STONERIDGE INC
Form 10-Q
November 09, 2009

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

FORM 10-Q

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

For the quarter ended September 30, 2009

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: 001-13337

STONERIDGE, INC.
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1598949 (I.R.S. Employer Identification No.)
9400 East Market Street, Warren, Ohio (Address of principal executive offices)	44484 (Zip Code)

(330) 856-2443
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of Common Shares, without par value, outstanding as of October 23, 2009 was 25,294,335.

STONERIDGE, INC. AND SUBSIDIARIES

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PART I–FINANCIAL INFORMATION

Item 1. Financial Statements.

STONERIDGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 84,442	$ 92,692
Accounts receivable, less reserves of $3,492 and $4,204, respectively	86,245	96,535
Inventories, net	37,541	54,800
Prepaid expenses and other	16,789	9,069
Deferred income taxes	1,868	1,495
Total current assets	226,885	254,591
Long-Term Assets:		
Property, plant and equipment, net	77,941	87,701
Other Assets:		
Investments and other, net	48,575	40,145
Total long-term assets	126,516	127,846
Total Assets	$ 353,401	$ 382,437
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 44,104	$ 50,719
Accrued expenses and other	42,427	43,485
Total current liabilities	86,531	94,204
Long-Term Liabilities:		
Long-term debt	183,000	183,000
Deferred income taxes	7,073	7,002
Other liabilities	6,905	6,473
Total long-term liabilities	196,978	196,475
Shareholders' Equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 25,294 and 24,772 shares and outstanding 25,010 and 24,665 shares, respectively, with no stated value	-	-
Additional paid-in capital	158,489	158,039
Common Shares held in treasury, 284 and 107 shares, respectively, at cost	(289)	(129)
Accumulated deficit	(91,342)	(59,155)
Accumulated other comprehensive income (loss)	3,034	(6,997)

Total shareholders’ equity		69,892		91,758
Total Liabilities and Shareholders' Equity	$	353,401	$	382,437

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

STONERIDGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net Sales	$ 117,992	$ 178,434	$ 341,367	$ 594,733
Costs and Expenses:				
Cost of goods sold	90,909	143,089	281,413	458,217
Selling, general and administrative	23,139	31,668	76,554	104,834
Restructuring charges	1,310	2,742	3,819	5,877
Operating Income (Loss)	2,634	935	(20,419)	25,805
Interest expense, net	5,559	5,049	16,594	15,301
Equity in earnings of investees	(3,386)	(4,371)	(4,864)	(11,206)
Loss on early extinguishment of debt	-	-	-	770
Other expense (income), net	(198)	(234)	447	44
Income (Loss) Before Income Taxes	659	491	(32,596)	20,896
Provision (benefit) for income taxes	1,502	855	(409)	10,029
Net Income (Loss)	$ (843)	$ (364)	$ (32,187)	$ 10,867
Basic net income (loss) per share	$ (0.04)	$ (0.02)	$ (1.37)	$ 0.47
Basic weighted average shares outstanding	23,761	23,405	23,580	23,353
Diluted net income (loss) per share	$ (0.04)	$ (0.02)	$ (1.37)	$ 0.46
Diluted weighted average shares outstanding	23,761	23,405	23,580	23,728

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

STONERIDGE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
OPERATING ACTIVITIES:		
Net income (loss)	$ (32,187)	$ 10,867
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities -		
Depreciation	15,251	20,706
Amortization	733	1,050
Deferred income taxes	(1,207)	7,039
Equity in earnings of investees	(4,864)	(11,206)
Loss (gain) on sale of property, plant and equipment	292	(42)
Share-based compensation expense	854	2,666
Loss on extinguishment of debt	-	770
Changes in operating assets and liabilities -		
Accounts receivable, net	11,228	5,235
Inventories, net	18,272	(12,179)
Prepaid expenses and other	(2,704)	(1,654)
Accounts payable	(7,995)	(1,652)
Accrued expenses and other	(251)	9,068
Net cash provided by (used for) operating activities	(2,578)	30,668
INVESTING ACTIVITIES:		
Capital expenditures	(8,779)	(17,956)
Proceeds from sale of property, plant and equipment	88	435
Business acquisitions and other	-	(980)
Net cash used for investing activities	(8,691)	(18,501)
FINANCING ACTIVITIES:		
Repayments of long-term debt	-	(17,000)
Share-based compensation activity, net	-	1,305
Premiums related to early extinguishment of debt	-	(553)
Other financing costs	(50)	-
Net cash used for financing activities	(50)	(16,248)
Effect of exchange rate changes on cash and cash equivalents	3,069	(2,232)
Net change in cash and cash equivalents	(8,250)	(6,313)
Cash and cash equivalents at beginning of period	92,692	95,924
Cash and cash equivalents at end of period	$ 84,442	$ 89,611

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

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data, unless otherwise indicated)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Stoneridge, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") have been condensed or omitted pursuant to the SEC's rules and regulations. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2008.

The company has reclassified the presentation of certain prior-period information to conform to the current presentation.

(2) Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for approximately 67% and 72% of the Company's inventories at September 30, 2009 and December 31, 2008, respectively, and by the first-in, first-out ("FIFO") method for all other inventories. The Company adjusts its excess and obsolescence reserve at least on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. Inventory cost includes material, labor and overhead. Inventories consist of the following:

	September 30, 2009	December 31, 2008
Raw materials	$ 18,377	$ 32,981
Work-in-progress	7,406	8,876
Finished goods	14,981	15,890
Total inventories	40,764	57,747
Less: LIFO reserve	(3,223)	(2,947)
Inventories, net	$ 37,541	$ 54,800

(3) Fair Value of Financial Instruments

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The estimated fair value of the Company's senior notes (fixed rate debt) at September 30, 2009 and December 31, 2008, per quoted market sources, was $173.9 million and $124.4 million, respectively. The carrying value was $183.0 million as of September 30, 2009 and December 31, 2008.

STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data, unless otherwise indicated)

Derivative Instruments and Hedging Activities

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 161, Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (Accounting Standards Codification TM ("ASC") Topic 815) which expands the quarterly and annual disclosure requirements about the Company's derivative instruments and hedging activities. The adoption of ASC Topic 815 did not have an effect on the Company's financial position, results of operations or cash flows.

We make use of derivative instruments in foreign exchange and commodity price hedging programs. Derivatives currently in use are foreign currency forward contracts and commodity swaps. These contracts are used strictly for hedging and not for speculative purposes. They are used to mitigate uncertainty and volatility and to cover underlying exposures. Management believes that its use of these instruments to reduce risk is in the Company's best interest. The counterparties to these financial instruments are financial institutions with strong credit ratings.

The Company conducts business internationally and therefore is exposed to foreign currency exchange risk. The Company uses derivative financial instruments as cash flow hedges to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the affect of such fluctuations on foreign currency denominated intercompany transactions and other foreign currency exposures. The currencies hedged by the Company include the British pound, Swedish krona and Mexican peso. In certain instances, the foreign currency forward contracts are marked to market, with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other expense (income), net. The Company's foreign currency forward contracts substantially offset gains and losses on the underlying foreign currency denominated transactions. As of September 30, 2009 and December 31, 2008, the Company held foreign currency forward contracts to reduce the exposure related to the Company's British pound-denominated intercompany receivables. In addition, at September 30, 2009 the Company held a foreign currency hedge contract to reduce the exposure related to the Company's Swedish krona-denominated intercompany receivables. These contracts expire in December 2009. For the nine months ended September 30, 2009, the Company recognized a $548 loss related to the British pound and Swedish krona contracts in the condensed consolidated statement of operations as a component of other expense (income), net. The Company also holds contracts intended to reduce exposure to the Mexican peso. These contracts were executed to hedge forecasted transactions, and therefore the contracts are accounted for as cash flow hedges. These Mexican peso-denominated foreign currency option contracts expire monthly throughout 2009. The effective portion of the unrealized gain or loss is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive income (loss). The Company's expectation is that the cash flow hedges will be highly effective in the future. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis.

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company entered into fixed price commodity swaps with a financial institution to fix the cost of copper purchases. In December 2007, the Company entered into a fixed price swap contract for 1.0 million pounds of copper, which expired on December 31, 2008. In September 2008, the Company entered into a fixed price swap contract for 1.4 million pounds of copper, which covers the period from January 2009 to December 2009. Because these contracts were executed to hedge forecasted transactions, the contracts are accounted for as cash flow hedges. The unrealized gain or loss for the effective portion of the hedge is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive income (loss). The Company deems these cash flow hedges to be highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis.

STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The notional amounts and fair values of derivative instruments in the condensed consolidated balance sheets are as follows:

	Notional amounts1		Prepaid expenses and other assets		Accrued expenses and other liabilities	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
Derivatives designated as hedging instruments:						
Forward currency contracts	$ 8,748	$ 35,457	$ -	$ -	$ 323	$ 2,930
Commodity contracts	1,021	4,085	-	-	44	2,104
	9,769	39,542	-	-	367	5,034
Derivatives not designated as hedging instruments:						
Forward currency contracts	8,239	8,762	-	2,101	23	-
Total derivatives	$ 18,008	$ 48,304	$ -	$ 2,101	$ 390	$ 5,034

1 - Notional amounts represent the gross contract / notional amount of the derivatives outstanding.

Amounts recorded in other comprehensive income in shareholders’ equity and in net loss for the three months ended September 30, 2009 are as follows:

	Amount of gain recorded in other comprehensive income	Amount of gain (loss) reclassified from other comprehensive income into net loss	Location of loss reclassified from other comprehensive income into net loss
Derivatives designated as cash flow hedges:			
Forward currency contracts	$ 73	$ 217	Cost of goods sold
Commodity contracts	420	(91)	Cost of goods sold
	$ 493	$ 126	

Amounts recorded in other comprehensive income in shareholder’s equity and in net loss for the nine months ended September 30, 2009 are as follows:

	Amount of gain recorded in other comprehensive income	Amount of loss reclassified from other comprehensive income into net loss	Location of loss reclassified from other comprehensive income into net loss
Derivatives designated as cash flow hedges:			
Forward currency contracts	$ 2,607	$ (1,748)	Cost of goods sold
Commodity contracts	2,060	(849)	Cost of goods sold

	$	4,667	$	(2,597)

These derivatives will be reclassified from other comprehensive income to the consolidated statement of operations over the next three months.

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STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data, unless otherwise indicated)

Effective January 1, 2009, the Company adopted SFAS No. 157, Fair Value Measurements (ASC Topic 820) as it relates to nonfinancial assets and nonfinancial liabilities measured on a non-recurring basis. The Company adopted ASC Topic 820 for financial assets and financial liabilities on January 1, 2008. This guidance clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The adoption of ASC Topic 820 did not have a material effect on the Company's fair value measurements.

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

	September 30, 2009			December 31, 2008
		Fair Value Estimated Using		
	Fair Value	Level 1 inputs(1)	Level 2 inputs(2)	Fair Value
Financial assets carried at fair value				
Available for sale security	$ 242	$ 242	$ -	$ 252
Forward currency contracts	-	-	-	2,101
Total financial assets carried at fair value	$ 242	$ 242	$ -	$ 2,353
Financial liabilities carried at fair value				
Forward currency contracts	$ 323	$ -	$ 323	$ 2,930
Commodity hedge contracts	44	-	44	2,104
Total financial liabilities carried at fair value	$ 367	$ -	$ 367	$ 5,034

(1) Fair values estimated using Level 1 inputs, which consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The available for sale security is an equity security that is publically traded.

(2) Fair values estimated using Level 2 inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly and include among other things, quoted prices for similar assets or liabilities in markets that are active or inactive as well as inputs other than quoted prices that are observable. For forward currency and commodity hedge contracts, inputs include foreign currency exchange rates and commodity indexes.

(4) Share-Based Compensation

Total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $257 and $764 for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $854 and $2,666, respectively.

STONERIDGE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data, unless otherwise indicated)

(5) Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	$ (843)	$ (364)	$ (32,187)	$ 10,867
Other comprehensive income (loss):				
Currency translation adjustments	3,669	(11,230)	5,563	(6,120)
Pension liability adjustments	61	48	(189)	38
Unrealized gain (loss) on marketable securities	9	11	(10)	(1)
Unrecognized gain (loss) on derivatives	493	(332)	4,667	16
Total other comprehensive income (loss)	4,232	(11,503)	10,031	(6,067)
Comprehensive income (loss)	$ 3,389	$ (11,867)	$ (22,156)	$ 4,800

Accumulated other comprehensive income (loss), net of tax is comprised of the