SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-Q
November 01, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2013

OR

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

7800 Woodley Avenue	
Van Nuys, California	91406
(Address of Principal Executive Offices)	(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 þ No o

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 þ No o

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 o Accelerated Filer þ Non-Accelerated Filer o Smaller Reporting Company o

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

Number of shares of no par value common stock outstanding as of October 25, 2013: 27,508,206

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PART 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		Thirty-nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
NET SALES	$191,619	$193,926	$597,053	$611,436
Cost of sales	176,201	178,906	551,880	563,592
GROSS PROFIT	15,418	15,020	45,173	47,844
Selling, general and administrative expenses	8,255	5,960	22,554	20,335
INCOME FROM OPERATIONS	7,163	9,060	22,619	27,509
Interest income, net	413	357	1,289	873
Other income (expense), net	142	465	556	803
INCOME BEFORE INCOME TAXES	7,718	9,882	24,464	29,185
Income tax (provision) benefit	(2,547)	5,174	(8,035)	(981)
NET INCOME	$5,171	$15,056	$16,429	$28,204
INCOME PER SHARE - BASIC	$0.19	$0.55	$0.60	$1.04
INCOME PER SHARE - DILUTED	$0.19	$0.55	$0.60	$1.03
DIVIDENDS DECLARED PER SHARE	$0.02	$0.16	$0.02	$0.48

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 Income
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
Net income	$5,171	$15,056	$16,429	$28,204
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain	2,068	6,098	375	4,994
Defined benefit pension plan:				
Adjustment to unrealized loss for unvested termination	522	—	522	—
Amortization of amounts resulting from changes in actuarial assumptions	135	67	404	198
Tax provision	(233)	(24)	(333)	(76)
Pension changes, net of tax	424	43	593	122
Other comprehensive income, net of tax	2,492	6,141	968	5,116
Comprehensive income	$7,663	$21,197	$17,397	$33,320

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 29, 2013	December 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$182,724	$203,364
Short term investments	3,750	3,970
Accounts receivable, net	120,009	98,467
Inventories	67,665	71,948
Income taxes receivable	5,575	4,925
Deferred income taxes, net	7,945	7,935
Other current assets	13,481	14,299
Total current assets	401,149	404,908
Property, plant and equipment, net	186,777	147,544
Investment in and advances to unconsolidated affiliate	4,638	4,638
Non-current deferred income taxes, net	17,289	17,038
Non-current assets	29,133	25,473
Total assets	$638,986	$599,601
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$33,366	$32,400
Accrued expenses	48,916	34,178
Total current liabilities	82,282	66,578
Non-current income tax liabilities	12,255	11,328
Non-current deferred income tax liabilities, net	18,969	18,876
Other non-current liabilities	38,500	35,914
Commitments and contingencies (Note 14)	—	—
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 - 27,495,956 shares		
(27,295,488 shares at December 30, 2012)	75,046	71,819
Accumulated other comprehensive loss	(61,646)	(62,614)
Retained earnings	473,580	457,700
Total shareholders' equity	486,980	466,905
Total liabilities and shareholders' equity	$638,986	$599,601

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 29, 2013	September 23, 2012
NET CASH PROVIDED BY OPERATING ACTIVITIES	$20,684	$48,156
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(43,408)	(14,265)
Proceeds from life insurance policy	297	1,726
Proceeds from sales and maturities of investments	3,970	4,092
Purchase of investments	(3,750)	(3,978)
Proceeds from sale of property, plant and equipment	13	2,061
Premiums paid for life insurance	(347)	(352)
Other	—	104
NET CASH USED IN INVESTING ACTIVITIES	(43,225)	(10,612)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	—	(13,063)
Proceeds from exercise of stock options	1,515	810
Excess tax benefits from exercise of stock options	322	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,837	(12,253)
Effect of exchange rate changes on cash	64	1,808
Net (decrease) increase in cash and cash equivalents	(20,640)	27,099
Cash and cash equivalents at the beginning of the period	203,364	187,795
Cash and cash equivalents at the end of the period	$182,724	$214,894

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

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)			
	Number of Shares	Amount	Pension Obligations	Cumulative Translation Adjustment	Retained Earnings	Total
Balance at December 30, 2012	27,295,488	$71,819	$(5,030)	$(57,584)	$457,700	$466,905
Net income					16,429	16,429
Change in employee benefit plans, net of taxes			593	—	—	593
Net foreign currency translation adjustment			—	375	—	375
Stock options exercised	117,503	1,515	—	—	—	1,515
Restricted stock awards granted, net of forfeitures	82,965	—	—	—	—	—
Stock-based compensation expense	—	1,500	—	—	—	1,500
Tax impact of stock options	—	212	—	—	—	212
Cash dividends declared ($0.02 per share)	—	—		—	(549)	(549)
Balance at September 29, 2013	27,495,956	$75,046	$(4,437)	$(57,209)	$473,580	$486,980

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

Superior Industries International, Inc.
Notes to Condensed Consolidated Financial Statements
September 29, 2013
(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 ("OEMs"). 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"), Toyota Motor Company ("Toyota") and Chrysler Group LLC ("Chrysler") were our customers individually accounting for more than 10 percent of our consolidated sales in the first three quarters of 2013 and together represented approximately 91 percent and 85 percent of our total sales during the first three quarters of 2013 and 2012, respectively. We also manufacture aluminum wheels for Nissan, BMW, Subaru, Mitsubishi, Volkswagen and Tesla. The loss of all or a substantial portion of our sales to Ford, GM, Toyota or Chrysler 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 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 late in 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 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 30, 2012 (the "2012 Annual Report on Form 10K") 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 2013 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 2012 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

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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 income statements for the thirty-nine week periods ended September 29, 2013 and September 23, 2012, (ii) the condensed consolidated statements of comprehensive income for the thirty-nine week periods ended September 29, 2013 and September 23, 2012, (iii) the condensed consolidated balance sheets at September 29, 2013 and December 30, 2012, (iv) the condensed consolidated statements of cash flows for the thirty-nine week periods ended September 29, 2013 and September 23, 2012, and (v) the condensed consolidated statement of shareholders’ equity for the thirty-nine week period ended September 29, 2013. 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 30, 2012, included in this report, was derived from our 2012 audited financial statements, but does not include all disclosures required by U.S. GAAP.

Note 3 – Investment in Unconsolidated Affiliate

On June 28, 2010, we executed a share subscription agreement with Synergies Castings Limited ("Synergies"), a private aluminum wheel manufacturer based in Visakhapatnam, India, providing for our acquisition of a minority interest in Synergies. As of September 29, 2013, the total cash investment in Synergies amounted to $4.5 million, representing 12.6 percent of the outstanding equity shares of Synergies. Our Synergies investment is accounted for using the cost method. 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 original terms including repayment over 24 months, and bearing interest at 7 percent per annum, payable quarterly. The principal balance as of September 29, 2013 was $346,000.

Note 4 – Stock-Based Compensation

Our 2008 Equity Incentive Plan was amended and restated effective May 22, 2013 upon approval by our shareholders at our annual shareholders meeting. As amended, the plan authorizes us to issue up to 3.5 million shares of common stock, along with non-qualified stock options, stock appreciation rights, restricted stock and performance units to our officers, key employees, non-employee directors and consultants. At September 29, 2013, there were 2.0 million shares available for future grants under this plan. No more than 600,000 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. 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 the plan generally require no less than a three year ratable vesting period.

During the first three quarters of 2013 there were no option grants. During the first three quarters of 2012, we granted options for a total of 247,500 shares. The weighted average fair values at the grant dates for options issued during the first three quarters of 2012 was $5.10 per option share. 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 three quarters of 2012: (i) dividend yield on our common stock of 3.74 percent; (ii) expected stock price volatility of 41.2 percent; (iii) a risk-free interest rate of 1.36 percent; and (iv) an expected option term of 6.9 years. During the first three quarters of 2013, the number of stock options exercised totaled 117,503 and 75,550 options were canceled. During the first three quarters of 2012, stock options totaling 52,325 were exercised, and 146,750 options were canceled.

During the first three quarters of 2013 and 2012, we granted restricted shares, or “full value” awards, totaling 92,631 and 33,550 shares, respectively. The fair values of each issued restricted share on the applicable date of grant averaged $17.61 and $16.92 for the first three quarters of 2013 and 2012, respectively. Restricted share awards, which are generally 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		Thirty-nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
Cost of sales	$50	$49	$168	$187
Selling, general and administrative expenses	464	456	1,332	1,319
Stock-based compensation expense before income taxes	514	505	1,500	1,506
Income tax benefit	(132)	(133)	(360)	(385)
Total stock-based compensation expense after income taxes	$382	$372	$1,140	$1,121

As of September 29, 2013, a total of $2.7 million of unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted average period of approximately 1.7 years. There were no significant capitalized stock-based compensation costs at September 29, 2013 and December 30, 2012.

Note 5 – Business Segments

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, and 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		Thirty-nine Weeks Ended	
Net sales:	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
U.S. [1]	$65,090	$66,994	$219,228	$233,935
Mexico [1]	126,529	126,932	377,825	377,501
Consolidated net sales	$191,619	$193,926	$597,053	$611,436

Property, plant and equipment, net:	September 29, 2013	December 30, 2012
U.S.	$60,028	$52,458
Mexico	126,749	95,086
Consolidated property, plant and equipment, net	$186,777	$147,544

[1] For the thirteen and thirty-nine weeks ended September 23, 2012, net sales totaling $1.5 million and $2.3 million, respectively, were reclassified from the U.S. to Mexico as a result of reallocating intercompany sales transactions that eliminate in consolidation.

Note 6 – Pre-Production Costs Related to Long-Term Supply Arrangements

We incur preproduction engineering and tooling costs r