

SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
November 04, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 27, 2015

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 95-2594729
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

26600 Telegraph Road, Suite 400 48033
Southfield, Michigan (Zip Code)
(Address of Principal Executive Offices)
Registrant's Telephone Number, Including Area Code: (248) 352-7300

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

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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 common stock outstanding as of October 29, 2015: 26,292,409

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FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
NET SALES	\$ 175,656	\$ 176,419	\$ 533,325	\$ 558,775
Cost of sales:				
Cost of sales	158,004	164,939	481,093	515,927
Restructuring costs (Note 3)	1,168	4,162	4,606	4,162
	159,172	169,101	485,699	520,089
GROSS PROFIT	16,484	7,318	47,626	38,686
Selling, general and administrative expenses	8,425	9,955	24,858	25,176
INCOME (LOSS) FROM OPERATIONS	8,059	(2,637)	) 22,768	13,510
Interest (expense) income, net	(55)	) 233	87	893
Other expense, net	(389)	) (336)	) (933)	) (422)
INCOME (LOSS) BEFORE INCOME TAXES	7,615	(2,740)	) 21,922	13,981
Income tax (provision) benefit	(2,669)	) 321	(6,108)	) (6,539)
NET INCOME (LOSS)	\$ 4,946	\$ (2,419)	) \$ 15,814	\$ 7,442
INCOME (LOSS) PER SHARE - BASIC	\$ 0.19	\$ (0.09)	) \$ 0.59	\$ 0.28
INCOME (LOSS) PER SHARE - DILUTED	\$ 0.19	\$ (0.09)	) \$ 0.59	\$ 0.27
DIVIDENDS DECLARED PER SHARE	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.54

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

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net income (loss)	\$4,946	\$(2,419)	\$15,814	\$7,442
Other comprehensive (loss) income, net of tax:				
Foreign currency translation loss, net of tax	(9,098)	(3,837)	(15,134)	(3,419)
Change in unrecognized (losses) gains on derivative instruments:				
Unrealized hedging losses, net of tax	(6,826)	—	(9,844)	—
Reclassification of realized losses to net income, net of tax	1,935	—	4,144	—
Change in unrecognized losses on derivative instruments, net of tax	(4,891)	—	(5,700)	—
Defined benefit pension plan:				
Amortization of amounts resulting from changes in actuarial assumptions	134	30	402	89
Tax provision	(51)	(11)	(151)	(33)
Pension changes, net of tax	83	19	251	56
Other comprehensive loss, net of tax	(13,906)	(3,818)	(20,583)	(3,363)
Comprehensive (loss) income	\$(8,960)	\$(6,237)	\$(4,769)	\$4,079

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

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

	September 27, 2015	December 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$49,948	\$62,451
Short term investments	950	3,750
Accounts receivable, net	118,954	102,493
Inventories	61,822	74,677
Income taxes receivable	2,663	3,740
Deferred income taxes, net	9,571	9,897
Other current assets	15,264	19,003
Total current assets	259,172	276,011
Property, plant and equipment, net	239,803	255,035
Investment in unconsolidated affiliate	2,000	2,000
Non-current deferred income taxes, net	17,481	17,852
Non-current assets	30,404	29,012
Total assets	\$548,860	\$579,910
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$26,228	\$23,938
Accrued expenses	44,117	48,024
Total current liabilities	70,345	71,962
Non-current income tax liabilities	8,229	13,621
Non-current deferred income tax liabilities, net	13,951	15,122
Other non-current liabilities	43,079	40,199
Commitments and contingencies (Note 17)	—	—
Shareholders' equity:		
Preferred stock, \$0.01 par value		
Authorized - 1,000,000 shares		
Issued - none	—	—
Common stock, \$0.01 par value		
Authorized - 100,000,000 shares		
Issued and outstanding - 26,386,913 shares (26,730,247 shares at December 28, 2014)	86,848	81,473
Accumulated other comprehensive loss	(102,008	) (81,425
Retained earnings	428,416	438,958
Total shareholders' equity	413,256	439,006
Total liabilities and shareholders' equity	\$548,860	\$579,910

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

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

	Thirty-nine Weeks Ended	
	September 27, 2015	September 28, 2014
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$39,205	\$5,693
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(32,629)	(92,043)
Proceeds from life insurance policy	278	352
Proceeds from sales and maturities of investments	3,750	3,750
Purchase of investments	(950)	(3,750)
Proceeds from sale of property, plant and equipment	1,815	1,973
Premiums paid for life insurance	(333)	(340)
Other	37	158
NET CASH USED IN INVESTING ACTIVITIES	(28,032)	(89,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(14,371)	(14,605)
Cash paid for common stock repurchase	(14,374)	(21,790)
Proceeds from exercise of stock options	7,265	5,568
Excess tax benefits from exercise of stock options	—	47
NET CASH USED IN FINANCING ACTIVITIES	(21,480)	(30,780)
Effect of exchange rate changes on cash	(2,196)	(1,181)
Net decrease in cash and cash equivalents	(12,503)	(116,168)
Cash and cash equivalents at the beginning of the period	62,451	199,301
Cash and cash equivalents at the end of the period	\$49,948	\$83,133

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

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

	Common Stock		Accumulated Other Comprehensive (Loss) Income			Retained Earnings	Total
	Number of Shares	Amount	Unrecognized Gains/Losses on Derivative Instruments	Pension Obligations	Cumulative Translation Adjustment		
Balance at December 28, 2014	26,730,247	\$81,473	\$(4,765)	\$(5,186)	\$(71,474)	\$438,958	\$439,006
Net income						15,814	15,814
Change in gains/losses on derivative instruments, net of tax			(5,700)	—	—	—	(5,700)
Change in employee benefit plans, net of taxes				251	—	—	251
Net foreign currency translation adjustment				—	(15,134)	—	(15,134)
Stock options exercised	420,142	7,265		—	—	—	7,265
Restricted stock awards granted, net of forfeitures	6,455	—		—	—	—	—
Stock-based compensation expense	—	2,059		—	—	—	2,059
Tax impact of stock options	—	(1,464)		—	—	—	(1,464)
Common stock repurchased (769,931)	(769,931)	(2,485)		—	—	(11,889)	(14,374)
Cash dividends declared (\$0.54 per share)	—	—		—	—	(14,467)	(14,467)
Balance at September 27, 2015	26,386,913	\$86,848	\$(10,465)	\$(4,935)	\$(86,608)	\$428,416	\$413,256

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

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Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
September 27, 2015
(Unaudited)

Note 1 – Nature of Operations

Headquartered in Southfield, Michigan, 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 (“OEMs”). We are one of the largest suppliers of cast aluminum wheels to the world’s leading automobile and light-duty 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”) and Toyota Motor Company (“Toyota”) were our customers individually accounting for more than 10 percent of our consolidated sales in the first three quarters of 2015 and together represented approximately 83 percent of our total sales during the first three quarters of 2015. Additionally, Fiat Chrysler Automotive N.V. (“FCA”) individually accounted for more than 10 percent of our consolidated sales during the first three quarters of 2014 and together with Ford, GM and Toyota represented approximately 90 percent of our total sales during the first three quarters of 2014. We also manufacture aluminum wheels for BMW, Mazda, Nissan, Subaru, Tesla and Volkswagen. The loss of all or a substantial portion of our sales to Ford, GM 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.

Demand for automobiles and light-duty trucks (including SUV’s and crossover vehicles) in the North American market 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 compared 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. 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 and competition, and the pressure for price reductions, may make it more difficult to maintain long-term supply arrangements with our customers. As a result, there can be no guarantees that we will be able to negotiate supply arrangements with our customers 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 difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact of these strategies 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 suppliers with whom we have, in many cases, relatively long-standing 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 28, 2014 (the "2014 Annual Report on Form 10-K") 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 2015 are encouraged to read this Quarterly 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 2014 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

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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, in our opinion, contain all adjustments, of a normal and recurring nature, which are necessary for a fair statement of (i) the condensed consolidated statements of operations for the thirteen and thirty-nine week periods ended September 27, 2015 and September 28, 2014, (ii) the condensed consolidated statements of comprehensive (loss) income for the thirteen and thirty-nine week periods ended September 27, 2015 and September 28, 2014, (iii) the condensed consolidated balance sheets at September 27, 2015 and December 28, 2014, (iv) the condensed consolidated statements of cash flows for the thirty-nine week periods ended September 27, 2015 and September 28, 2014, and (v) the condensed consolidated statement of shareholders’ equity for the thirty-nine week period ended September 27, 2015. 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 as of December 28, 2014, included in this report, was derived from our 2014 audited financial statements, but does not include all disclosures required by U.S. GAAP.

New Accounting Pronouncements

In May 2014, the FASB issued an Accounting Standards Update (“ASU”) entitled “Revenue from Contracts with Customers.” The ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In August 2015, the FASB approved a one-year deferral of the effective date. Under the standard it is required to be adopted by public business entities in annual periods beginning on or after December 15, 2017. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In June 2014, the FASB issued an ASU entitled “Compensation - Stock Compensation.” The ASU provides guidance on when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance becomes effective for annual reporting periods beginning after December 15, 2015, and early adoption is permitted. We are currently evaluating the impact this guidance will have on our financial position and results of operations.

In January 2015, the FASB issued an ASU entitled “Income Statement - Extraordinary and Unusual Items.” The ASU requires that an entity simplify Income Statement presentation by eliminating the concept of “Extraordinary Items”. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In February 2015, the FASB issued an ASU entitled “Consolidation.” The ASU includes amendments to the consolidation analysis which are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption, including adoption in interim periods, is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In April 2015, the FASB issued an ASU entitled “Interest - Imputation of Interest.” The ASU requires that an entity simplify the presentation of debt issuance costs. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is allowed for all entities for financial statements that have not been previously issued. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In April 2015, the FASB issued an ASU entitled “Compensation - Retired Benefits.” The ASU provides practical expedients for the measurement date of an employer's defined benefit obligation and plan assets. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In June 2015, the FASB issued an ASU entitled “Technical Corrections and Improvements.” The ASU provides changes to clarify the ASC, correct unintended application of guidance, and make minor improvements to the ASC. The amendments in this ASU that require transition guidance are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. All other amendments

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will be effective upon the issuance of this update. We are evaluating the impact this guidance will have on our financial position and statement of operations.

In July 2015, the FASB issued an ASU entitled "Simplifying the Measurement of Inventory." The ASU replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods therein. It is to be applied prospectively and early adoption is permitted. We are evaluating the impact this guidance will have on our financial position and statement of operations.

Note 3 – Restructuring

During the second half of 2014, we completed a review of initiatives to reduce costs and enhance our competitive position. Based on this review, we committed to a plan to close operations at our Rogers, Arkansas manufacturing facility. During the fourth quarter of 2014 we shifted production to our other locations and closed operations at the Rogers facility. The closure resulted in a workforce reduction of approximately 500 employees. Additional restructuring actions taken in 2014 included a reduction in our Mexico workforce and the sale of one of the company's aircraft. In 2015, the company continued its efforts to reduce costs by further reducing our labor costs in the U.S., completing the final sale of our remaining aircraft and selling an idle warehousing facility in West Memphis, Arkansas. The results for the first nine months of 2015 reflect \$4.6 million of additional costs charged to cost of sales due to the closure of our Rogers facility, charges totaling \$0.2 million in SG&A for the write-down of the carrying value of the aircraft we sold in February 2015 and a \$0.5 million gain on the sale of the idle warehousing facility located in West Memphis, Arkansas. Additional expenses related to the Rogers facility fixed assets and other closing costs are expected to continue throughout 2015.

The total cost expected to be incurred as a result of the Rogers facility closure is \$14.0 million, of which \$5.9 million is expected to be paid in cash. As of September 27, 2015, estimated remaining cash payments total \$0.4 million.

The following table summarizes the Rogers, Arkansas plant closure costs and classification in the condensed consolidated statements of operations as of September 27, 2015:

(Dollars in thousands)	Costs Incurred Through December 28, 2014	Costs Incurred During the Thirty-nine Week Period Ended September 27, 2015	Costs Remaining	Total Expected Costs	Classification
Depreciation of assets to be abandoned and depreciation on idled assets	\$5,365	\$1,366	\$808	\$7,539	Cost of sales, Restructuring costs
One-time severance costs	1,897	195	—	2,092	Cost of sales, Restructuring costs
Equipment removal, inventory write-down, lease termination and other costs	1,167	3,045	204	4,416	Cost of sales, Restructuring costs
	\$8,429	\$4,606	\$1,012	\$14,047	

Changes in the accrued expenses related to restructuring liabilities during the thirty-nine weeks ended September 27, 2015 are summarized as follows:

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(Dollars in thousands)

Balance December 29, 2013	\$—	
Restructuring accruals	1,897	
Cash payments	(1,682)
Balance December 28, 2014	215	