STONERIDGE INC
Form 10-Q
August 05, 2011

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, 2011

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 website, 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).
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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 July 22, 2011 was 25,576,578.

STONERIDGE, INC. AND SUBSIDIARIES

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PART I–FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands)	June 30, 2011	December 31, 2010 As adjusted
ASSETS		
Current assets:		
Cash and cash equivalents	$36,448	$ 71,974
Accounts receivable, less reserves of $1,623 and $2,013, respectively	126,039	102,600
Inventories, net	73,322	54,959
Prepaid expenses and other current assets	23,850	20,443
Total current assets	259,659	249,976
Long-term assets:		
Property, plant and equipment, net	81,516	76,576
Investments and other long-term assets, net	67,631	60,184
Total long-term assets	149,147	136,760
Total assets	$408,806	$ 386,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$78,435	$ 68,341
Accrued expenses and other current liabilities	41,819	44,442
Total current liabilities	120,254	112,783
Long-term liabilities:		
Long-term debt	169,238	167,903
Other long-term liabilities	14,795	14,831
Total long-term liabilities	184,033	182,734
Shareholders' equity		
Preferred shares, without par value, authorized 5,000 shares, none issued	-	-
Common shares, without par value, authorized 60,000 shares, issued 26,451 and 25,994 shares and outstanding 25,577 and 25,393 shares, respectively, with no stated value	-	-
Additional paid-in capital	164,311	161,587
Common shares held in treasury, 874 and 601 shares, respectively, at cost	(1,862)	(1,118)
Accumulated deficit	(71,367)	(77,620)
Accumulated other comprehensive income	9,197	4,062
Total Stoneridge Inc. and subsidiaries shareholders' equity	100,279	86,911
Noncontrolling interest	4,240	4,308
Total shareholders' equity	104,519	91,219
Total liabilities and shareholders' equity	$408,806	$ 386,736

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share data)	Three months ended June 30, 2011	Three months ended June 30, 2010 As adjusted	Six months ended June 30, 2011	Six months ended June 30, 2010 As adjusted
Net sales	$190,417	$166,262	$383,461	$314,336
Costs and expenses:				
Cost of goods sold	152,699	126,998	306,453	241,140
Selling, general and administrative	30,305	31,447	62,895	61,015
Operating income	7,413	7,817	14,113	12,181
Interest expense, net	4,289	5,630	8,555	11,236
Equity in earnings of investees	(1,808)	(1,611)	(3,724)	(2,302)
Other expense (income), net	534	(749)	1,533	(1,699)
Income before income taxes	4,398	4,547	7,749	4,946
Provision (benefit) for income taxes	1,158	731	1,835	(758)
Net income	3,240	3,816	5,914	5,704
Net loss attributable to noncontrolling interest	(124)	(21)	(339)	(44)
Net income attributable to Stoneridge, Inc. and subsidiaries	$3,364	$3,837	$6,253	$5,748
Basic net income per share	$0.14	$0.16	$0.26	$0.24
Basic weighted average shares outstanding	24,162	23,965	24,090	23,922
Diluted net income per share	$0.14	$0.16	$0.25	$0.24
Diluted weighted average shares outstanding	24,606	24,389	24,545	24,351

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Six months ended June 30 (in thousands)	2011	2010 As adjusted
OPERATING ACTIVITIES:		
Net income	$5,914	$5,704
Adjustments to reconcile net income to net cash used for operating activities		
Depreciation	9,924	9,623
Amortization, including accretion of debt discount	549	577
Deferred income taxes	323	(1,710)
Earnings of equity method investees	(3,724)	(2,302)
Loss (gain) on sale of fixed assets	11	(8)
Share-based compensation expense, net	2,247	930
Changes in operating assets and liabilities -		
Accounts receivable, net	(21,410)	(27,989)
Inventories, net	(17,559)	(7,936)
Prepaid expenses and other	(2,459)	(8,938)
Accounts payable	8,919	13,651
Accrued expenses and other	(5,848)	10,965
Net cash used for operating activities	(23,113)	(7,433)
INVESTING ACTIVITIES:		
Capital expenditures	(14,117)	(7,063)
Proceeds from sale of fixed assets	3	21
Capital contribution from noncontrolling interest	271	-
Net cash used for investing activities	(13,843)	(7,042)
FINANCING ACTIVITIES:		
Repayments of debt	(130)	(141)
Revolving credit facility borrowings	893	4,271
Revolving credit facility payments	(457)	(3,794)
Other financing costs	(96)	-
Repurchase of shares to satisfy employee tax withholding	(744)	-
Excess tax benefits from share-based compensation expense	-	294
Net cash (used for) provided by financing activities	(534)	630
Effect of exchange rate changes on cash and cash equivalents	1,964	(3,454)
Net decrease in cash and cash equivalents	(35,526)	(17,299)
Cash and cash equivalents at beginning of period	71,974	91,907
Cash and cash equivalents at end of period	$36,448	$74,608
Supplemental disclosure of non-cash financing activities:		
Change in fair value of interest rate swap	$1,208	$-

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

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

(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" or "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 have been condensed or omitted pursuant to the Commission's rules and regulations. The results of operations for the three and six months June 30, 2011 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, 2010.

(2) Change in Accounting Principle

Effective January 1, 2011, the Company elected to change the method of valuing inventories for certain U.S. businesses to the first-in, first-out ("FIFO") method, while in prior years, these inventories were valued using the last-in, first-out ("LIFO") method. As a result of this change in accounting principle, all inventories are valued using the FIFO method. The Company believes the change is preferable as it conforms the Company's inventory costing methods for all inventories to a single method and improves comparability with industry peers. The FIFO method also better reflects current acquisition cost of those inventories on the condensed consolidated balance sheets. The Company has applied this change in method of inventory costing retrospectively to all prior periods presented herein in accordance with accounting principles relating to accounting changes. The effect of retrospectively applying the change on the Company's inventory costing method increased the inventory balance and reduced the accumulated deficit balance by $2,410 as of January 1, 2010. There were no tax effects for the adjustments for any periods presented below due to the fact that the Company has a full valuation allowance recorded against its U.S. deferred tax assets.

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

Presented below are the effects of the change in accounting principle for inventory costs on the condensed consolidated financial statements for 2011 and 2010.

Condensed Consolidated Statements of Operations:

Three months ended June 30			2011			2010
	Computed under LIFO	Impact of change to FIFO	Reported under FIFO	Originally reported	Impact of change to FIFO	As adjusted
Cost of goods sold	$ 152,810	$ (111)	$ 152,699	$ 126,642	$ 356	$ 126,998
Operating income (loss)	$ 7,302	$ 111	$ 7,413	$ 8,173	$ (356)	$ 7,817
Income (loss) before income taxes	$ 4,287	$ 111	$ 4,398	$ 4,903	$ (356)	$ 4,547
Net income (loss)	$ 3,129	$ 111	$ 3,240	$ 4,172	$ (356)	$ 3,816
Net income (loss) attributable to Stoneridge, Inc. and subsidiaries	$ 3,253	$ 111	$ 3,364	$ 4,193	$ (356)	$ 3,837
Basic net income (loss) per share	$ 0.14	$ 0.00	$ 0.14	$ 0.17	$ (0.01)	$ 0.16
Diluted net income (loss) per share	$ 0.14	$ 0.00	$ 0.14	$ 0.17	$ (0.01)	$ 0.16

Six months ended June 30	2011			2010		
	Computed under LIFO	Impact of change to FIFO	Reported under FIFO	Originally reported	Impact of change to FIFO	As adjusted
Cost of goods sold	$ 308,180	$ (1,727)	$ 306,453	$ 241,189	$ (49)	$ 241,140
Operating income	$ 12,386	$ 1,727	$ 14,113	$ 12,132	$ 49	$ 12,181
Income before income taxes	$ 6,022	$ 1,727	$ 7,749	$ 4,897	$ 49	$ 4,946
Net income	$ 4,187	$ 1,727	$ 5,914	$ 5,655	$ 49	$ 5,704
Net income attributable to Stoneridge, Inc. and subsidiaries	$ 4,526	$ 1,727	$ 6,253	$ 5,699	$ 49	$ 5,748
Basic net income per share	$ 0.19	$ 0.07	$ 0.26	$ 0.24	$ 0.00	$ 0.24
Diluted net income per share	$ 0.18	$ 0.07	$ 0.25	$ 0.23	$ 0.01	$ 0.24

Condensed Consolidated Balance Sheets:

	June 30, 2011	December 31, 2010

	Computed under LIFO	Impact of change to FIFO	Reported under FIFO	Originally reported	Impact of change to FIFO	As adjusted
Inventories, net	$ 68,464	$ 4,858	$ 73,322	$ 51,828	$ 3,131	$ 54,959
Total current assets	$ 254,801	$ 4,858	$ 259,659	$ 246,845	$ 3,131	$ 249,976
Total assets	$ 403,948	$ 4,858	$ 408,806	$ 383,605	$ 3,131	$ 386,736
Accumulated deficit	$ (76,225)	$ 4,858	$ (71,367)	$ (80,751)	$ 3,131	$ (77,620)
Total Stoneridge, Inc. and subsidiaries shareholders' equity	$ 95,421	$ 4,858	$ 100,279	$ 83,780	$ 3,131	$ 86,911
Total shareholders' equity	$ 99,661	$ 4,858	$ 104,519	$ 88,088	$ 3,131	$ 91,219
Total liabilities and shareholders' equity	$ 403,948	$ 4,858	$ 408,806	$ 383,605	$ 3,131	$ 386,736

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

Condensed Consolidated Statements of Cash Flows:

Six months ended June 30			2011			2010
	Computed under LIFO	Impact of change to FIFO	Reported under FIFO	Originally reported	Impact of change to FIFO	As adjusted
Net income	$ 4,187	$1,727	$5,914	$5,655	$49	$5,704
Change in inventories, net	$ (15,832)	$(1,727)	$(17,559)	$(7,887)	$(49)	$(7,936)

(3) Inventories

Inventories are valued at the lower of cost or market. As discussed in Note 2, effective January 1, 2011, the Company elected to change its costing method to the FIFO method for all inventories. The Company adopted this change in accounting principle by adjusting all prior periods presented retrospectively. 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 consisted of the following:

	June 30, 2011	December 31, 2010 As adjusted
Raw materials	$48,161	$ 35,793
Work-in-progress	10,096	9,454
Finished goods	15,065	9,712
Total inventories, net	$73,322	$ 54,959

(4) 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 secured notes at June 30, 2011 and December 31, 2010, per quoted market sources, was $189,767 and $187,798, respectively. The face amount of this financial instrument as of June 30, 2011 and December 31, 2010 was $175,000.

Derivative Instruments and Hedging Activities

On June 30, 2011, the Company had open foreign currency forward contracts, fixed price commodity contracts and an interest rate swap. These contracts are used strictly for hedging and not for speculative purposes. 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 investment grade credit ratings.

The Company conducts business internationally and therefore is exposed to foreign currency exchange rate risk. The Company uses derivative financial instruments as cash flow and fair value hedges to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions and other foreign currency exposures. The currencies currently hedged by the Company include the euro and Swedish krona. These contracts expire on September 30, 2011. These foreign currency forward contracts are accounted for as fair value hedges, but do not qualify for hedge accounting and are marked to market, with gains and losses recognized in the Company's condensed consolidated statements of operations as a component of other expense (income), net. For the six months ended June 30, 2011, the Company recognized a $2,654 loss related to euro and Swedish krona contracts. The Company's foreign currency forward contracts substantially offset gains and losses on the underlying foreign currency denominated transactions. During the year ended December 31, 2010, the Company held contracts intended to reduce exposure to the Mexican peso. These contracts were executed to hedge forecasted transactions, and therefore the contracts were accounted for as cash flow hedges. The Mexican peso-denominated foreign currency forward contracts expired monthly throughout 2010.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company entered into fixed price commodity contracts with a financial institution to fix the cost of a portion of the Company's copper purchases. In March 2011, the Company entered into fixed price commodity contracts for 1,200 pounds of copper, which represents a portion of the Company's copper purchases in the period from April 2011 to December 2011. In May 2011, the Company entered into two additional fixed price commodity contracts. The first contract was for 938 pounds of copper which covers the period from June 2011 to December 2011. The other commodity contract was for 2,000 pounds of copper and covers the period from January 2012 to December 2012. Both of these contracts represent a portion of the Company's copper purchases. Because these contracts were executed to hedge a portion of forecasted transactions, the contracts are accounted for as cash flow hedges. The unrealized gain or loss for the effective portion of the hedges is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive income. Using regression analysis, the Company has concluded that these cash flow hedges are highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis.

On October 4, 2010, the Company entered into a fixed-to-floating interest rate swap agreement (the "Swap") with a notional amount of $45,000 to hedge its exposure to fair value fluctuations on a portion of its senior secured notes. The Swap was designated as a fair value hedge of the fixed interest rate obligation under the Company's $175,000 9.5% senior secured notes due October 15, 2017. Under the Swap, the Company pays a variable interest rate equal to the six-month London Interbank Offered Rate ("LIBOR") plus 7.19% and it receives a fixed interest rate of 9.5%. The Swap requires semi-annual settlements on April 15 and October 15, beginning on April 15, 2011. The difference between amounts to be received and paid under the Swap is recognized as a component of interest expense, net on the condensed consolidated statements of operations. The Swap reduced interest expense by $380 for the six months ended June 30, 2011. The critical terms of the Swap are aligned with the terms of the senior secured notes, including maturity of October 15, 2017, resulting in no hedge ineffectiveness. 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 an asset or liability, as applicable, with the offset to the carrying value of the senior secured notes.

The notional amounts and fair values of derivative instruments in the condensed consolidated balance sheets are as follows:

	Notional amounts (A)		Prepaid expenses and other current assets		Other long-term liabilities	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:			`			
Cash Flow Hedge:						
Fixed price commodity contracts	$ 14,740	$ -	$ 704	$ -	$ -	$ -
Fair Value Hedge:						
Interest rate swap contract	45,000	45,000	-	-	1,809	3,017
	59,740	45,000	704	-	1,809	3,017

Derivatives not designated as hedging instruments:						
Forward currency contracts	28,803	26,917	-	108	12	-
Total derivatives	$ 88,543	$ 71,917	$ 704	$ 108	$ 1,821	$ 3,017

(A) Notional amounts represent the gross contract / notional amount of the derivatives outstanding.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Amounts recorded in other comprehensive income in shareholders' equity and in net income for the three months ended June 30, 2011 were as follows:

	Amount of gain recorded in other comprehensive income	Amount of loss reclassified from other comprehensive income into net income	Location of loss reclassified from other comprehensive income into net income
Derivatives designated as cash flow hedges:			
Commodity contracts	$ 560	$ 24	Cost of goods sold

Amounts recorded in other comprehensive income in shareholder's equity and in net income for the six months ended June 30, 2011 were as follows:

	Amount of gain recorded in other comprehensive income	Amount of loss reclassified from other comprehensive income into net income	Location of loss reclassified from other comprehensive income into net income
Derivatives designated as cash flow hedges:			
Commodity contracts	$ 680	$ 24	Cost of goods sold

These derivatives will be reclassified from other comprehensive income to the condensed consolidated statement of operations through December of 2012. The Company has measured the ineffectiveness of the commodity contracts and any amounts recognized in the condensed consolidated financial statements were immaterial for the three and six months ended June 30, 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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. The Company does not have any assets or liabilities that have a fair value estimated using level 3 inputs.

	June 30, 2011			December 31, 2010
		Fair value estimated using		
	Fair value	Level 1 inputs (A)	Level 2 inputs (B)	Fair value
Financial assets carried at fair value:				
Forward currency contracts	$-	$-	$ -	$ 108
Available for sale security	221	221	-	274
Fixed price commodity contracts	704	-	704	-
Total financial assets carried at fair value	$925	$221	$ 704	$ 382
Financial liabilities carried at fair value:				
Forward currency contracts	$12	$-	$ 12	$ -
Interest rate swap contract	1,809	-	1,809	3,017
Total financial liabilities carried at fair value	$1,821	$-	$ 1,821	$ 3,017

(A) 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.

(B) 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 fixed price commodity, forward currency and interest rate swap contracts, inputs include commodity indexes, foreign currency exchange rates and the six-month forward LIBOR, respectively.

(5) Share-Based Compensation

Total compensation expense for share-based compensation arrangements recognized in the condensed consolidated statements of operations as a component of selling, general and administrative expenses was $1,254 and $699 for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, total compensation expense recognized in the condensed consolidated statements of operations for share-based compensation arrangements was $2,247 and $1,224, respectively.

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

(6) Comprehensive Income (Loss)

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

	Three months ended June 30, 2011	Three months ended June 30, 2010 As adjusted	Six months ended June 30, 2011	Six months ended June 30, 2010 As adjusted
Net income	$3,240	$3,816	$5,914	$5,704
Other comprehensive income (loss):				
Currency translation adjustments	2,159	(913)	4,466	(6,274)
Pension liability adjustments	-	-	-	5,089
Unrealized loss on marketable securities	(29)	(1)	(35)	(4)
Unrealized gain (loss) on derivatives	584	(1,915)	704	(86)
Other comprehensive income (loss)	2,714	(2,829)	5,135	(1,275)
Consolidated comprehensive income	5,954	987	11,049	4,429
Comprehensive loss attributable to noncontrolling interest	124	21	339	44
Comprehensive income attributable to Stoneridge, Inc. and subsidiaries	$6,078	$1,008	$11,388	$4,473

Accumulated other comprehensive income, net of tax is comprised of the following:

	June 30, 2011	December 31, 2010
Currency translation adjustments	$8,544	$ 4,078
Unrealized loss on marketable securities	(51)	(16)
Unrealized gain on derivatives	704	-
Accumulated other comprehensive income	$9,197	$ 4,062

(7) Long-Term Debt

Senior Secured Notes

On October 4, 2010, the Company issued $175,000 of senior secured notes. These senior notes bear interest at an annual rate of 9.5% and mature on October 15, 2017. The senior secured notes are redeemable, at the Company's option, beginning October 15, 2014 at 104.75%. Interest payments commenced on April 15, 2011 and are payable on April 15 and October 15 of each year, thereafter. The senior secured notes indenture limits the amount of the Company and its restricted subsidiaries' indebtedness, restricts certain payments and includes various other non-financial restrictive covenants. The senior secured notes are guaranteed by all of the Company's existing domestic restricted subsidiaries. All other restricted subsidiaries that guarantee any indebtedness of the Company or its guarantors will also guarantee the senior secured notes.

On September 20, 2010, the Company commenced a tender offer to purchase for cash any and all of its $183,000 senior notes. The consent payment deadline was October 1, 2010 and the tender offer expired on October 18, 2010. For senior notes tendered before the consent payment deadline, the note holders received $1,002.50 for each $1,000.00 of principal amount of notes tendered. There was $109,733 of senior notes tendered prior to the consent payment deadline and an additional $154 tendered after the consent payment deadline but before the tender offer deadline. Holders tendering senior notes after the consent payment deadline were eligible to receive only the tender offer consideration of $1,000.00 per $1,000.00 principal amount of senior notes. On November 4, 2010 all senior notes which were not tendered were redeemed by the Company at par.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Credit Facilities

On November 2, 2007, the Company entered into an asset-based credit facility (the “credit facility”), which permits borrowing up to a maximum level of $100,000. In connection with the senior secured notes issuance, the Company entered into an Amended and Restated Credit and Security Agreement (the “Amended and Restated Agreement”) relating to the credit facility on September 20, 2010 which became effective on October 4, 2010. The Amended and Restated Agreement (i) provided certain consents necessary for the issuance of the senior secured notes, (ii) extended the expiration date of the credit facility to November 1, 2012 and (iii) granted the facility agent, for the benefit of the lenders, second priority liens and security interests in the collateral subject to first priority liens and security interests in favor of the collateral agent for the holders of the senior secured notes. At June 30, 2011 and December 31, 2010, there were no borrowings on this credit facility. The available borrowing capacity on this credit facility is based on eligible current assets, as defined. At June 30, 2011 and December 31, 2010, the Company had borrowing capacity of $78,467 and $61,251, respectively, based on eligible current assets and outstanding letters of credit as defined. The credit facility does not contain financial performance covenants which would constrain the Company’s borrowing capacity. However, restrictions do include limits on capital expenditures, operating leases, dividends and investment activities in a negative covenant which limits investment activities to $15,000 minus certain guarantees and obligations. The credit facility expires on November 1, 2012, and requires a commitment fee of 0.375% on the unused balance. Interest is payable quarterly at either (i) the higher of the prime rate or the Federal Funds rate plus 0.50%, plus a margin of 0.00% to 0.25% or (ii) LIBOR plus a margin of 1.00% to 1.75%, depending upon the Company’s undrawn availability, as defined. The Company was in compliance with all covenants at June 30, 2011 and December 31, 2010.

On October 13, 2009, the Company’s majority owned consolidated subsidiary, Bolton Conductive Systems, LLC (“BCS”), entered into a master revolving note (the “Revolver”), which permits borrowing up to a maximum level of $3,000. On September 29, 2010, BCS amended the Revolver to extend the maturity date to September 29, 2011 and reduced the interest rate margin to 2.0%. The available borrowing capacity on the Revolver is based on an advance formula, as defined. At June 30, 2011 and December 31, 2010, BCS had borrowing capacity of $1,480 and $1,089, respectively, based on the advance formula. At June 30, 2011 and December 31, 2010, BCS had $1,178 and $742 in borrowings outstanding on the Revolver, respectively, which are included on the condensed consolidated balance sheets as a component of accrued expenses and other current liabilities. Interest is payable monthly at the prime referenced rate plus a 2.0% margin. At June 30, 2011, the interest rate on the Revolver was 5.25%. The Company is a guarantor of BCS as it relates to the Revolver. The Revolver contains certain financial restrictive covenants. BCS violated the fixed charge and tangible net worth covenants related to the Revolver during the first quarter of 2011 and during the fourth quarter of 2010. BCS received waivers for those covenant violations. Subsequent to these violations, the fixed charge and tangible net worth covenants have been eliminated from the Revolver through its expiration.

Other Debt

BCS has an installment note. Interest on the installment note is the prime referenced rate plus a 2.25% margin. At June 30, 2011 and December 31, 2010, the interest rate on the installment note was 5.5%. The installment note calls for monthly installment payments of principal and interest and matures in September of 2012. At June 30, 2011 and December 31, 2010, the principal amount due on the installment note was $234 and $322, respectively.

On August 20, 2010, the Company's wholly-owned subsidiary located in Suzhou, China entered into a term loan of 4,690 Chinese yuan, which was $726 and $712 at June 30, 2011 and December 31, 2010, respectively, and is included on the condensed consolidated balance sheets as a component of accrued expenses and other current liabilities. The term loan matures on August 5, 2011. Interest is payable quarterly at the one-year lending rate published by The People's Bank of China multiplied by 110.0%. At June 30, 2011, the interest rate on the term loan was 6.94%.

(8) Net Income Per Share

Basic net income per share was computed by dividing net income by the weighted-average number of Common Shares outstanding for each respective period. Diluted net income per share was calculated by dividing net income by the weighted-average of all potentially dilutive Common Shares that were outstanding during the periods presented. Actual weighted-average Common Shares outstanding used in calculating basic and diluted net income per share were as follows:

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	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Basic weighted-average shares outstanding	24,161,775	23,964,609	24,089,679	23,922,193
Effect of dilutive securities	444,330	424,635	455,109	429,004
Diluted weighted-average shares outstanding	24,606,105	24,389,244	24,544,788	24,351,197

Options not included in the computation of diluted net income share to purchase 50,000 and 115,250 Common Shares at an average price of $15.73 and $12.84, respectively, per share were outstanding at June 30, 2011 and 2010, respectively. These outstanding options were not included in the computation of diluted net income per share because their respective exercise prices were greater than the average market price of Company Common Shares.

There were 419,100 and 455,400 performance-based restricted Common Shares outstanding at June 30, 2011 and 2010, respectively. These shares were not included in the computation of diluted net income per share because not all vesting conditions were achieved as of June 30, 2011 and 2010. These shares may or may not become dilutive based on the Company's ability to meet or exceed future earnings performance targets.

(9) Restructuring

On October 29, 2007, the Company announced restructuring initiatives to improve manufacturing efficiency and cost position by ceasing manufacturing operations at its Sarasota, Florida and Mitcheldean, United Kingdom locations. In response to the depressed conditions in the North American and European commercial and automotive vehicle markets in 2009, the Company also began restructuring initiatives in its Electronics reportable segment. During the first quarter of 2010, the Company continued restructuring initiatives within the Electronics segment which began in 2009 and recorded amounts related to its cancelled lease in Mitcheldean, United Kingdom. In connection with these initiatives, the Company recorded a restructuring charge of $223 and $304 in the Company's condensed consolidated statements of operations as part of selling, general and administrative for the three and six months ended June 30, 2010, respectively. These restructuring initiatives are substantially complete. At June 30, 2011 and December 31, 2010 the only remaining restructuring related liability relates to the cancelled lease in Mitcheldean, United Kingdom, which the Company has accrued $1,149 and $1,117, respectively, on the condensed consolidated balance sheets. There have been no adjustments to the lease liability since December 31, 2010 other than the impact of foreign exchange losses. There were no restructuring activities related to the Control Devices reportable segment during the three and six months ended June 30, 2011 and 2010.

(10) Commitments and Contingencies

In the ordinary course of business, the Company is involved in various legal proceedings, workers' compensation and product liability disputes. The Company is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the results of operations, cash flows or the financial position of the Company.

On October 13, 2009, the Company acquired 51% membership interest in BCS. The purchase agreement provides that the Company may be required to make additional payments to the previous owners of BCS for the 51% membership interest the Company purchased based on BCS achieving financial performance targets as defined by the purchase agreement. The maximum amount of additional payments to the prior owners of BCS is $3,200 per year in

2012 and 2013 and is contingent upon BCS achieving profitability targets based on earnings before interest, income taxes, depreciation and amortization in the years 2011 and 2012, respectively. In addition, the Company may be required to make additional payments to BCS of approximately $500 in 2012 based on BCS achieving annual revenue targets in 2011. The Company recorded a liability of $435; the fair value of the estimated future additional payments to the prior owners of BCS as of June 30, 2011 and December 31, 2010 on the condensed consolidated balance sheets as a component of other long-term liabilities. The purchase agreement provides the Company with the option to purchase the remaining 49% interest in BCS in 2013 at a price determined in accordance with the purchase agreement. If the Company does not exercise this option, the minority owners of BCS have the option in 2014 to purchase the Company's 51% interest in BCS at a price determined in accordance with the purchase agreement or to jointly market BCS for sale.

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As a result of an environmental phase one study performed on the Company's facility located in Sarasota, Florida, the Company became aware of soil and groundwater contamination at the facility. The Company engaged an environmental engineering consultant that developed a remediation and monitoring plan for the site and submitted this plan to the Florida Department of Environmental Protection ("FL DEP") in March 2011. The soil remediation was completed in December 2010. Prior to beginning the groundwater remediation, the FL DEP has requested that the Company perform additional groundwater sampling. The Company anticipates completing this sampling and receiving approval from the FL DEP during 2011. The Company did not incur environmental remediation expenses during the six months ended June 30, 2011 and 2010. As of June 30, 2011 and December 31, 2010, the Company has accrued $1,305 related to the remediation on the condensed consolidated balance sheets.

Product Warranty and Recall

Amounts accrued for product warranty and recall claims are established based on the Company's best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet dates. These accruals are based on several factors including past experience, production changes, industry developments and various other considerations. The Company can provide no assurances that it will not experience material claims in the future or that it will not incur significant costs to defend or settle such claims beyond the amounts accrued or beyond what the Company may recover from its suppliers. Product warranty and recall is included as a component of accrued expenses and other current liabilities on the condensed consolidated balance sheets.

The following provides a reconciliation of changes in product warranty and recall liability:

Six months ended June 30	2011	2010
Product warranty and recall at beginning of period	$3,831	$4,764
Accruals for products shipped during period	915	1,140
Aggregate changes in pre-existing liabilities due to claim developments	(87)	668
Settlements made during the period (in cash or in kind)	(1,300)	(2,182)
Product warranty and recall at end of period	$3,359	$4,390

(11) Employee Benefit Plans

The Company had a single defined benefit pension plan that covered certain former employees in the United Kingdom. As a result of placing Stoneridge Pollak Limited ("SPL") into administration during the six months ended June 30, 2010, as described in Note 13, the Company settled the defined benefit pension plan.

Long-Term Cash Incentive Plans

In March 2009, the Company adopted the Stoneridge, Inc. Long-Term Cash Incentive Plan ("LTCIP") and granted awards to certain officers and key employees. For 2009, the awards under the LTCIP provide recipients with the right to receive cash three years from the date of grant depending on the Company's actual earnings per share performance for a performance period comprised of 2009, 2010 and 2011 fiscal years. The Company will record an accrual for an award to be paid in the period earned based on anticipated achievement of the performance goal. If the participant voluntarily terminates employment or is discharged for cause, as defined in the LTCIP, the award will be forfeited. In May 2009, the LTCIP was approved by the Company's shareholders. The Company has not recorded an accrual for these awards granted under the LTCIP at June 30, 2011 or December 31, 2010 as the achievement of the performance goal is not considered probable at this time.

For 2010, the awards under the LTCIP provide recipients with the right to receive an amount of cash equal to the fair market value of a specified number of Common Shares, without par value, of the Company (“Phantom Shares”) three years from the date of grant depending on the Company’s actual earnings per share performance for each fiscal year of 2010, 2011 and 2012 within the performance period. The Company will record an accrual based on the fair market value of the Phantom Shares for an award to be paid in the period earned based on anticipated achievement of the performance goals. If the participant voluntarily terminates employment or is discharged for cause, as defined in the LTCIP, the award will be forfeited. The Company recorded an accrual of $345 and $184 for these awards granted under the LTCIP at June 30, 2011 and December 31, 2010, respectively, which is included on the condensed consolidated balance sheets as a component of other long-term liabilities.

There were no awards granted under the LTCIP during the six months ended June 30, 2011.

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(12) Income Taxes

The Company recognized a provision for income taxes of $1,158, or 26.3% and $731, or 16.1% of pre-tax income for federal, state and foreign income taxes for the three months ended June 30, 2011 and 2010, respectively. The Company recognized a provision for income taxes of $1,835, or 23.7% of pre-tax income and a benefit from income taxes of $758, or (15.3%) of pre-tax loss, for federal, state and foreign taxes for the six months ended June 30, 2011 and 2010. At June 30, 2011 and December 31, 2010, the Company is in a cumulative loss position and provides a valuation allowance offsetting federal, state and certain foreign deferred tax assets. The increase in tax expense for the three and six months ended June 30, 2011 compared to those same periods for 2010 was attributable to the improved financial performance of the European operations as well as the improved financial performance of the Company's PST Eletrônica S.A. ("PST") joint venture. Additionally, as a result of placing SPL into administration, as described in Note 13, the Company recognized a one-time tax benefit of $1,170 during the six months ended June 30, 2010 from the reversal of a deferred tax liability, related to employee benefits, that were previously included as a component of accumulated other comprehensive income within shareholders' equity.

During the fourth quarter of 2010 the Company undertook a secondary offering. As a result of the secondary offering a substantial change in the Company's ownership occurred and the Company likely experienced an ownership change pursuant to Section 382 of the Internal Revenue Code of 1986, as amended. The Company is in the process with its advisors of evaluating the secondary offering and the potential impact, if any, on our ability to fully utilize net operating loss and research credit carry forwards. If it is ultimately determined that the Company did experience an ownership change, there would not be an impact to the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 or the condensed consolidated statement of operations for the three and six months ended June 30, 2011 due to the Company being in a valuation allowance position.

(13) SPL Administration

On February 23, 2010, the Company placed its wholly owned subsidiary, SPL into administration (a structured bankruptcy) in the United Kingdom. The Company had previously ceased operations at the facility as of December 2008 as part of the restructuring initiatives announced on October 29, 2007, as described in Note 9. The remaining assets and customer contracts of SPL were transferred to other subsidiaries of the Company subsequent to SPL filing for administration. As a result of placing SPL into administration the Company recognized a net gain of approximately $3,423 during the six months ended June 30, 2010. This gain was primarily related to the reversal of the cumulative translation adjustment account ("CTA") and deferred tax liabilities, which had previously been included as a component of other comprehensive income within shareholders' equity. The net gain of approximately $2,253, primarily due to reversing the CTA balance is included as a component of other expense (income), net on the condensed consolidated statement of operations. The benefit from reversing the deferred tax liabilities, primarily employee benefit related of approximately $1,170, is included as a component of benefit from income taxes on the condensed consolidated statement of operations, as described in Note 12.

(14) Segment Reporting

Operating segments are defined as components of an enterprise that are evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the president and chief executive officer.

The Company has two reportable segments: Electronics and Control Devices. The Company's operating segments are aggregated based on sharing similar economic characteristics. Other aggregation factors include the nature of the products offered and management and oversight responsibilities. The Electronics reportable segment produces electronic instrument clusters, electronic control units, driver information systems and electrical distribution systems, primarily wiring harnesses and connectors for electrical power and signal distribution. The Control Devices reportable segment produces electronic and electromechanical switches and control actuation devices and sensors.

The accounting policies of the Company's reportable segments are the same as those described in Note 2, "Summary of Significant Accounting Policies" of the Company's December 31, 2010 Form 10-K. The Company's management evaluates the performance of its reportable segments based primarily on net sales from external customers, capital expenditures and income before income taxes. Inter-segment sales are accounted for on terms similar to those to third parties and are eliminated upon consolidation.

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As discussed in Note 2, effective January 1, 2011, the Company elected to change its method of valuing inventories for certain U.S. businesses to the FIFO method, while in prior years, these inventories were valued using LIFO. As a result of this change, all inventories are valued using the FIFO method. Segment information has been retrospectively adjusted for prior periods to reflect the change in accounting principle.

A summary of financial information by reportable segment is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010 As adjusted	2011	2010 As adjusted
Net Sales:				
Electronics	$124,085	$104,927	$248,902	$196,565
Inter-segment sales	6,382	3,353	12,848	6,464
Electronics net sales	130,467	108,280	261,750	203,029
Control Devices	66,332	61,335	134,559	117,771
Inter-segment sales	961	936	1,934	1,784
Control Devices net sales	67,293	62,271	136,493	119,555
Eliminations	(7,343)	(4,289)	(14,782)	(8,248)
Total net sales	$190,417	$166,262	$383,461	$314,336
Income (Loss) Before Income Taxes:				
Electronics (A)	$464	$4,404	$1,133	$38,753
Control Devices (A)	6,018	5,144	11,701	8,651
Other corporate activities (A)	1,746	247	2,587	(32,049)
Corporate interest expense	(3,830)	(5,248)	(7,672)	(10,409)
Total income before income taxes	$4,398	$4,547	$7,749	$4,946
Depreciation and Amortization:				
Electronics	$2,634	$2,283	$5,096	$4,525
Control Devices	2,379	2,561	4,843	5,026
Corporate	50	85	100	172
Total depreciation and amortization (B)	$5,063	$4,929	$10,039	$9,723
Interest Expense, net:				
Electronics	$433	$376	$836	$821
Control Devices	26	6	47	6
Corporate	3,830	5,248	7,672	10,409
Total interest expense, net	$4,289	$5,630	$8,555	$11,236
Capital Expenditures:				
Electronics	$7,447	$2,323	$9,844	$4,786

Control Devices	2,297	1,040	4,240	2,324
Corporate	31	81	33	(47)
Total capital expenditures	$9,775	$3,444	$14,117	$7,063

(A) During the six months ended June 30, 2010, the Company placed SPL into administration. As a result of placing SPL into administration the Company recognized a gain within the Electronics reportable segment of $32,512 and losses within other corporate activities and within the Control Devices reportable segment of approximately $32,039 and $473, respectively. These results were primarily due to eliminating SPL's intercompany debt and equity structure.

(B) These amounts represent depreciation and amortization on fixed and certain intangible assets.

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	June 30, 2011	December 31, 2010 As adjusted
Total Assets:		
Electronics	$ 241,715	$ 191,698
Control Devices	104,996	96,977
Corporate (C)	189,138	217,414
Eliminations	(127,043)	(119,353)
Total assets	$ 408,806	$ 386,736

(C) Assets located at Corporate consist primarily of cash and equity investments.

The following table presents net sales and non-current assets for each of the geographic areas in which the Company operates:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net Sales:				
North America	$147,608	$ 135,749	$300,379	$256,492
Europe and Other	42,809	30,513	83,082	57,844
Total net sales	$190,417	$ 166,262	$383,461	$314,336

	June 30, 2011	December 31, 2010