

STONERIDGE INC
Form 10-Q
August 07, 2008

**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 quarter ended June 30, 2008

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. Yes 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 Accelerated filer Non-accelerated filer Smaller reporting company
(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). Yes No

The number of Common Shares, without par value, outstanding as of July 25, 2008 was 24,668,595.

STONERIDGE, INC. AND SUBSIDIARIES**INDEX**

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PART I-FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

	June 30, 2008	December 31, 2007
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 81,342	\$ 95,924
Accounts receivable, less reserves of \$5,587 and \$4,736, respectively	142,472	122,288
Inventories, net	70,175	57,392
Prepaid expenses and other	17,365	15,926
Deferred income taxes	9,963	9,829
Total current assets	321,317	301,359
Long-Term Assets:		
Property, plant and equipment, net	90,611	92,752
Other Assets:		
Goodwill	65,730	65,176
Investments and other, net	47,962	39,454
Deferred income taxes	20,774	29,028
Total long-term assets	225,077	226,410
Total Assets	\$ 546,394	\$ 527,769
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 76,809	\$ 69,373
Accrued expenses and other	56,104	47,198
Total current liabilities	132,913	116,571
Long-Term Liabilities:		
Long-term debt	183,000	200,000
Deferred income taxes	2,909	2,665
Other liabilities	2,168	2,344
Total long-term liabilities	188,077	205,009
Shareholders' Equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 24,755 and 24,601 shares and outstanding 24,660 and 24,209 shares, respectively, with no stated value	-	-
Additional paid-in capital	156,467	154,173

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Common Shares held in treasury, 95 and 373 shares, respectively, at cost	(129)	(383)
Retained earnings	49,603	38,372
Accumulated other comprehensive income	19,463	14,027
Total shareholders' equity	225,404	206,189
Total Liabilities and Shareholders' Equity	\$ 546,394	\$ 527,769

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales	\$ 213,229	\$ 183,802	\$ 416,299	\$ 368,830
Costs and Expenses:				
Cost of goods sold	163,875	144,920	315,128	287,101
Selling, general and administrative	36,731	33,598	73,021	66,730
(Gain) Loss on sale of property, plant and equipment, net	153	(1,653)	145	(1,688)
Restructuring charges	1,713	31	3,135	72
Operating Income	10,757	6,906	24,870	16,615
Interest expense, net	4,880	5,619	10,252	11,103
Equity in earnings of investees	(3,016)	(2,298)	(6,835)	(4,418)
Loss on early extinguishment of debt	271	-	770	-
Other expense (income), net	(124)	224	278	512
Income Before Income Taxes	8,746	3,361	20,405	9,418
Provision for income taxes	4,062	666	9,174	1,853
Net Income	\$ 4,684	\$ 2,695	\$ 11,231	\$ 7,565
Basic net income per share	\$ 0.20	\$ 0.12	\$ 0.48	\$ 0.33
Basic weighted average shares outstanding	23,286	23,114	23,327	23,052
Diluted net income per share	\$ 0.20	\$ 0.11	\$ 0.47	\$ 0.32
Diluted weighted average shares outstanding	23,690	23,702	23,722	23,603

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)

	Six Months Ended June 30,	
	2008	2007
<u>OPERATING ACTIVITIES:</u>		
Net income	\$ 11,231	\$ 7,565
Adjustments to reconcile net income to net cash provided by (used for) operating activities -		
Depreciation	14,316	14,513
Amortization	784	799
Deferred income taxes	7,281	(325)
Equity in earnings of investees	(6,835)	(4,418)
(Gain) Loss on sale of property, plant and equipment	145	(1,688)
Share-based compensation expense	1,903	1,252
Changes in operating assets and liabilities -		
Accounts receivable, net	(17,924)	(6,506)
Inventories, net	(11,739)	1,538
Prepaid expenses and other	(625)	(3,916)
Accounts payable	6,081	(6,112)
Accrued expenses and other	7,956	1,317
Net cash provided by operating activities	12,574	4,019
<u>INVESTING ACTIVITIES:</u>		
Capital expenditures	(11,641)	(10,814)
Proceeds from sale of property, plant and equipment	307	4,951
Business acquisitions and other	(980)	-
Net cash used for investing activities	(12,314)	(5,863)
<u>FINANCING ACTIVITIES:</u>		
Repayments of long-term debt	(17,000)	-
Share-based compensation activity, net	1,162	1,796
Premiums related to early extinguishment of debt	(553)	-
Net cash provided by (used for) financing activities	(16,391)	1,796
Effect of exchange rate changes on cash and cash equivalents	1,549	232
Net change in cash and cash equivalents	(14,582)	184
Cash and cash equivalents at beginning of period	95,924	65,882
Cash and cash equivalents at end of period	\$ 81,342	\$ 66,066

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

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 “Commission”). 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 have been condensed or omitted pursuant to the Commission’s rules and regulations. The results of operations for the six months ended June 30, 2008 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, 2007.

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 62% and 66% of the Company’s inventories at June 30, 2008 and December 31, 2007, respectively, and by the first-in, first-out (“FIFO”) method for all other inventories. Inventory cost includes material, labor and overhead. Inventories consist of the following:

	June 30, 2008	December 31, 2007
Raw materials	\$ 39,138	\$ 36,678
Work-in-progress	10,605	9,065
Finished goods	22,857	13,700
Total inventories	72,600	59,443
Less: LIFO reserve	(2,425)	(2,051)
Inventories, net	\$ 70,175	\$ 57,392

(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 June 30, 2008 and December 31, 2007, per quoted market sources, was \$186.7 million and \$199.2 million, respectively. The carrying value was \$183.0 million

and \$200.0 million as of June 30, 2008 and December 31, 2007, respectively.

Derivative Instruments and Hedging Activities

The Company makes use of derivative instruments in foreign exchange and commodity price hedging programs. Derivatives currently in use are foreign currency forward and commodity swap contracts. These contracts are used strictly for hedging and not for speculative purposes. Management believes that the use of these instruments to reduce risk is in the Company's best interest.

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