc...
255,800	ITC Holdings Corp. (a)...
200,300	NextEra Energy, Inc. (a)...
376,600	Northeast Utilities (a)..
132,400	NRG Yield, Inc., Class A (a)...
434,900	Southern (The) Co. (a)...
	GAS UTILITIES - 8.9%
50,800	Atmos Energy Corp. (a)...
119,385	Laclede Group, Inc. (a)..
118,000	One Gas, Inc...
359,500	Questar Corp. (a)..
367,479	UGI Corp. (a)..
	MULTI-UTILITIES - 18.2%
49,000	Alliant Energy Corp..
104,200	ATCO, Ltd., Class I (CAD) (a)..
166,000	Canadian Utilities, Ltd., Class A (CAD) (a)..
286,000	CMS Energy Corp. (a)...
221,900	Dominion Resources, Inc. (a)...
160,500	National Grid PLC, ADR (a)...
145,000	NiSource, Inc..
72,000	Public Service Enterprise Group, Inc...
108,000	Scana Corp...

59,000	Sempra Energy (a)...
235,100	Wisconsin Energy Corp. (a)...
	OIL, GAS & CONSUMABLE FUELS - 47.5%
1,564,074	Enbridge Energy Management, LLC (a) (b)......................................
458,600	Enbridge Income Fund Holdings, Inc. (CAD) (a)................................
240,569	Enbridge, Inc. (a)...
417,000	Inter Pipeline, Ltd. (CAD) (a)...
40,300	Keyera Corp. (CAD) (a)...
656,500	Kinder Morgan, Inc. (a)..
568,084	Kinder Morgan Management, LLC (a) (b)..
133,100	Pembina Pipeline Corp. (CAD) (a)...
399,400	Spectra Energy Corp. (a)...
374,500	TransCanada Corp. (a)..
476,700	Williams (The) Cos., Inc. (a)..
	TOTAL COMMON STOCKS..
	(Cost $377,507,240)

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2014 (UNAUDITED)

SHARES/ UNITS	DESCRIPTION
MASTER LIMITED PARTNERSHIPS - 31.9%	
	GAS UTILITIES - 2.7%
189,764	AmeriGas Partners, L.P. (a)..
60,000	Suburban Propane Partners, L.P. (a)..
	OIL, GAS & CONSUMABLE FUELS - 29.2%
24,000	Access Midstream Partners, L.P. (a)..
44,000	Alliance Holdings GP, L.P. (a)...
132,715	Alliance Resource Partners, L.P. (a)...
255,200	El Paso Pipeline Partners, L.P. (a)..
117,000	Energy Transfer Equity, L.P. (a)...
151,400	Energy Transfer Partners, L.P. (a)...
114,600	Enterprise Products Partners, L.P. (a).......................................
73,700	EQT Midstream Partners, L.P. (a)...
180,776	Holly Energy Partners, L.P. (a)..
75,600	Magellan Midstream Partners, L.P. (a)..
120,239	Natural Resource Partners, L.P. (a)..
103,472	NGL Energy Partners, L.P. (a)..

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     164,200   ONEOK Partners, L.P. (a)..........................................
       8,100   Phillips 66 Partners, L.P. (a)....................................
     126,686   Plains All American Pipeline, L.P.................................
     156,500   Spectra Energy Partners, L.P. (a).................................
     162,095   TC Pipelines, L.P. (a)............................................
     249,628   Teekay LNG Partners, L.P. (a).....................................
     172,762   TransMontaigne Partners, L.P. (a).................................
      50,000   Williams Partners, L.P. (a).......................................


               TOTAL MASTER LIMITED PARTNERSHIPS.................................
               (Cost $99,816,660)

               TOTAL INVESTMENTS - 129.1%........................................
               (Cost $477,323,900) (c)



  NUMBER OF
  CONTRACTS                                       DESCRIPTION
-------------   -----------------------------------------------------------------
CALL OPTIONS WRITTEN - (0.7%)

               American Electric Power Co., Inc. Calls
         200   @ $55.00 due June 2014............................................
         100   @  55.00 due November 2014........................................
         600   @  60.00 due January 2015.........................................


               CMS Energy Corp. Calls
         280   @  30.00 due June 2014............................................
       1,400   @  32.50 due September 2014.......................................


               Dominion Resources, Inc. Call
       1,330   @  75.00 due July 2014............................................
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FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2014 (UNAUDITED)

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  NUMBER OF
  CONTRACTS                                       DESCRIPTION
-------------   -----------------------------------------------------------------
CALL OPTIONS WRITTEN (CONTINUED)

               Duke Energy Corp. Call
         280   @ $77.50 due July 2014............................................

               Enbridge, Inc. Calls
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  1,520   @  45.00 due July 2014.........................................................
    106   @  47.50 due July 2014.........................................................

          Kinder Morgan, Inc. Calls
    860   @  40.00 due June 2014.........................................................
  2,000   @  35.00 due September 2014....................................................
    800   @  40.00 due September 2014....................................................
    200   @  37.50 due December 2014.....................................................

          National Grid PLC, ADR Calls
    415   @  70.00 due June 2014.........................................................
    630   @  70.00 due September 2014....................................................

          NextEra Energy, Inc. Call
  1,480   @  100.00 due June 2014........................................................

          NiSource, Inc. Calls
  1,300   @  36.00 due July 2014.........................................................
    150   @  37.00 due July 2014.........................................................

          Northeast Utilities Call
  2,260   @  50.00 due October 2014......................................................

          Plains All American Pipeline, L.P. Calls
    370   @  57.50 due June 2014.........................................................
    380   @  60.00 due November 2014.....................................................

          Public Service Enterprise Group, Inc. Call
    400   @  45.00 due December 2014.....................................................

          Questar Corp. Call
  2,250   @  25.00 due July 2014.........................................................

          Scana Corp. Calls
    200   @  55.00 due August 2014.......................................................
    350   @  55.00 due November 2014.....................................................

          Sempra Energy Call
    300   @  105.00 due July 2014........................................................

          Southern (The) Co. Calls
  1,120   @  46.00 due June 2014.........................................................
  1,000   @  45.00 due August 2014.......................................................
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See Notes to Financial Statements

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2014 (UNAUDITED)

NUMBER OF CONTRACTS	DESCRIPTION
CALL OPTIONS WRITTEN (CONTINUED)	
	Spectra Energy Corp. Calls
2,080	@ $38.00 due June 2014..........
100	@ 39.00 due June 2014..........
210	@ 39.00 due September 2014..........
	TransCanada Corp. Calls
170	@ 47.50 due June 2014..........
1,510	@ 50.00 due August 2014..........
560	@ 50.00 due November 2014..........
	UGI Corp. Call
1,550	@ 50.00 due October 2014..........
	Williams (The) Cos., Inc. Calls
1,000	@ 47.00 due July 2014..........
1,860	@ 46.00 due August 2014..........
	Wisconsin Energy Corp. Calls
1,090	@ 45.00 due July 2014..........
300	@ 50.00 due July 2014..........
	TOTAL CALL OPTIONS WRITTEN..........
	(Premiums received $1,647,782)
	OUTSTANDING LOAN - (33.2%)..........
	NET OTHER ASSETS AND LIABILITIES - 4.8%..........
	NET ASSETS - 100.0%..........

(a) All or a portion of this security serves as collateral on the outstanding loan.

(b) Non-income producing security which pays in-kind distributions. For the six months ended May 31, 2014, the Fund received 57,482 shares of Enbridge Energy Management, LLC and 20,202 shares of Kinder Morgan Management, LLC.

(c) Aggregate cost for financial reporting purposes, which approximates the

aggregate cost for federal income tax purposes. As of May 31, 2014, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $94,974,614 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was $5,066,637.

ADR American Depositary Receipt

CAD Canadian Dollar - Security is denominated in Canadian Dollars and is translated into U.S. Dollars based upon the current exchange rate.

INTEREST RATE SWAP AGREEMENTS:

COUNTERPARTY	FLOATING RATE (1)	EXPIRATION DATE	NOTIONAL AMOUNT	FIXED RATE (1)	V
Bank of Nova Scotia	1 month LIBOR	10/08/20	$ 36,475,000	2.121%	$

(1) The Fund pays the fixed rate and receives the floating rate. The floating rate on May 31, 2014 was 0.151%.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
PORTFOLIO OF INVESTMENTS (CONTINUED)
MAY 31, 2014 (UNAUDITED)

VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of May 31, 2014 is as follows (see Note 2A - Portfolio Valuation in the Notes to Financial Statements):

ASSETS TABLE

INVESTMENTS	TOTAL VALUE AT 5/31/2014	LEVEL 1 QUOTED PRICES	LE SIGN OBS I
Common Stocks*...................................	$ 427,150,148	$ 427,150,148	$
Master Limited Partnerships *....................	140,081,729	140,081,729	
Total..	$ 567,231,877	$ 567,231,877	$

LIABILITIES TABLE

	TOTAL VALUE AT 5/31/2014	LEVEL 1 QUOTED PRICES	LE SIGN OBS I
Call Options Written............................	$ (3,011,785)	$ (3,011,785)	$
Interest Rate Swap**	(685,474)	--	
Total	$ (3,697,259)	$ (3,011,785)	$

* See Portfolio of Investments for industry breakout.
** See Interest Rate Swap Agreements for contract detail.

All transfers in and out of the Levels during the period are assumed to be transferred on the last day of the period at their current value. There were no transfers between Levels at May 31, 2014.

See Notes to Financial Statements

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
STATEMENT OF ASSETS AND LIABILITIES
MAY 31, 2014 (UNAUDITED)

ASSETS:

Investments, at value
(Cost $477,323,900)
Cash
Cash segregated as collateral for open swap contracts
Receivables:
Dividends...
Investment securities sold..
Interest..
Prepaid expenses

Total Assets..

LIABILITIES:
Outstanding loan
Options written, at value (Premiums received $1,647,782)
Swap contracts, at value (Cost $569)
Payables:
Investment advisory fees..
Interest and fees on loan...
Administrative fees..
Audit and tax fees..
Custodian fees..
Legal fees..
Printing fees...
Trustees' fees and expenses...
Transfer agent fees...
Financial reporting fees..
Other liabilities

Total Liabilities..

NET ASSETS

NET ASSETS CONSIST OF:
Paid-in capital..
Par value..
Accumulated net investment income (loss)..
Accumulated net realized gain (loss) on investments, written options, swap contracts and foreign currency transactions..
Net unrealized appreciation (depreciation) on investments, written options, swap contracts and foreign currency translation...

NET ASSETS

NET ASSET VALUE, per Common Share (par value $0.01 per Common Share)

Number of Common Shares outstanding (unlimited number of Common Shares has been authorized)...

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED MAY 31, 2014 (UNAUDITED)

INVESTMENT INCOME:

Dividends (net of foreign withholding tax of $234,109).....................................
Interest...

Total investment income..

EXPENSES:
Investment advisory fees...
Interest and fees on loan..
Administrative fees..
Printing fees..
Custodian fees...
Audit and tax fees...
Transfer agent fees..
Legal fees...
Trustees' fees and expenses..
Financial reporting fees...
Other..

Total expenses...

NET INVESTMENT INCOME (LOSS)...

NET REALIZED AND UNREALIZED GAIN (LOSS):
Net realized gain (loss) on:
Investments...
Written options...
Swap contracts...
Foreign currency transactions...

Net realized gain (loss)...

Net change in unrealized appreciation (depreciation) on:
Investments...
Written options ...
Swap contracts...
Foreign currency translation...

Net change in unrealized appreciation (depreciation)...

NET REALIZED AND UNREALIZED GAIN (LOSS)...

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS...

See Notes to Financial Statements

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
STATEMENTS OF CHANGES IN NET ASSETS

	SIX MON ENDED 5/31/20 (UNAUDIT
OPERATIONS:	
Net investment income (loss)...	$ 2,11
Net realized gain (loss)...	21,61
Net increase from payment by the Sub-Advisor (a)...	
Net change in unrealized appreciation (depreciation)...	36,02
Net increase (decrease) in net assets resulting from operations...	59,75
DISTRIBUTIONS TO SHAREHOLDERS FROM:	
Net investment income...	(11,58
Net realized gain...	
Return of capital...	
Total distributions to shareholders...	(11,58
Total increase (decrease) in net assets...	48,17
NET ASSETS:	
Beginning of period...	391,33
End of period...	$ 439,50

Accumulated net investment income (loss) at end of period.........................	$ (3,54
COMMON SHARES:	
Common Shares at end of period..	17,55

(a) See Note 3 in the Notes to Financial Statements.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED MAY 31, 2014 (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase (decrease) in net assets resulting from operations...................	$ 59,75
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:	
Purchases of investments..	(94,22
Sales of investments..	109,43
Proceeds from written options...	2,64
Amount paid to close written options..	(2,46
Return of capital received from investment in MLPs................................	3,77
Net realized gain/loss on investments and written options.........................	(21,92
Net change in unrealized appreciation/depreciation on investments and written options..	(36,42
Net change in unrealized appreciation/depreciation on swap contracts	40
CHANGES IN ASSETS AND LIABILITIES:	
Increase in cash segregated as collateral for open swap contracts.................	(25
Increase in interest receivable...	
Decrease in dividends receivable (a)..	5
Increase in prepaid expenses..	(
Increase in interest and fees on loan payable.....................................	
Increase in investment advisory fees payable......................................	4
Decrease in audit and tax fees payable..	(2
Decrease in legal fees payable..	(
Decrease in printing fees payable...	(1
Increase in administrative fees payable...	
Decrease in custodian fees payable..	(2
Increase in transfer agent fees payable...	
Increase in Trustees' fees and expenses payable...................................	
Increase in other liabilities payable...	
CASH PROVIDED BY OPERATING ACTIVITIES...	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Distributions to Common Shareholders from net investment income...................	(11,58

CASH USED BY FINANCING ACTIVITIES..

Increase in cash...
Cash at beginning of period..

Cash at end of period..

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Cash paid during the period for interest and fees....................................

(a) Includes net change in unrealized appreciation (depreciation) on foreign currency of $3,357.

See Notes to Financial Statements

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
FINANCIAL HIGHLIGHTS
FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD

	SIX MONTHS ENDED 5/31/2014 (UNAUDITED)	YEAR ENDED 11/30/2013	Y E 11/3
Net asset value, beginning of period.......................	$ 22.30	$ 22.74	$
INCOME FROM INVESTMENT OPERATIONS:			
Net investment income (loss)...............................	0.12	0.22	
Net realized and unrealized gain (loss)....................	3.28	3.47	
Total from investment operations...........................	3.40	3.69	
Common Shares offering costs charged to paid-in capital..	--	--	
Capital reduction from issuance of Common Shares related to over allotment..............................	--	--	
Distributions paid to shareholders from:			
Net investment income......................................	(0.66)	(0.83)	
Net realized gain..	--	(3.25)	
Return of capital..	--	(0.05)	
Total distributions to Common Shareholders.................	(0.66)	(4.13)	
Net asset value, end of period............................	$ 25.04	$ 22.30	$
Market value, end of period...............................	$ 22.59	$ 21.71	$
TOTAL RETURN BASED ON NET ASSET VALUE (c)..................	15.82%	17.76% (d)	

TOTAL RETURN BASED ON MARKET VALUE (c)	7.38%	22.11%	
RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:			
Net assets, end of period (in 000's)	$ 439,509	$ 391,336	$ 3
Ratio of total expenses to average net assets	1.84% (e)	1.84%	
Ratio of total expenses to average net assets excluding interest expense and fees on loan	1.56% (e)	1.55%	
Ratio of net investment income (loss) to average net assets	1.04% (e)	0.95%	
Portfolio turnover rate	17%	54%	
INDEBTEDNESS:			
Total loan outstanding (in 000's)	$ 145,900	$ 145,900	$ 1
Asset coverage per $1,000 of indebtedness (f)	$ 4,012	$ 3,682	$

(a) Initial seed date of August 18, 2011. The Fund commenced operations on September 27, 2011.

(b) Net of sales load of $0.90 per Common Share on initial offering.

(c) Total return is based on the combination of reinvested dividend, capital gain and return of capital distributions, if any, at prices obtained by the Dividend Reinvestment Plan, and changes in net asset value per share for net asset value returns and changes in Common Share price for market value returns. Total returns do not reflect sales load and are not annualized for periods less than one year. Past performance is not indicative of future results.

(d) During the years ended November 30, 2013 and 2012, the Fund received reimbursements from the Sub-Advisor in the amounts of $5,421 and $104, respectively, in connection with trade errors. The reimbursements from the Sub-Advisor represent less than $0.01 per share and had no effect on the Fund's total returns.

(e) Annualized.

(f) Calculated by taking the Fund's total assets less the Fund's total liabilities (not including the loan outstanding) and dividing by the outstanding loan balance in 000's.

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
MAY 31, 2014 (UNAUDITED)

1. ORGANIZATION

First Trust Energy Infrastructure Fund (the "Fund") is a non-diversified, closed-end management investment company organized as a Massachusetts business trust on February 22, 2011 and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund trades under the ticker symbol FIF on the New York Stock Exchange ("NYSE").

The Fund's investment objective is to seek a high level of total return with an emphasis on current distributions paid to shareholders. The Fund seeks to achieve its objective by investing primarily in securities of companies engaged in the energy infrastructure sector. Energy infrastructure companies principally include publicly-traded master limited partnerships and limited liability companies taxed as partnerships ("MLPs"), MLP affiliates, Canadian income equities, pipeline companies, utilities, and other companies that derive at least 50% of their revenues from operating or providing services in support of infrastructure assets such as pipelines, power transmission and petroleum and natural gas storage in the petroleum, natural gas and power generation industries (collectively, "Energy Infrastructure Companies"). For purposes of the Fund's investment objective, total return includes capital appreciation of, and all distributions received from, securities in which the Fund will invest, taking into account the varying tax characteristics of such securities. There can be no assurance that the Fund will achieve its investment objective. The Fund may not be appropriate for all investors.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of the Fund is determined daily as of the close of regular trading on the NYSE, normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. If the NYSE closes early on a valuation day, the NAV is determined as of that time. Foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund) by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value in accordance with valuation procedures adopted by the Fund's Board of Trustees, and in accordance with provisions of the 1940 Act. Market quotations and prices used to value the Fund's investments are primarily obtained from third party pricing services. The Fund's investments are valued as follows:

> Common stocks, MLPs and other equity securities listed on any national or foreign exchange (excluding The NASDAQ(R) Stock Market, LLC ("NASDAQ") and the London Stock Exchange Alternative Investment Market ("AIM")) are valued at the last sale price on the exchange on which they are principally traded or, for NASDAQ and AIM securities, the official closing price. Securities traded on more than one securities exchange are valued at the last sale price or official closing price, as applicable,

at the close of the securities exchange representing the principal market for such securities.

Exchange-traded options contracts are valued at the closing price in the market where such contracts are principally traded. If no closing price is available, exchange-traded options contracts are valued at the mean of their most recent bid and asked price, if available, and otherwise at their closing bid price. Over-the-counter options contracts are valued at the mean of their most recent bid and asked price, if available, and otherwise at their closing bid price.

Securities traded in the over-the-counter market are valued at the mean of their most recent bid and asked price, if available, and otherwise at their closing bid price.

Swaps are valued utilizing quotations provided by a third party pricing service or, if the pricing service does not provide a value, by quotes provided by the selling dealer or financial institution.

Short-term investments that mature in less than 60 days when purchased are valued at amortized cost.

Certain securities may not be able to be priced by pre-established pricing methods. Such securities may be valued by the Fund's Board of Trustees or its delegate at fair value. These securities generally include, but are not limited to, restricted securities (securities which may not be publicly sold without registration under the Securities Act of 1933, as amended) for which a pricing service is unable to provide a market price; securities whose trading has been formally suspended; a security whose market price is not available from a pre-established pricing source; a security with respect to which an event has occurred that is likely to materially affect the value of the security after the market has closed but before the calculation of the Fund's NAV or make it difficult or impossible to obtain a reliable market quotation; and a security whose price, as provided by the pricing service, does not reflect the security's "fair value." As a general principle, the current "fair value" of a security would appear to be the amount which the owner might reasonably expect to receive for the security upon its current sale. The use of fair value prices

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by the Fund generally results in prices used by the Fund that may differ from current market quotations or official closing prices on the applicable exchange. A variety of factors may be considered in determining the fair value of such securities, including, but not limited to, the following:

1) the type of security;
2) the size of the holding;
3) the initial cost of the security;
4) transactions in comparable securities;

5) price quotes from dealers and/or pricing services;
6) relationships among various securities;
7) information obtained by contacting the issuer, analysts, or the appropriate stock exchange;
8) an analysis of the issuer's financial statements; and
9) the existence of merger proposals or tender offers that might affect the value of the security.

If the securities in question are foreign securities, the following additional information may be considered:

1) the value of similar foreign securities traded on other foreign markets;
2) ADR trading of similar securities;
3) closed-end fund trading of similar securities;
4) foreign currency exchange activity;
5) the trading prices of financial products that are tied to baskets of foreign securities;
6) factors relating to the event that precipitated the pricing problem;
7) whether the event is likely to recur; and
8) whether the effects of the event are isolated or whether they affect entire markets, countries or regions.

The Fund is subject to fair value accounting standards that define fair value, establish the framework for measuring fair value and provide a three-level hierarchy for fair valuation based upon the inputs to the valuation as of the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 - Level 1 inputs are quoted prices in active markets for identical investments. An active market is a market in which transactions for the investment occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:

  - Quoted prices for similar investments in active markets.

  - Quoted prices for identical or similar investments in markets that are non-active. A non-active market is a market where there are few transactions for the investment, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

  - Inputs other than quoted prices that are observable for the investment (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 - Level 3 inputs are unobservable inputs. Unobservable inputs may reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the investment.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. A summary of the inputs used to value the Fund's investments as of May 31, 2014, is

included with the Fund's Portfolio of Investments.

B. OPTION CONTRACTS:

The Fund is subject to equity price risk in the normal course of pursuing its investment objective and may write (sell) options to hedge against changes in the value of equities. Also, the Fund seeks to generate additional income, in the form of premiums received, from writing (selling) the options. The Fund may write (sell) covered call or put options ("options") on all or a portion of the common stock and MLPs held in the Fund's portfolio as determined to be appropriate by Energy Income Partners, LLC ("EIP" or the "Sub-Advisor"). The number of options the Fund can write (sell) is limited by the amount of common stock and MLPs the Fund holds in its portfolio. The Fund will not write (sell) "naked" or uncovered options. When the Fund writes (sells) an option, an amount equal to the premium received by the Fund is included in "Options written, at value" on the Fund's Statement of Assets and Liabilities. Options are marked-to-market daily and their value will be affected by changes in the value and dividend rates of the underlying equity securities, changes in interest rates, changes in the actual or perceived volatility of the securities markets and the underlying equity securities and the remaining time to the options' expiration. The value of options may also be adversely affected if the market for the options becomes less liquid or trading volume diminishes.

Options the Fund writes (sells) will either be exercised, expire or be cancelled pursuant to a closing transaction. If the price of the underlying security exceeds the option's exercise price, it is likely that the option holder will exercise the option. If an option written (sold) by the Fund is exercised, the Fund would be obligated to deliver the underlying security to the option holder upon payment of the strike price. In this case, the option premium received by the Fund will be added to the amount realized on the sale of the underlying security for purposes of determining

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gain or loss. If the price of the underlying security is less than the option's strike price, the option will likely expire without being exercised. The option premium received by the Fund will, in this case, be treated as short-term capital gain on the expiration date of the option. The Fund may also elect to close out its position in an option prior to its expiration by purchasing an option of the same series as the option written (sold) by the Fund. Gain or loss on options is presented separately as "Net realized gain (loss) on written options" on the Statement of Operations.

The options that the Fund writes (sells) give the option holder the right, but not the obligation, to purchase a security from the Fund at the strike price on or prior to the option's expiration date. The ability to successfully implement the writing (selling) of covered call options depends on the ability of the Sub-Advisor to predict pertinent market movements, which cannot be assured. Thus, the use of options may require the Fund to sell portfolio securities at

inopportune times or for prices other than current market value, which may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. As the writer (seller) of a covered option, the Fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the option above the sum of the premium and the strike price of the option, but has retained the risk of loss should the price of the underlying security decline. The writer (seller) of an option has no control over the time when it may be required to fulfill its obligation as a writer (seller) of the option. Once an option writer (seller) has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security to the option holder at the exercise price.

Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum equity price risk for purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities hedged.

C. SWAP AGREEMENTS:

The Fund may enter into total return equity swap and interest rate swap agreements. A swap is a financial instrument that typically involves the exchange of cash flows between two parties ("Counterparties") on specified dates (settlement dates) where the cash flows are based on agreed-upon prices, rates, etc. Swap agreements are individually negotiated and involve the risk of the potential inability of the Counterparties to meet the terms of the agreement. In connection with these agreements, cash and securities may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default under the swap agreement or bankruptcy/insolvency of a party to the swap agreement. In the event of a default by the Counterparty, the Fund will seek withdrawal of this collateral and may incur certain costs exercising its right with respect to the collateral. If a Counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Fund may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. The Fund may obtain only limited recovery or may obtain no recovery in such circumstances.

Swap agreements may increase or decrease the overall volatility of the investments of the Fund. The performance of swap agreements may be affected by a change in the specific interest rate, security, currency, or other factors that determine the amounts of payments due to and from the Fund. The Fund's maximum equity price risk to meet its future payments under swap agreements outstanding at May 31, 2014 is equal to the total notional amount as shown on the Portfolio of Investments. The notional amount represents the U.S. dollar value of the contract as of the day of the opening transaction or contract reset. When the Fund enters into a swap agreement, any premium paid is included in "Swap contracts, at value" on the Statement of Assets and Liabilities.

An interest rate swap agreement involves the Fund's agreement to exchange a stream of interest payments for another party's stream of cash flows. Interest rate swaps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make.

D. SECURITIES TRANSACTIONS AND INVESTMENT INCOME:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded daily on the accrual basis, including amortization of premiums and accretion of discounts. The Fund will rely to some extent on information provided by the MLPs, which is not necessarily timely, to estimate taxable income allocable to the MLP units held in the Fund's portfolio.

Distributions received from the Fund's investments in MLPs generally are comprised of return of capital and investment income. The Fund records estimated return of capital and investment income based on historical information available from each MLP. These estimates may subsequently be revised based on information received from the MLPs after their tax reporting periods are concluded. For the six months ended May 31, 2014, distributions of $3,772,153 received from MLPs have been reclassified as return of capital. The cost basis of applicable MLPs has been reduced accordingly.

E. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS:

The Fund will distribute to holders of its Common Shares monthly dividends of all or a portion of its net income after the payment of interest in connection with leverage, if any. Distributions of any long-term capital gains earned by the Fund are distributed at least annually. Distributions will automatically be reinvested into additional Common Shares pursuant to the Fund's Dividend Reinvestment Plan unless cash distributions are elected by the shareholder.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
MAY 31, 2014 (UNAUDITED)

Distributions from income and capital gains are determined in accordance with income tax regulations, which may differ from U.S. GAAP. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These permanent differences are primarily due to the varying treatment of income and gain/loss on portfolio securities held by the Fund and have no impact on net assets or NAV per share. Temporary differences, which arise from recognizing certain items of income, expense and gain/loss in different periods for financial statement and tax purposes, will reverse at some point in the future.

The tax character of distributions paid during the fiscal year ended November 30, 2013 was as follows:

Distributions paid from:	
Ordinary income..................................	$ 36,268,003
Capital gain.....................................	35,321,879
Return of capital................................	918,918

As of November 30, 2013, the components of distributable earnings and net assets

on a tax basis were as follows:

Undistributed ordinary income....................	$ --
Undistributed capital gains......................	--
Total undistributed earnings.....................	--
Accumulated capital and other losses.............	--
Net unrealized appreciation (depreciation)........	57,561,098
Total accumulated earnings (losses)..............	57,561,098
Other	(54,252)
Paid-in capital.................................	333,829,544
Net assets......................................	$ 391,336,390

F. INCOME TAXES:

The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under Subchapter M of the Internal Revenue Code of 1986, as amended, which includes distributing substantially all of its net investment income and net realized gains to shareholders. Accordingly, no provision has been made for federal or state income taxes. However, due to the timing and amount of distributions, the Fund may be subject to an excise tax of 4% of the amount by which approximately 98% of the Fund's taxable income exceeds the distributions from such taxable income for the calendar year.

The Fund intends to utilize provisions of the federal income tax laws, which allow it to carry a realized capital loss forward indefinitely following the year of the loss and offset such loss against any future realized capital gains. The Fund is subject to certain limitations under U.S. tax rules on the use of capital loss carryforwards and net unrealized built-in losses. These limitations apply when there has been a 50% change in ownership. At November 30, 2013, the Fund had no capital loss carryforwards for federal income tax purposes.

Certain losses realized during the current fiscal year may be deferred and treated as occurring on the first day of the following fiscal year for federal income tax purposes. For the fiscal year ended November 30, 2013, the Fund had no qualified late year losses.

The Fund is subject to accounting standards that establish a minimum threshold for recognizing, and a system for measuring, the benefits of a tax position taken or expected to be taken in a tax return. Taxable years ending 2011, 2012 and 2013 remain open to federal and state audit. As of May 31, 2014, management has evaluated the application of these standards to the Fund and has determined that no provision for income tax is required in the Fund's financial statements for uncertain tax positions.

G. EXPENSES:

The Fund will pay all expenses directly related to its operations.

H. FOREIGN CURRENCY:

The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the end of the period. Purchases and sales of investment securities and items of income and expense are translated on the respective dates of such transactions. Unrealized gains and losses on assets and liabilities, other than investments in securities, which result from changes in foreign currency exchange rates have been included in

"Net change in unrealized appreciation (depreciation) on foreign currency translation" on the Statement of Operations. Unrealized gains and losses on investments in securities which result from changes in foreign exchange rates are included with fluctuations arising from changes in market price and are shown in "Net change in unrealized appreciation (depreciation) on investments" on the Statement of Operations. Net realized foreign currency gains and losses include the effect of changes in exchange rates between trade date and settlement date on investment security transactions, foreign currency transactions and interest and dividends received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase settlement date and subsequent sale trade date is included in "Net realized gain (loss) on investments" on the Statement of Operations.

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
MAY 31, 2014 (UNAUDITED)

3. INVESTMENT ADVISORY FEE, AFFILIATED TRANSACTIONS AND OTHER FEE ARRANGEMENTS

First Trust Advisors L.P. ("First Trust"), the investment advisor to the Fund, is a limited partnership with one limited partner, Grace Partners of DuPage L.P., and one general partner, The Charger Corporation. The Charger Corporation is an Illinois corporation controlled by James A. Bowen, Chief Executive Officer of First Trust. First Trust is responsible for the ongoing monitoring of the Fund's investment portfolio, managing the Fund's business affairs and providing certain administrative services necessary for the management of the Fund. For these investment management services, First Trust is entitled to a monthly fee calculated at an annual rate of 1.00% of the Fund's Managed Assets (the average daily total asset value of the Fund minus the sum of the Fund's liabilities other than the principal amount of borrowings). First Trust also provides fund reporting services to the Fund for a flat annual fee in the amount of $9,250.

EIP serves as the Fund's Sub-Advisor and manages the Fund's portfolio subject to First Trust's supervision. The Sub-Advisor receives a monthly Sub-Advisory fee calculated at an annual rate of 0.50% of the Fund's Managed Assets that is paid by First Trust out of its investment advisory fee.

During the fiscal year ended November 30, 2013, the Fund received reimbursements from the Sub-Advisor of $5,421 in connection with trade errors.

First Trust Capital Partners, LLC ("FTCP"), an affiliate of First Trust, owns, through a wholly-owned subsidiary, a 15% ownership interest in each of EIP and EIP Partners, LLC, an affiliate of EIP. In addition, as of March 27, 2014, FTCP, through a wholly-owned subsidiary, purchased a preferred interest in EIP. The preferred interest is non-voting and does not share in the profits or losses of EIP. EIP may buy back any or all of FTCP's preferred interest at any time and FTCP may sell back to EIP up to 50% of its preferred interest on or after September 25, 2015, and any or all of its preferred interest after March 27, 2017.

BNY Mellon Investment Servicing (US) Inc. ("BNYM IS") serves as the Fund's

administrator, fund accountant and transfer agent in accordance with certain fee arrangements. As administrator and fund accountant, BNYM IS is responsible for providing certain administrative and accounting services to the Fund, including maintaining the Fund's books of account, records of the Fund's securities transactions, and certain other books and records. As transfer agent, BNYM IS is responsible for maintaining shareholder records for the Fund. The Bank of New York Mellon ("BNYM") serves as the Fund's custodian in accordance with certain fee arrangements. As custodian, BNYM is responsible for custody of the Fund's assets.

Each Trustee who is not an officer or employee of First Trust, any Sub-Advisor or any of their affiliates ("Independent Trustees") is paid a fixed annual retainer that is allocated pro rata among each fund in the First Trust Fund Complex based on net assets. Each Independent Trustee is also paid an annual per fund fee that varies based on whether the fund is a closed-end or other actively managed fund, or is an index fund.

Additionally, the Lead Independent Trustee and the Chairmen of the Audit Committee, Nominating and Governance Committee and Valuation Committee are paid annual fees to serve in such capacities, with such compensation allocated pro rata among each fund in the First Trust Fund Complex based on net assets. Trustees are reimbursed for travel and out-of-pocket expenses in connection with all meetings. The Lead Independent Trustee and Committee Chairmen rotate every three years. The officers and "Interested" Trustee receive no compensation from the Fund for acting in such capacities.

4. PURCHASES AND SALES OF SECURITIES

Cost of purchases and proceeds from sales of investments, excluding short-term investments, for the six months ended May 31, 2014, were $94,227,699 and $109,538,603, respectively.

5. DERIVATIVES TRANSACTIONS

Written option activity for the Fund was as follows:

WRITTEN OPTIONS	NUMBER OF CONTRACTS	PREMIUMS
Options outstanding at November 30, 2013...	32,393	$ 1,571,359
Options Written...........................	52,156	2,642,536
Options Expired...........................	(28,595)	(1,156,986)
Options Exercised.........................	(14,603)	(748,962)
Options Closed............................	(8,640)	(660,165)
Options outstanding at May 31, 2014........	32,711	$ 1,647,782

The following table presents the types of derivatives held by the Fund at May 31, 2014, the location of these instruments as presented on the Statement of Assets and Liabilities and the primary underlying risk exposure.

		ASSET DERIVATIVES		LIABILIT
RISK EXPOSURE	DERIVATIVE INSTRUMENT	STATEMENT OF ASSETS AND LIABILITIES LOCATION	FAIR VALUE	STATEMENT OF ASS LIABILITIES LOC
Equity Risk	Written Options	Options written, at value	$ --	Options written,
Interest Rate Risk	Interest Rate Swap Agreements	Swap contracts, at value	--	Swap contracts, a

The following table presents the amount of net realized gain (loss) and change in net unrealized appreciation (depreciation) recognized for the six months ended May 31, 2014, on derivative instruments, as well as the primary underlying risk exposure associated with each instrument.

STATEMENT OF OPERATIONS LOCATION	
EQUITY RISK EXPOSURE	
Net realized gain (loss) on written options	$ (642,929)
Net change in unrealized gain (loss) on written options transactions	(1,683,462)
INTEREST RATE RISK EXPOSURE	
Net realized gain (loss) on swap contracts	(359,465)
Net change in unrealized gain (loss) on swap contracts	(404,619)

The average volume of interest rate swaps was $36,475,000 for the six months ended May 31, 2014.

6. BORROWINGS

The Fund has a committed facility agreement with The Bank of Nova Scotia ("Scotia") that has a maximum commitment amount of $165,000,000. The borrowing rate under the facility is equal to the 1-month LIBOR plus 65 basis points. In addition, under the facility, the Fund pays a commitment fee of 0.20% on the undrawn amount of such facility. The average amount outstanding for the six months ended May 31, 2014 was $145,900,000, with a weighted average interest rate of 0.76%. As of May 31, 2014, the Fund had outstanding borrowings of $145,900,000 under this committed facility agreement. The high and low annual interest rates for the six months ended May 31, 2014, were 0.77% and 0.75%, respectively. The interest rate at May 31, 2014 was 0.75%.

7. INDEMNIFICATION

The Fund has a variety of indemnification obligations under contracts with its service providers. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

8. INDUSTRY CONCENTRATION RISK

The Fund invests at least 80% of its Managed Assets in securities issued by

Energy Infrastructure Companies. Given this industry concentration, the Fund is more susceptible to adverse economic or regulatory occurrences affecting that industry than an investment company that is not concentrated in a single industry. Energy Infrastructure Company issuers may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage costs associated with environmental and other regulations, the effects of economic slowdown, surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors.

9. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events to the Fund through the date the financial statements were issued, and has determined that there were the following subsequent events:

On June 19, 2014, the Fund declared a dividend of $0.11 per share to Common Shareholders of record on July 3, 2014, payable July 15, 2014.

On July 21, 2014, the Fund declared a dividend of $0.11 per share to Common Shareholders of record on August 5, 2014, payable August 15, 2014.

ADDITIONAL INFORMATION

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
MAY 31, 2014 (UNAUDITED)

DIVIDEND REINVESTMENT PLAN

If your Common Shares are registered directly with the Fund or if you hold your Common Shares with a brokerage firm that participates in the Fund's Dividend Reinvestment Plan (the "Plan"), unless you elect, by written notice to the Fund, to receive cash distributions, all dividends, including any capital gain distributions, on your Common Shares will be automatically reinvested by BNY Mellon Investment Servicing (US) Inc. (the "Plan Agent"), in additional Common Shares under the Plan. If you elect to receive cash distributions, you will receive all distributions in cash paid by check mailed directly to you by the Plan Agent, as the dividend paying agent.

If you decide to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If Common Shares are trading at or above net asset value ("NAV") at the time of valuation, the Fund will issue new shares at a price equal to the greater of (i) NAV per Common Share on that date or (ii) 95% of the market price on that date.

(2) If Common Shares are trading below NAV at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan

Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market within 30 days of the valuation date except where temporary curtailment or suspension of purchases is necessary to comply with federal securities laws. Interest will not be paid on any uninvested cash payments.

You may elect to opt-out of or withdraw from the Plan at any time by giving written notice to the Plan Agent, or by telephone at (866) 340-1104, in accordance with such reasonable requirements as the Plan Agent and the Fund may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan, and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all Common Shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certificated form. The Plan Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to the Fund. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Capital gains and income are realized although cash is not received by you. Consult your financial advisor for more information.

If you hold your Common Shares with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above.

The Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Trustees the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained by writing BNY Mellon Investment Servicing (US) Inc., 301 Bellevue Parkway, Wilmington, Delaware 19809.

PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that the Fund uses to determine how to vote proxies and information on how the Fund voted proxies relating to portfolio investments during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling (800) 988-5891; (2) on the Fund's website located at http://www.ftportfolios.com; and (3) on the Securities and Exchange Commission's ("SEC") website located at http://www.sec.gov.

ADDITIONAL INFORMATION (CONTINUED)

FIRST TRUST ENERGY INFRASTRUCTURE FUND (FIF)
MAY 31, 2014 (UNAUDITED)

PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (1) by calling (800) 988-5891; (2) on the Fund's website located at http://www.ftportfolios.com; (3) on the SEC's website at http://www.sec.gov; and (4) for review and copying at the SEC's Public Reference Room ("PRR") in Washington, DC. Information regarding the operation of the PRR may be obtained by calling (800) SEC-0330.

SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

The Joint Annual Meeting of Shareholders of the Common Shares of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, First Trust Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust Mortgage Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Specialty Finance and Financial Opportunities Fund, First Trust Dividend and Income Fund, First Trust High Income Long/Short Fund, First Trust Energy Infrastructure Fund, First Trust MLP and Energy Income Fund and First Trust Intermediate Duration Preferred & Income Fund was held on April 23, 2014 (the "Annual Meeting"). At the Annual Meeting, Robert F. Keith was elected by the Common Shareholders of the First Trust Energy Infrastructure Fund as a Class I Trustee for a three-year term expiring at the Fund's annual meeting of shareholders in 2017. The number of votes cast for Mr. Keith was 15,622,207, the number of votes against was 247,925 and the number of broker non-votes was 1,680,104. James A. Bowen, Richard E. Erickson, Thomas R. Kadlec and Niel B. Nielson are the other current and continuing Trustees.

RISK CONSIDERATIONS

Risks are inherent in all investing. The following summarizes some, but not all, of the risks that should be considered for the Fund. For additional information about the risks associated with investing in the Fund, please see the Fund's prospectus and statement of additional information, as well as other Fund regulatory filings.

CURRENCY RISK: The value of securities denominated or quoted in foreign currencies may be adversely affected by fluctuations in the relative currency exchange rates and by exchange control regulations. The Fund's investment performance may be negatively affected by a devaluation of a currency in which the Fund's investments are denominated or quoted. Further, the Fund's investment performance may be significantly affected, either positively or negatively, by currency exchange rates because the U.S. dollar value of securities denominated or quoted in another currency will increase or decrease in response to changes in the value of such currency in relation to the U.S. dollar. While certain of the Fund's non-U.S. dollar-denominated securities may be hedged into U.S. dollars, hedging may not alleviate all currency risks.

INVESTMENT AND MARKET RISK: An investment in the Fund's Common Shares is subject

to investment risk, including the possible loss of the entire principal invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Common Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of Fund dividends and distributions. Security prices can fluctuate for several reasons including the general condition of the securities markets, or when political or economic events affecting the issuers occur. When the Advisor or Sub-Advisor determines that it is temporarily unable to follow the Fund's investment strategy or that it"1%" style="TEXT-ALIGN: left">

31,718

Deferred income taxes

15,780

16,937

Other assets

11,447

10,917

Total assets

$
579,865

$
550,722

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable

$
79,000

$
73,000

Current portion of long-term debt

113

109

Accounts payable

72,454

50,880

Sundry payables and accrued expenses

27,234

33,409

Accrued customer returns

30,727

25,074

Accrued rebates

25,605

22,373

Payroll and commissions

14,432

24,036

Total current liabilities

249,565

228,881

Long-term debt

165

190

Accrued postretirement benefits

5,852

6,017

Other accrued liabilities

17,739

17,540

Accrued asbestos liabilities

26,042

26,141

Total liabilities

299,363

278,769

Commitments and contingencies

Stockholders’ equity:

Common stock - par value $2.00 per share: Authorized - 30,000,000 shares; issued 23,936,036 share

47,872

47,872

Capital in excess of par value

82,083

79,789

Retained earnings

156,694

153,555

Accumulated other comprehensive income

4,087

3,299

Treasury stock – at cost 909,305 shares and 1,116,155 shares in 2012 and 2011, respectively

(10,234
)

(12,562
)

Total stockholders' equity

280,502

271,953

Total liabilities and stockholders' equity

$

579,865

$
550,722

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31, 2012	2011
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$5,194	$6,707
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	3,828	3,419
Increase to allowance for doubtful accounts	38	226
Increase to inventory reserves	1,197	704
Amortization of deferred gain on sale of building	(262)	(262)
Gain on disposal of property, plant and equipment	(6)	(7)
Equity income from joint ventures	—	(44)
Employee stock ownership plan allocation	966	629
Stock-based compensation	443	325
Decrease in deferred income taxes	1,501	2,049
Loss on discontinued operations, net of tax	300	304
Change in assets and liabilities:		
Increase in accounts receivable	(18,101)	(34,902)
Increase in inventories	(13,013)	(261)
Increase in prepaid expenses and other current assets	(297)	(599)
Increase in accounts payable	16,706	13,614
Decrease in sundry payables and accrued expenses	(6,893)	(4,324)
Net changes in other assets and liabilities	(637)	542
Net cash used in operating activities	(9,036)	(11,880)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	6	28
Divestiture of joint ventures	—	1,000
Capital expenditures	(2,442)	(2,351)
Net cash used in investing activities	(2,436)	(1,323)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings under line-of-credit agreements	6,000	7,098
Principal payments of long-term debt and capital lease obligations	(21)	(21)
Increase in overdraft balances	4,868	8,432
Proceeds from exercise of employee stock options	307	43
Excess tax benefits related to the exercise of employee stock grants	7	1
Dividends paid	(2,055)	(1,586)
Net cash provided by financing activities	9,106	13,967
Effect of exchange rate changes on cash	777	733
Net increase (decrease) in cash and cash equivalents	(1,589)	1,497
CASH AND CASH EQUIVALENTS at beginning of year	10,871	12,135
CASH AND CASH EQUIVALENTS at end of year	$9,282	$13,632

Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$411	$430
Income taxes	$1,158	$2,279

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2012
(Unaudited)

(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2011	$47,872	$79,789	$153,555	$ 3,299	$(12,562)	$271,953
Comprehensive income	—	—	5,194	788	—	5,982
Cash dividends paid	—	—	(2,055)	—	—	(2,055)
Stock-based compensation and related tax benefits	—	426	—	—	24	450
Stock options and related tax benefits	—	29	—	—	278	307
Employee Stock Ownership Plan	—	1,839	—	—	2,026	3,865
Balance at March 31, 2012	$47,872	$82,083	$156,694	$ 4,087	$(10,234)	$280,502

See accompanying notes to consolidated financial statements.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1.Basis of Presentation

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

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011. The unaudited consolidated financial statements include our accounts and all domestic and international companies in which we have more than a 50% equity ownership. Our investments in unconsolidated affiliates are accounted for on the equity method, as we do not have a controlling financial interest. All significant inter-company items have been eliminated.

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

Note 2.Summary of Significant Accounting Policies

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

The impact and any associated risks related to significant accounting policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, which amended the provisions of FASB Accounting Standards

Codification ("ASC") 220, Comprehensive Income. The amendment eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. As a result of the adoption of this standard, effective with this Form 10-Q, we have eliminated the presentation of other comprehensive income in our consolidated statement of changes in stockholders' equity and have instead presented other comprehensive income in a new statement, consolidated statement of comprehensive income, which immediately follows our consolidated statement of operations.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which indefinitely defers the requirement in FASB ASU 2011-05 to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. During the deferral period, entities will still need to comply with the existing requirements for the presentation of reclassification adjustments. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. The adoption of this standard did not impact the manner in which we present reclassification adjustments from other comprehensive income.

Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”), that amended the provisions of FASB ASC 350, Intangibles – Goodwill and Other (“ASC 350”). FASB ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us was January 1, 2012. We will consider this new standard when conducting our annual impairment test of goodwill.

Balance Sheet Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”). The update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not anticipate that the adoption of FASB ASU 2011-11 will have a material effect on our consolidated financial statements and disclosures.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 3.Restructuring and Integration Costs

The aggregated liabilities included in "sundry payables and accrued expenses" and "other accrued liabilities" in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2011 and March 31, 2012 and activity for the three months ended March 31, 2012 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2011	$1,907	$1,654	$3,561
Restructuring and integration costs:			
Amounts provided for during 2012	61	63	124
Non-cash usage, including asset write-downs	—	(63)	(63)
Cash payments	(364)	—	(364)
Exit activity liability at March 31, 2012	$1,604	$1,654	$3,258

Liabilities associated with the remaining restructuring and integration costs as of March 31, 2012 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2016 in connection with the 2008 Voluntary Separation Program and environmental clean-up costs at our Long Island City, New York location in connection with the closure of our manufacturing operations at the site pursuant to the 2008 Reynosa Integration Program.

Note 4.Sale of Receivables

From time to time, we sell undivided interests in certain of our receivables to financial institutions. We enter these agreements at our discretion when we determine that the cost of factoring is less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $132.1 million and $126.4 million of receivables during the three months ended March 31, 2012 and 2011, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of $2.4 million and $1.8 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months ended March 31, 2012 and 2011, respectively.

Note 5.Inventories, Net

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Finished goods, net	$170,323	$ 165,503
Work in process, net	5,409	5,144
Raw materials, net	84,181	77,450

Total inventories, net	$259,913	$ 248,097

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 6.Credit Facilities and Long-Term Debt

Total debt outstanding is summarized as follows:

	March 31, 2012	December 31, 2011
	(In thousands)	
Revolving credit facilities	$79,000	$ 73,000
Other	278	299
Total debt	$79,278	$ 73,299
Current maturities of debt	$79,113	$ 73,109
Long-term debt	165	190
Total debt	$79,278	$ 73,299

Deferred Financing Costs

We had deferred financing cost of $3.5 million and $3.8 million as of March 31, 2012 and December 31, 2011, respectively. Deferred financing costs are related to our revolving credit facility. Deferred financing costs as of March 31, 2012 are being amortized, assuming no further prepayments of principal, in the amount of $0.9 million in 2012, $1.2 million in 2013, $1.2 million in 2014 and $0.2 million in 2015.

Revolving Credit Facility

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

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

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $98.5 million available for us to borrow pursuant to the formula at March 31, 2012. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $79 million

and $73 million at March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, the weighted average interest rate on our restated credit agreement was 1.99%, which consisted of $79 million in direct borrowings. There were no index loans outstanding at March 31, 2012. At December 31, 2011, the weighted average interest rate on our restated credit agreement was 2%, which consisted of $73 million in direct borrowings. There were no index loans outstanding at December 31, 2011. During the three months ended March 31, 2012 our average daily index loan balance was $4.5 million compared to $5.6 million for the three months ended March 31, 2011 and $5.7 million for the year ended December 31, 2011.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

At any time that our average borrowing availability over the previous thirty days is less than $30 million or if our borrowing availability is $20 million or less, and until such time that we have maintained an average borrowing availability of $30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of March 31, 2012, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

Canadian Revolving Credit Facility

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

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of March 31, 2012, we have no outstanding borrowings under the Canadian Credit Agreement.

Capital Leases

As of March 31, 2012, our capital lease obligations related to certain equipment for use in our operations totaled $0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

Note 7.Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with the provisions of FASB 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 recognition of that cost is recorded in the consolidated statement of operations over the period during which an employee is required to provide service in exchange for the award.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Stock Option Grants

The following is a summary of the changes in outstanding stock options for the three months ended March 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2011	59,400	$12.35	2.9
Expired	—	—	—
Exercised	(24,750)	12.41	—
Forfeited, other	—	—	—
Outstanding at March 31, 2012	34,650	$12.32	2.6
Options exercisable at March 31, 2012	34,650	$12.32	2.6

The aggregate intrinsic value of all outstanding stock options as of March 31, 2012 was $0.2 million. All outstanding stock options as of March 31, 2012 are fully vested and exercisable. The total intrinsic value of options exercised was $0.3 million for the three months ended March 31, 2012. There were no options granted in the three months ended March 31, 2012.

Restricted and Performance Stock Grants

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

Our restricted and performance-based share activity was as follows for the three months ended March 31, 2012:

	Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2011	458,050	$ 11.92

Granted	—		—
Vested	(2,100	)	12.29
Forfeited	(2,750	)	12.05
Balance at March 31, 2012	453,200	$	11.91

We recorded compensation expense related to restricted shares and performance-based shares of $430,153 ($264,114 net of tax) and $312,000 ($192,800 net of tax) for the three months ended March 31, 2012 and 2011, respectively. The unamortized compensation expense related to our restricted and performance-based shares was $3.3 million at March 31, 2012, and is expected to be recognized as they vest over a weighted average period of 4.7 and 0.1 years for employees and directors, respectively.

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Note 8.Employee Benefits

The components of net periodic benefit cost for our defined benefit plans and postretirement benefit plans for the three months ended March 31, 2012 and 2011 were as follows (in thousands):

	Three Months Ended March 31,	
Pension benefits	2012	2011
Service cost	$ 33	$ 28
Interest cost	47	45
Amortization of prior service cost	28	26
Actuarial net loss	65	43
Net periodic benefit cost	$ 173	$ 142
Postretirement benefits		
Service cost	$ 1	$ 54
Interest cost	25	298
Amortization of prior service cost	(1,224)	(1,616)
Amortization of transition obligation	—	1
Actuarial net loss	648	346
Net periodic benefit credit	$ (550)	$ (917)

For the three months ended March 31, 2012, we made employee benefit contributions of $0.2 million related to our postretirement plans. Based on current actuarial estimates, we believe we will be required to make approximately $1.1 million in contributions for 2012.

We maintain a Supplemental Executive Retirement Plan (“SERP”) for key employees. Under the plan, these employees may elect to defer a portion of their compensation and, in addition, we may at our discretion make contributions to the plan on behalf of the employees. In March 2012, contributions of $0.5 million were made related to calendar year 2011.

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 ESOP. The shares held in trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be released. The trustees will vote the shares in accordance with their fiduciary duties. During the three months ended March 31, 2012, we contributed to the trust an additional 177,000 shares from our treasury and released 180,000 shares from the trust leaving 930 shares remaining in the trust as of March 31, 2012.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 9. Fair Value Measurements

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

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

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

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

The following is a summary of the carrying amounts and estimated fair values of our financial instruments at March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$9,282	$9,282	$10,871	$10,871
Deferred compensation	6,435	6,435	5,882	5,882
Short term borrowings	79,113	79,113	73,109	73,109
Long-term debt	165	165	190	190

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

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

Note 10.Earnings Per Share

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

	Three Months Ended March 31,	
Basic Net Earnings Per Common Shares:	2012	2011
Earnings from continuing operations	$5,494	$7,011
Loss from discontinued operation	(300)	(304)
Net earnings available to common stockholders	$5,194	$6,707
Weighted average common shares outstanding	22,868	22,706
Earnings from continuing operations per common share	$0.24	$0.31
Loss from discontinued operation per common share	(0.01)	(0.01)
Basic net earnings per common share	$0.23	$0.30
Diluted Net Earnings Per Common Share:		
Earnings from continuing operations	$5,494	$7,011
Loss from discontinued operation	(300)	(304)
Net earnings available to common stockholders	$5,194	$6,707
Weighted average common shares outstanding	22,868	22,706
Plus incremental shares from assumed conversions:		
Dilutive effect of restricted and performance stock	224	142
Dilutive effect of stock options	12	9
Weighted average common shares outstanding – Diluted	23,104	22,857
Earnings from continuing operations per common share	$0.24	$0.31
Loss from discontinued operation per common share	(0.02)	(0.02)
Diluted net earnings per common share	$0.22	$0.29

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

	Three Months Ended March 31,	
	2012	2011
Stock options	22	249
Restricted and performance shares	210	170
15% convertible subordinated debentures	—	820

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

Note 11.Industry Segments

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

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

	Three Months Ended March 31,	
	2012	2011
Net Sales		
Engine Management	$163,015	$164,204
Temperature Control	45,291	54,079
All Other	3,405	1,947
Consolidated	$211,711	$220,230
Intersegment Revenue		
Engine Management	$4,488	$5,561
Temperature Control	1,109	1,281
All Other	(5,597)	(6,842)
Consolidated	$—	$—
Operating Profit		
Engine Management	$13,688	$14,820
Temperature Control	48	1,253
All Other	(4,033)	(3,635)
Consolidated	$9,703	$12,438

Note 12.Commitments and Contingencies

Asbestos

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At March 31, 2012, approximately 2,110 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through March 31, 2012, the amounts paid for settled claims are approximately $12.3 million. We acquired limited insurance coverage up to a fixed amount for defense and indemnity costs associated with certain asbestos-related claims. Under the policy currently in effect, we have submitted claims to our insurance carrier and have received $0.9 million in

reimbursement for settlement claims and defense costs.

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

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

Antitrust Litigation

In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleged antitrust violations by us and a number of other auto parts manufacturers and retailers and sought injunctive relief and unspecified monetary damages. In September 2011, the court dismissed the complaint with prejudice and in October 2011, the plaintiff filed an appeal. In April 2012, we settled the lawsuit for a nominal dollar amount.

Other Litigation

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

Warranties

We generally warrant our products against certain manufacturing and other defects. These product warranties are provided for specific periods of time of the product depending on the nature of the product. As of March 31, 2012 and 2011, we have accrued $13.9 million and $12.6 million, respectively, for estimated product warranty claims included in accrued customer returns. The accrued product warranty costs are based primarily on historical experience of actual warranty claims.

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STANDARD MOTOR PRODUCTS, INC. AND SUBSIDIARIES

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

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

	Three Months Ended March 31,	
	2012	2011
Balance, beginning of period	$13,500	$12,153
Liabilities accrued for current year sales	15,423	13,856
Settlements of warranty claims	(14,975)	(13,368)
Balance, end of period	$13,948	$12,641

Note 13. Subsequent Event

On April 30, 2012, we acquired substantially all of the assets of CompressorWorks, Inc. for approximately $37.4 million in cash funded by our revolving credit facility. CompressorWorks, Inc. has manufacturing and distribution facilities in Dallas, Texas, and distributes a range of temperature control products including new compressors, fan clutches, and other A/C system and engine cooling products. Revenues from the acquired business were approximately $60 million for the year ended December 31, 2011. The final purchase price is subject to customary post-closing adjustments based upon the working capital of the purchased business through the closing date.

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

This Report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report are indicated by words such as “anticipates,” “expects,” “believes,” “intends,” “plans,” “estimates,” “projects” and similar expressions. These statements represent our expectations based on current information and assumptions and are inherently subject to risks and uncertainties. Our actual results could differ materially from those which are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, our significant indebtedness; economic and market conditions (including access to credit and financial markets); the performance of the aftermarket and original equipment service markets; changes in business relationships with our major customers and in the timing, size and continuation of our customers’ programs; changes in the product mix and distribution channel mix; the ability of our customers to achieve their projected sales; competitive product and pricing pressures; increases in production or material costs that cannot be recouped in product pricing; successful integration of acquired businesses; our ability to achieve cost savings from our restructuring initiatives; product liability and environmental matters (including, without limitation, those related to asbestos-related contingent liabilities and remediation costs at certain properties); as well as other risks and uncertainties, such as those described under Quantitative and Qualitative Disclosures About Market Risk and those detailed herein and from time to time in the filings of the Company with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise. In addition, historical information should not be considered as an indicator of future performance. The following discussion should be read in conjunction with the unaudited consolidated financial statements, including the notes thereto, included elsewhere in this Report.

Business Overview

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

We sell our products primarily to warehouse distributors, large retail chains, original equipment manufacturers and original equipment service part operations in the United States, Canada and Latin America. Our customers consist of many of the leading warehouse distributors, such as CARQUEST Corporation and NAPA Auto Parts, as well as many of the leading auto parts retail chains, such as Advance Auto Parts, Inc., AutoZone, Inc., O’Reilly Automotive, Inc., Canadian Tire Corporation and Pep Boys. Our customers also include national program distribution groups, such as Federated Auto Parts, Inc., All Pro/Bumper to Bumper (Aftermarket Auto Parts Alliance, Inc.), Automotive Distribution Network and The National Pronto Association, and specialty market distributors. We distribute parts under our own brand names, such as Standard®, BWD®, Intermotor®, GP Sorensen®, TechSmart™, OEM®, Four Seasons®, Factory Air®, EVERCO®, ACi®, Imperial® and Hayden® and through private labels, such as CARQUEST®, O’Reilly Import Direct® and Master Pro®, NAPA® Echlin®, NAPA® Temp Products and NAPA® Belden®.

Our goal is to grow revenues and earnings and deliver returns in excess of our cost of capital by providing high quality original equipment and replacement products to the engine management and temperature control markets. Our management places significant emphasis on improving our financial performance by achieving operating efficiencies and improving asset utilization, while maintaining product quality and high customer order fill rates. We intend to

continue to improve our operating efficiency, customer satisfaction and cost position by increasing cost-effective vertical integration in key product lines through internal development and improving our cost effectiveness and competitive responsiveness to better serve our customer base, including sourcing certain products from low cost countries such as those in Asia.

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

Inventory Management. We face inventory management issues as a result of warranty and overstock returns. Many of our products carry a warranty ranging from a 90-day limited warranty to a lifetime limited warranty, which generally covers defects in materials or workmanship and failure to meet industry published specifications. In addition to warranty returns, we also permit our customers to return products to us within customer-specific limits (which are generally limited to a specified percentage of their annual purchases from us) in the event that they have overstocked their inventories. We accrue for overstock returns as a percentage of sales, after giving consideration to recent returns history.

In order to better control warranty and overstock return levels, we have in place procedures for authorized warranty returns, placed restrictions on the amounts customers can return and instituted a program to better estimate potential future product returns. In addition, with respect to our air conditioning compressors, which are our most significant customer product warranty returns, we established procedures whereby a warranty will be voided if a customer does not provide acceptable proof that complete air conditioning system repair was performed.

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

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Interim Results of Operations:

Comparison of the Three Months Ended March 31, 2012 to the Three Months Ended March 31, 2011

Sales. Consolidated net sales for the three months ended March 31, 2012 were $211.7 million, a decrease of $8.5 million, or 3.9%, compared to $220.2 million in the same period of 2011. Consolidated net sales decreased primarily due to lower retail market sales in our Temperature Control Segment and lower traditional market sales in our Engine Management Segment. Retail market sales in our Engine Management Segment increased year over year as a result of incremental sales during the first three months of 2012 from our acquisition of Forecast Trading Corporation, which began shipping in November 2011.

The following table summarizes consolidated net sales by segment for the quarters ended March 31, 2012 and 2011, respectively (in thousands):

Three Months Ended March 31,	Engine Management	Temperature Control	Other	Total
2012				
Net sales	$ 163,015	$ 45,291	$ 3,405	$ 211,711
Gross margins	42,993	8,577	2,980	54,550
Gross margin percentage	26.4 %	18.9 %	—	25.8 %
2011				
Net sales	$ 164,204	$ 54,079	$ 1,947	$ 220,230
Gross margins	40,005	10,281	2,866	53,152
Gross margin percentage	24.4 %	19 %	—	24.1 %

Engine Management's net sales decreased $1.2 million to $163 million for the first quarter of 2012. Included in the first quarter 2012 are incremental sales of $11.3 million from our acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation, which began shipping in May 2011 and November 2011, respectively. Offsetting the incremental sales provided by our 2011 acquisitions is the impact of the year over year decline in pipeline orders from the significant levels achieved in the first quarter of 2011 as we are seeing a return to a more historical pattern of customer purchases.

Temperature Control's net sales decreased $8.8 million, or 16.3%, to $45.3 million for the first quarter of 2012. The year over year decrease in sales reflects the lower pipeline orders in the first quarter of 2012 compared to the significant orders received in the prior year, and the impact of the loss of sales from a major customer that began purchasing certain air conditioning parts direct from China.

Gross Margins. Gross margins, as a percentage of consolidated net sales, increased to 25.8% in the first quarter of 2012, compared to 24.1% in the first quarter of 2011. The increase resulted from a 2 percentage point improvement in Engine Management margins offset, in part, by a 0.1 percentage point decline at Temperature Control. The gross margin percentage improvement in Engine Management compared to the prior year was primarily the result of improved global sourcing, manufacturing efficiencies including the increase in manufacturing at our lower cost facilities, the change in process related to certain incremental customer costs resulting in the recording of these costs as selling expenses rather than as sales deductions, and product mix including the impact of incremental retail market sales from our Forecast Trading Corporation acquisition.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") increased by $4.1 million to $44.8 million or 21.1% of consolidated net sales, in the first quarter of 2012, as compared to $40.6

million, or 18.5% of consolidated net sales in the first quarter of 2011. The increase in SG&A expenses is principally due to the incremental expenses from our acquisitions of the Engine Controls business of BLD Products, Ltd. and Forecast Trading Corporation including amortization of intangible assets acquired, the change in process related to certain incremental customer costs resulting in the recording of these costs in selling expenses rather than as sales deductions, and higher expenses related to the sale of receivables.

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Restructuring and Integration Expenses. Restructuring and integration expenses for the first quarter of 2012 decreased to $0.1 million compared to $0.3 million in the comparable quarter of 2011. Components of our restructuring and integration accruals, by segment, were as follows (in thousands):

	Engine Management	Temperature Control	Other	Total
Exit activity liability at December 31, 2011	$ 2,629	$ 419	$ 513	$ 3,561
Restructuring and integration costs:				
Amounts provided for during 2012	105	19	—	124
Non-cash usage, including asset write-downs	(63)	—	—	(63)
Cash payments	(159)	(172)	(33)	(364)
Exit activity liability at March 31, 2012	$ 2,512	$ 266	$ 480	$ 3,258

Other Income, Net. Other income, net decreased to $0.1 million in the first quarter of 2012 compared to $0.3 million in the same period in 2011. During 2012 and 2011, we recognized $0.3 million of deferred gain related to the sale-leaseback of our Long Island City, New York facility and in 2012, we recorded a $0.2 million loss on the disposal of certain machinery and equipment.

Operating Income. Operating income was $9.7 million in the first quarter of 2012, compared to $12.4 million in the first quarter of 2011. The decrease of $2.7 million is the result of lower consolidated net sales and higher SG&A expenses offset, in part, by the higher gross margins as a percentage of consolidated net sales.

Interest Expense. Interest expense decreased to $0.7 million in the first quarter of 2012 compared to $1.4 million the same period in 2011 as average interest rates declined year over year. The decrease includes the impact of the April 2011 maturity of the $12.3 million principal amount of the 15% convertible subordinated debentures.

Income Tax Provision. The income tax provision in the first quarter of 2012 was $3.5 million at an effective tax rate of 38.6% compared to $4.3 million and an effective tax rate of 38.2% for the same period in 2011.

Loss from Discontinued Operations. Loss from discontinued operations, net of tax, reflects legal expenses associated with our asbestos related liability. We recorded a $0.3 million loss from discontinued operations in both the first quarter of 2012 and 2011. As discussed more fully in Note 12 in the notes to our consolidated financial statements, we are responsible for certain future liabilities relating to alleged exposure to asbestos containing products.

Restructuring and Integration Costs

The aggregated liabilities included in “sundry payables and accrued expenses” and “other accrued liabilities” in the consolidated balance sheet relating to the restructuring and integration activities as of December 31, 2011 and March 31, 2012 and activity for the three months ended March 31, 2012 consisted of the following (in thousands):

	Workforce Reduction	Other Exit Costs	Total
Exit activity liability at December 31, 2011	$ 1,907	$ 1,654	$ 3,561
Restructuring and integration costs:			
Amounts provided for during 2012	61	63	124
Non-cash usage, including asset write-downs	—	(63)	(63)
Cash payments	(364)	—	(364)
Exit activity liability at March 31, 2012	$ 1,604	$ 1,654	$ 3,258

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Liabilities associated with the remaining restructuring and integration costs as of March 31, 2012 relate primarily to employee severance and other retiree benefit enhancements to be paid through 2016 in connection with the 2008 Voluntary Separation Program and environmental clean-up costs at our Long Island City, New York location in connection with the closure of our manufacturing operations at the site pursuant to the 2008 Reynosa Integration Program.

Liquidity and Capital Resources

Operating Activities. During the first three months of 2012, cash used in operations amounted to $9 million compared to $11.9 million in the same period of 2011. The year-over-year decrease in cash used in operations is primarily the result of a smaller year over year increase in accounts receivable, higher accounts payable, partially offset by a greater increase in inventories.

Investing Activities. Cash used in investing activities was $2.4 million in the first three months of 2012, compared to $1.3 million in the same period of 2011. Investing activities in 2012 consisted of $2.4 million in capital expenditures. Investing activities during the first quarter of 2011 consisted of $2.3 million of capital expenditures offset, in part, by a $1 million cash payment received in connection with the December 2008 divestiture of certain of our joint venture equity ownerships.

Financing Activities. Cash provided by financing activities was $9.1 million in the first three months of 2012 compared to $14 million in the same period of 2011. The decrease is primarily due to lower borrowings. Dividends of $2.1 million were paid in the first three months of 2012 compared to $1.6 million in the comparable period last year. In January 2012, we increased our quarterly dividend $0.02 per share per quarter from $0.07 per share in 2011 to $0.09 per share in 2012.

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

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

Borrowings under the restated credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and fixed assets, and those of certain of our subsidiaries. After taking into account outstanding borrowings under the restated credit agreement, there was an additional $98.5 million available for us to borrow pursuant to the formula at March 31, 2012. Outstanding borrowings under the restated credit agreement (inclusive of the Canadian revolving credit facility described below), which are classified as current liabilities, were $79 million and $73 million at March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, the weighted average interest rate on our restated credit agreement was 1.99%, which consisted of $79 million in direct borrowings. There were no index loans outstanding at March 31, 2012. At December 31, 2011, the weighted average interest rate on our restated credit agreement was 2%, which consisted of $73 million in direct borrowings. There were no index loans outstanding at December 31, 2011. During the three months ended March 31, 2012 our average daily index loan

balance was $5 million compared to $5.5 million for the three months ended March 31, 2011 and $5.7 million for the year ended December 31, 2011.

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At any time that our average borrowing availability over the previous thirty days is less than $30 million or if our borrowing availability is $20 million or less, and until such time that we have maintained an average borrowing availability of $30 million or greater for a continuous period of ninety days, the terms of our restated credit agreement provide for, among other provisions, financial covenants requiring us, on a consolidated basis, (1) to maintain specified levels of fixed charge coverage at the end of each fiscal quarter (rolling twelve months), and (2) to limit capital expenditure levels. As of March 31, 2012, we were not subject to these covenants. Availability under our restated credit agreement is based on a formula of eligible accounts receivable, eligible inventory and eligible fixed assets. Our restated credit agreement also permits dividends and distributions by us provided specific conditions are met.

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

In November 2010 and September 2011, we further amended our Canadian Credit Agreement to extend the maturity date of the agreement to March 2015 and modify certain provisions, including interest rates, to parallel the revolving credit provisions of the restated credit agreement (described above). The amended credit agreement is guaranteed and secured by us and certain of our wholly-owned subsidiaries. Direct borrowings under the amended credit agreement bear interest at the same rate as our restated credit agreement with General Electric Capital Corporation. As of March 31, 2012, we have no outstanding borrowings under the Canadian Credit Agreement.

As of March 31, 2012, our capital lease obligations related to certain equipment for use in our operations totaled $0.3 million. Assets held under capitalized leases are included in property, plant and equipment and depreciated over the lives of the respective leases or over their economic useful lives, whichever is less.

In order to reduce our accounts receivable balances and improve our cash flow, we sold undivided interests in certain of our receivables to financial institutions. We entered these agreements at our discretion when we determined that the cost of factoring was less than the cost of servicing our receivables with existing debt. Pursuant to these agreements, we sold $132.1 million and $126.4 million of receivables during the three months ended March 31, 2012 and 2011, respectively. Under the terms of the agreements, we retain no rights or interest, have no obligations with respect to the sold receivables, and do not service the receivables after the sale. As such, these transactions are being accounted for as a sale. A charge in the amount of $2.4 million and $1.8 million related to the sale of receivables is included in selling, general and administrative expense in our consolidated statements of operations for the three months ended March 31, 2012 and 2011, respectively.

In August 2011, our Board of Directors authorized the purchase of up to $5 million of our common stock under a stock repurchase program. During 2011, we repurchased 322,250 shares of our common stock under the program at a total cost of $4.1 million, leaving approximately $0.9 million available for future stock repurchases under the program.

We anticipate that our present sources of funds, including funds from operations and additional borrowings, will continue to be adequate to meet our financing needs over the next twelve months. We continue to evaluate alternative sources to further improve the liquidity of our business. The timing, terms, size and pricing of any alternative sources of financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing. In addition, we have a substantial amount of indebtedness which could, among other things, increase our vulnerability to general adverse economic and industry conditions, make it more difficult to satisfy our obligations, limit our ability to pay future dividends, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and require that a portion of our cash flow from

operations be used for the payment of interest on our indebtedness instead of for funding working capital, capital expenditures, acquisitions or for other corporate purposes. If we default on any of our indebtedness, or breach any financial covenant in our revolving credit facility, our business could be adversely affected. For further information regarding the risks of our business, please refer to the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2011.

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The following table summarizes our contractual commitments as of December 31, 2011 and expiration dates of commitments through 2021:

(In thousands)	2012	2013	2014	2015	2016	2017-2021	Total
Lease obligations	$7,643	$7,614	$5,467	$4,958	$4,313	$2,128	$32,123
Postretirement and pension benefits	1,158	1,190	1,220	6,936	1,303	348	12,155
Severance payments related to restructuring and integration	1,177	439	234	55	2	—	1,907
Total commitments	$9,978	$9,243	$6,921	$11,949	$5,618	$2,476	$46,185

Indebtedness under our revolving credit facilities is not included in the table above as it is reported as a current liability in our consolidated balance sheets. As of March 31, 2012, amounts outstanding under our revolving credit facilities were $79 million.

Summary of Significant Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. There have been no material changes to our critical accounting policies and estimates from the information provided in Note 1 of the notes to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011. You should be aware that preparation of our consolidated quarterly financial statements in this Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. We can give no assurances that actual results will not differ from those estimates.

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

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

specific risk of loss on specifically identified inventories.

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

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

Sales Returns and Other Allowances and Allowance for Doubtful Accounts. We must make estimates of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand when evaluating the adequacy of the sales returns and other allowances. Significant judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. At March 31, 2012, the allowance for sales returns was $30.7 million. Similarly, we must make estimates of the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. At March 31, 2012, the allowance for doubtful accounts and for discounts was $7 million.

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

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

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

The valuation allowance of $7.7 million as of March 31, 2012 is intended to provide for the uncertainty regarding the ultimate realization of our state tax credit carryovers, U.S. capital loss carryforwards, U.S. foreign tax credit carryovers, and foreign net operating loss carryforwards. The assessment of the adequacy of our valuation allowance is based on our estimates of taxable income in these jurisdictions 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.

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

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

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

Goodwill is tested for impairment using a two-step approach. When performing our evaluation, 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, than the two-step impairment test is not required. If we are unable to reach this conclusion, then we would perform the two-step impairment test. Initially, the fair value of the reporting unit is compared to its carrying amount. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit; we are required to perform a second step, as this is an indication that the reporting unit goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

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

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

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

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

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

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

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

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Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, which amended the provisions of FASB Accounting Standards Codification ("ASC") 220, Comprehensive Income. The amendment eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity. In accordance with the amendment an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in one continuous statement or in two separate, but consecutive, statements. Additionally, reclassification adjustments from other comprehensive income to net income will be presented on the face of the financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. As a result of the adoption of this standard, effective with this Form 10-Q, we have eliminated the presentation of other comprehensive income in our consolidated statement of changes in stockholders' equity and have instead presented other comprehensive income in a new statement, consolidated statement of comprehensive income, which immediately follows our consolidated statement of operations.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which indefinitely defers the requirement in FASB ASU 2011-05 to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. During the deferral period, entities will still need to comply with the existing requirements for the presentation of reclassification adjustments. The amendment is effective for annual reporting periods beginning after December 15, 2011, which for us was January 1, 2012 with full retrospective application required. The adoption of this standard did not impact the manner in which we present reclassification adjustments from other comprehensive income.

Goodwill Impairment Testing

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment ("ASU 2011-08"), that amended the provisions of FASB ASC 350, Intangibles – Goodwill and Other ("ASC 350"). FASB ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The new standard is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, which for us was January 1, 2012. We will consider this new standard when conducting our annual impairment test of goodwill.

Balance Sheet Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not anticipate that the adoption of FASB ASU 2011-11 will have a material effect on our consolidated financial statements and disclosures.

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ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosure 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 March 31, 2012, we do not have any derivative financial instruments.

Exchange Rate Risk

We have exchange rate exposure, primarily, with respect to the Canadian dollar, the Euro, the Polish zloty, the Mexican Peso and the Hong Kong dollar. As of March 31, 2012 and December 31, 2011, our monetary assets and liabilities which are subject to this exposure are immaterial, therefore the potential immediate loss to us that would result from a hypothetical 10% change in foreign currency exchange rates would not be expected to have a material impact on our earnings or cash flows. This sensitivity analysis assumes an unfavorable 10% fluctuation in the exchange rates affecting the foreign currencies in which monetary assets and liabilities are denominated and does not take into account the offsetting effect of such a change on our foreign-currency denominated revenues.

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. Our percentage of variable rate debt to total debt was 99.6% at March 31, 2012 and December 31, 2011.

Other than the aforementioned, there have been no significant changes to the information presented in Item 7A (Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2011.

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ITEM 4.CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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

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

(b) Changes in Internal Control Over Financial Reporting.

During the quarter ended March 31, 2012, we have not made any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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PART II – OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

In 1986, we acquired a brake business, which we subsequently sold in March 1998 and which is accounted for as a discontinued operation. When we originally acquired this brake business, we assumed future liabilities relating to any alleged exposure to asbestos-containing products manufactured by the seller of the acquired brake business. In accordance with the related purchase agreement, we agreed to assume the liabilities for all new claims filed on or after September 2001. Our ultimate exposure will depend upon the number of claims filed against us on or after September 2001 and the amounts paid for indemnity and defense thereof. At March 31, 2012, approximately 2,110 cases were outstanding for which we may be responsible for any related liabilities. Since inception in September 2001 through March 31, 2012, the amounts paid for settled claims are approximately $12.3 million. We acquired limited insurance coverage up to a fixed amount for the defense and indemnity costs associated with certain asbestos-related claims. Under the policy currently in effect, we have submitted claims to our insurance carrier and have received $0.9 million in reimbursement for settlement claims and defense costs.

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

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

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

In November 2004, we were served with a summons and complaint in the U.S. District Court for the Southern District of New York by The Coalition for a Level Playing Field, which is an organization comprised of a large number of auto parts retailers. The complaint alleged antitrust violations by us and a number of other auto parts manufacturers

and retailers and sought injunctive relief and unspecified monetary damages. In September 2011, the court dismissed the complaint with prejudice and in October 2011, the plaintiff filed an appeal. In April 2012, we settled the lawsuit for a nominal dollar amount.

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

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ITEM 6.EXHIBITS

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

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

32.1Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

STANDARD MOTOR PRODUCTS, INC.
(Registrant)

Date: May 4, 2012

/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.

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