

SUPERIOR INDUSTRIES INTERNATIONAL INC

Form 10-Q

August 03, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 24, 2012

OR

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

For the transition period from _____ to _____

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of Incorporation or
Organization)

95-2594729
(I.R.S. Employer Identification No.)

7800 Woodley Avenue
Van Nuys, California
(Address of Principal Executive Offices)

91406
(Zip Code)

Registrant's Telephone Number, Including Area Code: (818) 781-4973

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

Number of shares of no par value common stock outstanding as of July 20, 2012: 27,226,638

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1 - Financial Statements (Unaudited)	
<u>Condensed Consolidated Income Statements</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Condensed Consolidated Statement of Shareholders' Equity</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
Item 3 - <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>22</u>
Item 4 - <u>Controls and Procedures</u>	<u>22</u>
PART II - OTHER INFORMATION	
Item 1 - <u>Legal Proceedings</u>	<u>23</u>
Item 1A - <u>Risk Factors</u>	<u>23</u>
Item 6 - <u>Exhibits</u>	<u>23</u>
<u>Signatures</u>	<u>24</u>

Table of ContentsPART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Superior Industries International, Inc.
Condensed Consolidated Income Statements
(Dollars in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
NET SALES	\$215,053	\$208,734	\$417,510	\$398,268
Cost of sales	199,337	189,187	384,686	361,844
GROSS PROFIT	15,716	19,547	32,824	36,424
Selling, general and administrative expenses	7,490	6,354	14,375	13,046
Impairment of long-lived assets	—	340	—	340
INCOME FROM OPERATIONS	8,226	12,853	18,449	23,038
Interest income, net	216	358	516	649
Other income (expense), net	(4	) 434	337	1,125
INCOME BEFORE INCOME TAXES	8,438	13,645	19,302	24,812
Income tax (provision) benefit	(2,024	) 1,055	(6,155	) (2,058
NET INCOME	\$6,414	\$14,700	\$13,147	\$22,754
INCOME PER SHARE - BASIC	\$0.24	\$0.54	\$0.48	\$0.84
INCOME PER SHARE - DILUTED	\$0.23	\$0.53	\$0.48	\$0.83
DIVIDENDS DECLARED PER SHARE	\$0.16	\$0.16	\$0.32	\$0.32

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
 Condensed Consolidated Statements of Comprehensive Income
 (Dollars in thousands)
 (Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Net income	\$6,414	\$14,700	\$13,147	\$22,754
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(3,441	) 366	(1,104	) 2,861
Defined benefit pension plan:				
Amortization of amounts resulting from changes in actuarial assumptions	65	—	131	—
Tax benefit	(26	) —	(52) —
Pension changes, net of tax	39	—	79	—
Other comprehensive income (loss), net of tax	(3,402	) 366	(1,025	) 2,861
Comprehensive Income	\$3,012	\$15,066	\$12,122	\$25,615

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
 Condensed Consolidated Balance Sheets
 (Dollars in thousands)
 (Unaudited)

	June 24, 2012	December 25, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$207,494	\$187,795
Short term investments	4,791	5,126
Accounts receivable, net	128,529	119,895
Inventories	67,211	66,933
Income taxes receivable	3,669	4,950
Deferred income taxes, net	5,641	5,299
Assets held for sale	1,500	1,500
Other current assets	7,963	12,785
Total current assets	426,798	404,283
Property, plant and equipment, net	142,237	145,747
Investment in and advances to unconsolidated affiliate	4,639	4,725
Non-current deferred income taxes, net	11,633	16,795
Non-current assets	22,550	21,681
Total assets	\$607,857	\$593,231
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$38,984	\$29,018
Accrued expenses	43,171	39,532
Total current liabilities	82,155	68,550
Non-current income tax liabilities	29,212	33,102
Other non-current liabilities	31,140	31,064
Commitments and contingencies (Note 15)	—	—
Shareholders' equity:		
Preferred stock, no par value		
Authorized - 1,000,000 shares		
Issued - none	—	—
Common stock, no par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 27,224,138 shares (27,164,013 shares at December 25, 2011)	70,193	68,775
Accumulated other comprehensive loss	(66,625	) (65,600
Retained earnings	461,782	457,340
Total shareholders' equity	465,350	460,515
Total liabilities and shareholders' equity	\$607,857	\$593,231

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
 Condensed Consolidated Statements of Cash Flows
 (Dollars in thousands)
 (Unaudited)

	Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$34,564	\$9,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(8,661	) (9,480
Proceeds from life insurance policy	1,726	—
Proceeds from sales and maturities of investments	3,142	20,757
Purchase of investments	(2,808	) (3,973
Collection of amounts receivable from sale of unconsolidated affiliate	—	2,867
Loan to unconsolidated affiliate	—	(450
Premiums paid for life insurance	—	(217
Other	240	74
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(6,361	) 9,578
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(8,703	) (8,665
Proceeds from exercise of stock options	417	4,341
Excess tax benefits from exercise of stock options	—	273
NET CASH USED IN FINANCING ACTIVITIES	(8,286	) (4,051
Effect of exchange rate changes on cash	(218) —
Net increase in cash and cash equivalents	19,699	14,843
Cash and cash equivalents at the beginning of the period	187,795	129,631
Cash and cash equivalents at the end of the period	\$207,494	\$144,474

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
 Condensed Consolidated Statement of Shareholders' Equity
 (Dollars in thousands, except per share data)
 (Unaudited)

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Number of Shares	Amount			
Balance at December 25, 2011	27,164,013	\$68,775	\$(65,600)	\$457,340	\$460,515
Comprehensive income:					
Net income	—	—	—	13,147	13,147
Other comprehensive income (loss), net of tax	—	—	(1,025)	—	(1,025)
Stock options exercised	27,325	417	—	—	417
Issuance of restricted stock, net of forfeitures	32,800	—	—	—	—
Stock-based compensation expense	—	1,001	—	—	1,001
Cash dividends declared (\$0.32 per share)	—	—	—	(8,705)	(8,705)
Balance at June 24, 2012	27,224,138	\$70,193	\$(66,625)	\$461,782	\$465,350

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
June 24, 2012
(Unaudited)

Note 1 – Nature of Operations

Headquartered in Van Nuys, California, the principal business of Superior Industries International, Inc. (referred to herein as the “company” or in the first person notation “we,” “us” and “our”) is the design and manufacture of aluminum road wheels for sale to original equipment manufacturers (OEM). We are one of the largest suppliers of cast aluminum wheels to the world’s leading automobile and light truck manufacturers, with wheel manufacturing operations in the United States and Mexico. Customers in North America represent the principal market for our products. In addition, the majority of our net sales to international customers by our North American facilities are delivered primarily to such customers' assembly operations in North America.

Ford Motor Company (Ford), General Motors Company (GM), Chrysler Group LLC (Chrysler), Nissan Motor Company (Nissan) and Toyota Motor Corporation (Toyota) were our customers individually accounting for more than 10 percent of our consolidated wheel sales in the first two quarters of 2012 and together represented approximately 93 percent of our total wheel sales during the first two quarters of 2012 and 2011. We also manufacture aluminum wheels for BMW, Subaru, Mitsubishi and Volkswagen. The loss of all or a substantial portion of our sales to Ford, GM, Chrysler, Nissan or Toyota would have a significant adverse impact on our operating results and financial condition. This risk is partially mitigated by our long-term relationships with these OEM customers and our supply arrangements which are generally for multi-year periods.

The North American market for automobiles and light-duty trucks (including SUV's and crossover vehicles) has experienced rather pronounced cyclicity over recent years. Beginning with the third quarter of 2008, the automotive industry was negatively impacted by the continued dramatic shift away from full-size trucks and SUVs caused by continuing high fuel prices, rapidly rising commodity prices and the tightening of consumer credit due to the then deteriorating financial markets. Despite the improvement in the U.S. automotive industry since the latter part of 2009, vehicle production levels still remain below historical high points. There can be no guarantee that the improvements in recent years will be sustained or that reductions from current production levels will not occur in future periods. Vehicle demand is subject to many unpredictable factors such as changes in the general economy, gasoline prices, consumer credit availability and interest rates. Demand for aluminum wheels can be further affected by other factors, including pricing and performance comparisons to competitive materials such as steel. Finally, the demand for our products is influenced by shifts of market share between vehicle manufacturers and the specific market penetration of individual vehicle platforms being sold by our customers.

While we historically have had long-term relationships with our customers and our supply arrangements generally are for multi-year periods, maintaining such long-term arrangements on terms acceptable to us has become increasingly difficult. Despite recovery of the market for our products since the latter part of 2009, global competitive pricing pressures continue to affect our business negatively as our customers maintain and/or further develop alternative supplier options. Increasingly global procurement practices, the pace of new vehicle introduction and demand for price reductions may make it more difficult to maintain long-term supply arrangements with our customers, and there are no guarantees that we will be able to negotiate supply arrangements on terms acceptable to us in the future.

We are engaged in ongoing programs to reduce our own costs through improved operational and procurement practices in an attempt to mitigate the impact of these pricing pressures. However, these improvement programs may not be sufficient to offset the adverse impact of ongoing pricing pressures and potential reductions in customer demand in future periods. Additional factors such as inconsistent customer ordering patterns, increasing product

complexity and heightened quality standards also are making it increasingly more difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact on our financial position, results of operations and cash flow may be negative.

The raw materials used in producing our products are readily available and are obtained through numerous suppliers with whom we have established trade relations.

Note 2 – Presentation of Condensed Consolidated Financial Statements

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended December 25, 2011 and apply appropriate interim financial reporting standards for a fair statement of our operating results and financial position in conformity with accounting principles generally accepted in the United States of America, as codified by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) (referred to herein as U.S. GAAP), as indicated below. Users of financial information produced for interim periods in 2012 are encouraged to read this Quarterly

Table of Contents

Report on Form 10-Q in conjunction with our consolidated financial statements and notes thereto filed with the Securities and Exchange Commission (SEC) in our 2011 Annual Report on Form 10-K.

Interim financial reporting standards require us to make estimates that are based on assumptions regarding the outcome of future events and circumstances not known at that time, including the use of estimated effective tax rates. Inevitably, some assumptions will not materialize, unanticipated events or circumstances may occur which vary from those estimates and such variations may significantly affect our future results. Additionally, interim results may not be indicative of our results for future interim periods or our annual results.

We use a 4-4-5 convention for our fiscal quarters, which are thirteen week periods generally ending on the last Sunday of each calendar quarter. We refer to these thirteen week fiscal periods as “quarters” throughout this report. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the SEC’s requirements for Form 10-Q and contain all adjustments, of a normal and recurring nature, which are necessary for a fair statement of (i) the condensed consolidated income statements for the thirteen and twenty-six week periods ended June 24, 2012 and June 26, 2011, (ii) the condensed consolidated statements of comprehensive income for the thirteen and twenty-six week periods ended June 24, 2012 and June 26, 2011, (iii) the condensed consolidated balance sheets at June 24, 2012 and December 25, 2011, (iv) the condensed consolidated statements of cash flows for the twenty-six week periods ended June 24, 2012 and June 26, 2011, and (v) the condensed consolidated statement of shareholders’ equity for the twenty-six week period ended June 24, 2012. However, the accompanying unaudited condensed consolidated financial statements do not include all information and notes required by U.S. GAAP. The condensed consolidated balance sheet, included in this report, as of December 25, 2011 was derived from our 2011 audited financial statements, but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncement

In June 2011, the FASB modified the presentation of comprehensive income in the financial statements. The revised standard requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and must be applied retrospectively. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The revised standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The modification of the standard did not have an effect on our consolidated results of operations and financial position, when adopted, on December 26, 2011.

Note 3 – Investment in Unconsolidated Affiliate

On June 28, 2010, we executed a share subscription agreement (the Agreement) with Synergies Casting Limited (Synergies), a private aluminum wheel manufacturer based in Visakhapatnam, India, providing for our acquisition of a minority interest in Synergies. As of June 24, 2012, the total cash investment in Synergies amounted to \$4.5 million, representing 12.6 percent of the outstanding equity shares of Synergies. Through September 22, 2011, the Agreement provided the company with rights to appoint a member to the Synergies board of directors and veto powers over significant financial policy and operating decisions, and as a result of these provisions, we were able to exert significant influence over Synergies and accounted for this investment under the equity method.

Effective September 23, 2011, the Agreement was amended for certain events and removed the company's rights to appoint a director and its veto powers over significant financial policy and operating decisions. As a result of the amendment, it was determined that the company no longer had the ability to exercise significant influence over Synergies' financial policies and operations, and that the equity method of accounting for our investment was no longer appropriate. Accordingly, effective with the amendment, the company began accounting for Synergies under

the cost method of accounting on a prospective basis. Our proportionate share of Synergies operating results was immaterial from our original investment through September 23, 2011. During 2011, a group of existing equity holders, including the company, made a loan of \$1.5 million to Synergies for working capital needs. The company's share of this unsecured advance was \$450,000, with terms including repayment over 24 months, and bearing interest at 7 percent per annum, payable quarterly. The principal balance as of June 24, 2012 was \$346,000.

Note 4 – Impairment of Long-Lived Assets and Assets Held for Sale

The excess property, plant and equipment associated with a closed facility that is being actively marketed for sale is included in assets held for sale. During 2011, the estimated fair value of the assets associated with the remaining closed facility declined to \$1.5 million which was less than the book value of \$2.5 million, resulting in an additional asset impairment charge of \$1.0 million in the fourth quarter of 2011. The fair value of these assets was determined based upon comparable sales information and with

Table of Contents

the assistance of independent third party appraisers and we have classified the inputs to the nonrecurring fair value measurement of these assets as being level 2 within the fair value hierarchy in accordance with U.S. GAAP. On July 9, 2012, we entered an agreement to sell the closed facility in Pittsburg, Kansas; however, we do not expect the transaction to have a material impact on our consolidated financial statements. During the second quarter of 2011, a specific impairment charge of \$0.3 million related to our closed Johnson City, Tennessee facility was recorded because its fair value was determined to be less than its remaining book value based on current negotiations for the sale of the asset. During 2011, the company completed the sale of the closed Johnson City, Tennessee facility for \$1.7 million, and the purchase price less commission and fees was collected in cash, consistent with the carrying value.

Note 5 – Stock-Based Compensation

Our 2008 Equity Incentive Plan authorizes us to issue up to 3.5 million shares of common stock as incentive and non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. No more than 100,000 shares may be used under the plan as “full value” awards, which include restricted stock and performance units. It is our policy to issue shares from authorized but not issued shares upon the exercise of stock options. At June 24, 2012, there were 2.1 million shares available for future grants under this plan. Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options and restricted shares granted under this plan require no less than a three year ratable vesting period.

During the first two quarters of 2012 and 2011, we granted options for a total of 237,500 and 273,200 shares, respectively. The weighted average fair values at the grant dates for options issued during the first two quarters of 2012 and 2011 were \$5.11 and \$5.75 per option, respectively. The fair value of options at the grant date was estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the first two quarters of 2012 and 2011, respectively: (i) dividend yield on our common stock of 3.75 percent and 3.86 percent; (ii) expected stock price volatility of 41.2 percent and 37.7 percent; (iii) a risk-free interest rate of 1.37 percent and 2.65 percent; and (iv) an expected option term of 6.9 years for both periods. During the first two quarters of 2012, the number of stock options exercised totaled 27,325 and 65,050 options were canceled. During the first two quarters of 2011, stock options totaling 273,723 were exercised, and 32,000 options were canceled.

During the first two quarters of 2012 and 2011, we also granted restricted shares, or “full value” awards, totaling 33,550 and 28,250 shares, respectively. The fair values of each issued restricted share on the dates of grant averaged \$16.92 and \$22.47 for the first two quarters of 2012 and 2011, respectively. Restricted share awards, which are subject to forfeiture if employment terminates prior to the shares vesting, are expensed ratably over the vesting period. Shares of restricted stock are considered issued and outstanding shares at the date of grant and have the same dividend and voting rights as other common stock. Dividends paid on the restricted shares are non-forfeitable if the restricted shares do not ultimately vest.

Stock-based compensation expense related to our unvested stock options and restricted share awards was allocated as follows:

(Dollars in thousands)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Cost of sales	\$46	\$129	\$138	\$230
Selling, general and administrative expenses	470	485	863	945
Stock-based compensation expense before income taxes	516	614	1,001	1,175
Income tax benefit	(89	) —	(180) —

Total stock-based compensation expense after income taxes	\$427	\$614	\$821	\$1,175
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As discussed in Note 9 – Income Taxes, we had previously provided valuation allowances on our U.S. deferred tax assets. Consequently, the income tax benefit on our stock-based compensation expense in the first two quarters of 2011 were entirely offset by changes in valuation allowances. As of June 24, 2012, a total of \$3.6 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.3 years. There were no significant capitalized stock-based compensation costs at June 24, 2012 and December 25, 2011.

Note 6 – Business Segments

Table of Contents

Our Chairman and Chief Executive Officer is our chief operating decision maker (CODM). Our CODM evaluates both consolidated and disaggregated financial information at each manufacturing facility in deciding how to allocate resources and assess performance. Each manufacturing facility functions as a separate cost center, manufactures the same products, ships product to the same group of customers, utilizes the same cast manufacturing process and, as a result, production can be transferred among our facilities. Accordingly, we operate as a single integrated business and, as such, have only one operating segment - original equipment aluminum automotive wheels. Net sales and net property, plant and equipment by geographic area are summarized below.

(Dollars in thousands)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2012	June 26, 2011	June 24, 2012	June 26, 2011
Net sales:				
U.S.	\$86,099	\$75,884	\$167,755	\$142,348
Mexico	128,954	132,850	249,755	255,920
Consolidated net sales	\$215,053	\$208,734	\$417,510	\$398,268
Property, plant and equipment, net:			June 24, 2012	December 25, 2011
U.S.			\$48,071	\$45,936
Mexico			94,166	99,811
Consolidated property, plant and equipment, net			\$142,237	\$145,747

Note 7 – Pre-Production Costs Related to Long-Term Supply Arrangements

We incur preproduction engineering and tooling costs related to the products produced for our customers under long-term supply agreements. We amortize the cost of the customer-owned tooling over the expected life of the wheel program on a straight line basis. Also, we defer any reimbursements made to us by our customers and recognize the tooling reimbursement revenue over the same period in which the tooling is in use. Recognized deferred tooling revenues included in net sales in the condensed consolidated income statements totaled \$1.8 million and \$2.1 million for the thirteen weeks ended June 24, 2012 and June 26, 2011, respectively, and \$3.9 million and \$4.6 million for the twenty-six weeks ended June 24, 2012 and June 26, 2011, respectively. The following table summarizes the unamortized customer-owned tooling costs included in our non-current assets, and the deferred tooling revenues included in accrued expenses and other non-current liabilities.

(Dollars in Thousands)	June 24, 2012	December 25, 2011
Unamortized Preproduction Costs		
Preproduction costs	\$45,666	\$42,118
Accumulated amortization	(34,890	) (31,548
Net preproduction costs	\$10,776	\$10,570