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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission file number: 1-6615

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

26600 Telegraph Road, Suite 400

Southfield, Michigan	**48033**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (248) 352-7300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant s $0.01 par value common equity held by non-affiliates as of the last business day of the registrant s most recently completed second quarter was $447,709,967, based on a closing price of $17.90. On February 28, 2019, there were 25,019,237 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s 2019 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year, are incorporated by reference into Part III of this Form 10-K.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have included or incorporated by reference in this Annual Report on Form 10-K (including in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations) and from time to time our management may make statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management s current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, will l result, will continue, plans to and similar expressions. These statements include our belief regarding general automotive industry and market conditions and growth rates, as well as general domestic and international economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, which could cause actual results to differ materially from such statements and from the Company s historical results and experience. These risks, uncertainties and other factors include, but are not limited to, those described in Part I, Item 1A, Risk Factors and Part II - Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K and elsewhere in the Annual Report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the risks described herein should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 1 - BUSINESS

Description of Business and Industry

Our principal business is the design and manufacture of aluminum wheels for sale to original equipment manufacturers (OEMs) in North America and Europe and aftermarket distributors in Europe. We employ approximately 8,000 employees, operating in nine manufacturing facilities in North America and Europe with a combined annual manufacturing capacity of approximately 21 million wheels. We believe we are the #1 North American aluminum wheel manufacturer, the #3 European aluminum wheel manufacturer and the #1 European aluminum wheel aftermarket manufacturer and supplier. Our OEM aluminum wheels accounted for approximately 92% of our sales in 2018 and are primarily sold for factory installation on many vehicle models manufactured by BMW-Mini, Daimler AG Company (Mercedes-Benz, AMG, Smart), FCA, Ford, GM, Honda, Jaguar-Land Rover, Mazda, Nissan, Renault, Peugeot, PSA, Subaru, Suzuki, Toyota, VW Group (Volkswagen, Audi, Skoda, Porsche, Bentley) and Volvo. We also sell aluminum wheels to the European aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO. North America and Europe represent the principal markets for our products, but we have a global presence and diversified customer base consisting of North American, European and Asian OEMs. We continue to deliver on our strategic plan to be one of the leading light vehicle aluminum wheel suppliers globally, delivering innovative wheel solutions to our customers.

As a result of the acquisition of our European operations on May 30, 2017, we have broadened our product portfolio and acquired a significant customer share with European OEMs including BMW-Mini, Daimler AG Company, Jaguar-Land Rover, VW Group and Volvo. The acquisition was not only complementary in terms of customers, market coverage and product offering but also very much aligned with our strategic direction with a priority focus on larger diameter wheels and premium finishes providing enhanced opportunity for higher value-added content. Our global reach encompasses sales to the ten largest OEMs in the world. The following chart shows our sales by customer for the years ended December 31, 2018 and 2017.

Demand for our products is mainly driven by light-vehicle production levels in North America and Europe. North American light-vehicle production in 2018 was 17.0 million vehicles, a 0.6 percent decrease compared to 2017. In Western and Central Europe, light vehicle production level was 18.5 million vehicles, a 2.1 percent decrease over 2017. The majority of our customers wheel programs are awarded one, two or three years in advance. Our purchase orders with OEMs are typically specific to a particular vehicle model.

Customer Dependence

We have proven our ability to be a consistent producer of high quality aluminum wheels with the capability to meet our customers price, quality, delivery and service requirements. We continually strive to enhance our

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relationships with our customers through continuous improvement programs, not only through our manufacturing operations but in the engineering, design, development and quality areas as well.

Ford, GM and VW Group were our only customers individually accounting for 10 percent or more of our consolidated trade sales in 2018, with Toyota accounting for more than 10 percent in 2016 only. Net sales to these customers in 2018, 2017 and 2016 were as follows (dollars in millions):

	2018		2017		2016	
	Percent of Net Sales	**Dollars**	**Percent of Net Sales**	**Dollars**	**Percent of Net Sales**	**Dollars**
Ford	18%	$ 272.6	22%	$ 248.8	38%	$ 271.4
GM	18%	$ 265.3	20%	$ 217.5	30%	$ 216.4
VW Group	12%	$ 183.9	9%	$ 94.3	<1%	$ 2.8
Toyota	8%	$ 114.0	9%	$ 103.8	14%	$ 98.4

In addition, sales to Daimler AG Company and Nissan exceeded five percent of our consolidated sales during 2018 and 2017. BMW-Mini and Volvo exceeded five percent of our consolidated sales in 2018 and Fiat Chrysler and Nissan were at or exceeded 5% of our sales in 2016. The change in sales over the three-year period was primarily driven by the acquisition of our European operations. The loss of all or a substantial portion of our sales to Daimler AG Company, Ford, GM, Nissan, Toyota, Volvo, VW Group, and BMW-Mini would have a significant adverse effect on our financial results. See also Item 1A, Risk Factors, of this Annual Report.

Raw Materials

The raw materials used in manufacturing our products are readily available and are obtained through numerous suppliers with whom we have established trade relationships. Aluminum accounted for the vast majority of our total raw material requirements during 2018. Our aluminum requirements are met through purchase orders with major global producers. During 2018, we successfully secured aluminum commitments from our primary suppliers sufficient to meet our production requirements, and we anticipate being able to source aluminum requirements to meet our expected level of production in 2019. We procure other raw materials through numerous suppliers with whom we have established trade relationships.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain other commodities used in the manufacture of our products, such as natural gas, electricity and other raw materials.

We establish price adjustment clauses with our OEM customers to minimize the aluminum price risk. In the aftermarket, we use hedging products to secure our aluminum purchase prices.

Foreign Operations

We manufacture a significant portion of our North American products in Mexico for sale in the United States, Canada and Mexico. Net sales of wheels manufactured in our Mexico operations in 2018 totaled $673.2 million and represented 84 percent of our total net sales in North America as compared to $608.0 million and 83 percent in 2017. Net property, plant and equipment used in our operations in Mexico totaled $221.5 million at December 31, 2018 and $214.5 million at December 31, 2017. The overall cost for us to manufacture wheels in Mexico is currently lower than in the United States, due to lower labor costs as a result of lower prevailing wage rates.

Similarly, we manufacture the majority of our products for the European market in Poland, for sale throughout Europe. For the year ended December 31, 2018, net sales of wheels manufactured in Poland were $421.8 million and 60 percent of total net European sales versus $220.4 million and 59 percent in the seven months following the acquisition in 2017. Net property, plant and equipment used in our operations in Poland totaled $221.0 million at

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December 31, 2018 versus $227.3 million at December 31, 2017. Similar to our Mexican operations, the overall cost to manufacture wheels in Poland is substantially lower than in both the United States and Germany at the present time due principally to lower labor costs.

Net Sales Backlog

Our customers typically award programs one, two or three years before actual production is scheduled to begin. Each year, the automotive manufacturers introduce new models, update existing models and discontinue certain models. In this process, we may be selected as the supplier on a new model, we may continue as the supplier on an updated model or we may lose a new or updated model to a competitor. Our estimated net sales may be impacted by various assumptions, including new program vehicle production levels, customer price reductions, currency exchange rates and program launch timing. Our customers may terminate the awarded programs or reduce order levels at any time, based on market conditions or change in portfolio direction. Therefore, expected net sales information does not represent firm commitments or firm orders. We estimate that we have been awarded programs covering approximately 84 percent of our manufacturing capacity over the next three years.

Competition

Competition in the market for aluminum wheels is based primarily on delivery, overall customer service, price, quality and technology. We currently supply approximately 19 percent and 13 percent of the aluminum wheels installed on passenger cars and light-duty trucks in North America and Europe, respectively.

Competition is global in nature with a significant volume of exports from Asia into North America. There are several competitors with facilities in North America but we estimate that we have more than twice the North American production capacity of any competitor. Some of the key competitors in North America include Central Motor Wheel of America (CMWA), CITIC Dicastal Co., Ltd., Prime Wheel Corporation, Enkei and Ronal. Key European competitors include Ronal, Borbet, Maxion and CMS. We are the leading manufacturer of alloy wheels in the European aftermarket, where the competition is highly fragmented. Key competitors include Alcar, Brock, Borbet, ATU and Mak. See also Item 1A, Risk Factors, of this Annual Report.

Steel and other types of wheels also compete with our products. Aluminum wheel usage on passenger cars, crossovers, SUV s and light-duty trucks continues to dominate in North America. According to *Ward s Automotive Group,* the aluminum wheel penetration rate on passenger cars and light-duty trucks in North America was 88 percent for the 2018 model year compared to 87 percent for 2017. Although similar industry data is not available for Europe, we estimate aluminum wheel penetration continues to marginally increase year-over-year with further opportunity to increase. Several factors can affect the aluminum wheel penetration rate including price, fuel economy requirements and styling preferences. Although aluminum wheels are currently more costly than steel, aluminum is a lighter material than steel, which is desirable for fuel efficiency, better ride & handling and generally viewed as aesthetically superior to steel and, thus, more desirable to the OEMs and their customers.

Research and Development

Our policy is to continuously review, improve and develop our engineering capabilities to satisfy our customer requirements in the most efficient and cost-effective manner available. We strive to achieve this objective by attracting and retaining top engineering talent and by maintaining the latest state-of-the-art computer technology to support engineering development. Fully developed engineering centers located in Fayetteville, Arkansas, and in Lüdenscheid, Germany support our research and development. We also have a technical sales function at our corporate headquarters in Southfield, Michigan that maintains a complement of engineering staff located near some of our largest customers headquarters and engineering and purchasing offices. Aftermarket wheels are developed in Bad Dürkheim.

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Research and development costs (primarily engineering and related costs), which are expensed as incurred, are included in cost of sales in our consolidated income statements. Research and development costs during each of the last three years were $5.7 million in 2018, $7.7 million in 2017 and $3.8 million in 2016.

Government Regulation

Safety standards in the manufacture of vehicles and automotive equipment have been established under the National Traffic and Motor Vehicle Safety Act of 1966, as amended. We believe that we are in compliance with all federal standards currently applicable to OEM suppliers and to automotive manufacturers.

Environmental Compliance

Our manufacturing facilities, like most other manufacturing companies, are subject to solid waste, water and air pollution control standards mandated by federal, state and local laws. Violators of these laws are subject to fines and, in extreme cases, plant closure. We believe our facilities are in material compliance with all presently applicable standards. The cost of environmental compliance was approximately $0.7 million in 2018, $0.6 million in 2017 and $0.4 million in 2016. We expect that future environmental compliance expenditures will approximate these levels and will not have a material effect on our consolidated financial position or results of operations. However, climate change legislation or regulations restricting emission of greenhouse gases could result in increased operating costs and reduced demand for the vehicles that use our products. See also Item 1A, Risk Factors - We are subject to various environmental laws of this Annual Report.

Employees

As of December 31, 2018, we had approximately 8,000 full-time employees and 260 contract employees compared to 7,800 full-time employees and 350 contract employees at December 31, 2017. As of December 31, 2016, we had approximately 4,189 full-time employees and 682 contract employees. None of our employees in North America are covered by a collective bargaining agreement. Superior Industries Europe AG s (SEAG s) subsidiary, Superior Industries Production Germany GmbH (SPG), is a member of the employers association for the metal and electronic industry in North Rhine-Westphalia e.V. (Metall und Elektro-Industrie NORDRHEIN-WESTPFALEN e.V.) and is subject to various collective bargaining agreements entered into by the employers association with the trade union IG Metall. These collective bargaining agreements include provisions relating to wages, holiday, and partial retirement. It is estimated that approximately 432 employees of SEAG employed at SPG in Germany were unionized and/or subject to collective bargaining agreements in 2018. SPG and Superior Industries Automotive Germany GmbH (operating a joint workers council) operate a statutory workers council and Superior Industries Production (Poland) Sp. z o.o. (SPP) operates a voluntary workers council.

Fiscal Year End

Fiscal year 2018 started on January 1, 2018 and ended December 31, 2018. The fiscal year for 2017 consisted of the 53-week period ended December 31, 2017. Thus, 2018 reflects one less calendar week of North America operations than in 2017. The 2016 fiscal year consisted of the 52-week period ended on December 25, 2016. Historically our fiscal year ended on the last Sunday of the calendar year. While our European operations historically reported on a calendar year end, these fiscal periods aligned as of December 31, 2017. Beginning in 2018, both our North American and European operations are on a calendar fiscal year with each month ending on the last day of the calendar month. For convenience of presentation, all fiscal years are referred to as beginning as of January 1, and ending as of December 31, but actually reflect our financial position and results of operations for the periods described above.

Segment Information

We have aligned our executive management structure, organization and operations to focus on our performance in our North American and European regions. Financial information about our operating segments is contained in

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Note 6, Business Segments in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data of this Annual Report.

Seasonal Variations

The automotive industry is cyclical and varies based on the timing of consumer purchases of vehicles, which in turn varies based on a variety of factors such as general economic conditions, availability of consumer credit, interest rates and fuel costs. While there have been no significant seasonal variations in the past few years, production schedules in our industry can vary significantly from quarter to quarter to meet the scheduling demands of our customers. Typically, our aftermarket business experiences two seasonal peaks, which require substantially higher levels of production. The higher demand for aftermarket wheels from our customers occurs in March and October leading into the spring and winter peak consumer selling seasons.

History

We were initially incorporated in Delaware in 1969. Our entry into the OEM aluminum wheel business in 1973 resulted from our successful development of manufacturing technology, quality control and quality assurance techniques that enabled us to satisfy the quality and volume requirements of the OEM market for aluminum wheels. The first aluminum wheel for a domestic OEM customer was a Mustang wheel for Ford. We reincorporated in California in 1994, and in 2015, we moved our headquarters from Van Nuys, California to Southfield, Michigan and reincorporated in Delaware. On May 30, 2017, we acquired a majority interest in Uniwheels AG, which is a European supplier of OEM and aftermarket aluminum wheels. Uniwheels AG was renamed in 2018 to Superior Industries Europe AG. Our stock is traded on the New York Stock Exchange under the symbol SUP.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q and any amendments thereto are available, without charge, on or through our website, www.supind.com, under Investor Relations, as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC). Also included on our website, www.supind.com, under Investor Relations, is our Code of Conduct, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Copies of all SEC filings and our Code of Conduct are also available, without charge, upon request from Superior Industries International, Inc., Shareholder Relations, 26600 Telegraph Road, Suite 400, Southfield, Michigan 48033.

The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference in this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements, which may be important to understanding any statement in this Annual Report or elsewhere. The following information should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Item 8, Financial Statements and Supplementary Data of this Annual Report.

Our business routinely encounters and addresses risks and uncertainties. Our business, results of operations, financial condition and cash flows could be materially adversely affected by the factors described below. Discussion about the important operational risks that our business encounters can also be found in the MD&A section and in the business description in Item 1, Business of this Annual Report. Below, we have described our present view of the most significant risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently do not consider significant, could also potentially impair our business, results of operations, financial condition and cash flows. Our reactions to these risks and uncertainties as well as our competitors and customers reactions will affect our future operating results.

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The automotive industry is cyclical and volatility in the automotive industry could adversely affect our financial performance.

Substantially all our sales are made to the European and U.S. automotive markets. Therefore, our financial performance depends largely on conditions in the European and U.S. automotive industry, which in turn can be affected significantly by broad economic and financial market conditions. Consumer demand for automobiles is subject to considerable volatility as a result of consumer confidence in general economic conditions, levels of employment, prevailing wages, fuel prices and the availability and cost of consumer credit, as well as changing consumer preferences. 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. Decreases in demand for automobiles in Europe and the United States could adversely affect the valuation of our productive assets, results of operations, financial condition and cash flows.

A limited number of customers represent a large percentage of our sales. The loss of a significant customer or decrease in demand could adversely affect our operating results.

Ford, GM, Toyota, VW Group, together, represented 56 percent in 2018, 60 percent in 2017 and 82 percent of our sales in 2016. Despite the decrease in the combined percentage of our four largest customers in 2018 and 2017, a loss of a significant customer or decrease in demand still remains a risk. Our OEM customers are not required to purchase any minimum amount of products from us. Increasingly global procurement practices, the pace of new vehicle introduction and demand for price reductions may make it more difficult to maintain long-term supply arrangements with our customers, and there are no guarantees that we will be able to negotiate supply arrangements with our customers on terms acceptable to us in the future. The contracts we have entered into with most of our customers provide that we will manufacture wheels for a particular vehicle model, rather than manufacture a specific quantity of products. Such contracts range from one year to the life of the model (usually three to five years), typically are non-exclusive and do not require the purchase by the customer of any minimum number of wheels from us. Therefore, a significant decrease in consumer demand for certain key models or group of related models sold by any of our major customers, or a decision by a manufacturer not to purchase from us, or to discontinue purchasing from us, for a particular model or group of models, could adversely affect our results of operations, financial condition and cash flows.

We operate in a highly competitive industry and efforts by our competitors to gain market share could adversely affect our financial performance.

The global automotive component supply industry is highly competitive. Competition is based on a number of factors, including delivery, overall customer service, price, quality, technology and available capacity to meet customer demands. Some of our competitors are companies, or divisions or subsidiaries of companies, which are larger and have greater financial and other resources than we do. We cannot ensure that our products will be able to compete successfully with the products of these competitors. In particular, our ability to increase manufacturing capacity typically requires significant investments in facilities, equipment and personnel. The majority of our operating facilities are at full or near to full capacity levels which may cause us to incur labor costs at premium rates in order to meet customer requirements, experience increased maintenance expenses or require us to replace our machinery and equipment on an accelerated basis. Furthermore, the nature of the markets in which we compete has attracted new entrants, particularly from low-cost countries. As a result, our sales levels and margins continue to be adversely affected by pricing pressures reflective of significant competition from producers located in low-cost foreign markets, such as China, Morocco, and Turkey. Such competition with lower cost structures poses a significant threat to our ability to compete internationally and domestically. These factors have led to our customers awarding business to foreign competitors in the past, and they may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately, develop products that are superior to our products, have the ability to produce similar products at a lower cost or adapt more quickly to new technologies or evolving customer requirements. Consequently, our products may not be able to compete successfully with competitors products.

We experience continual pressure to reduce costs.

The global vehicle market is highly competitive at the OEM level, which drives continual cost-cutting initiatives by our customers. Customer concentration, relative supplier fragmentation and product commoditization have translated into continual pressure from OEMs to reduce the price of our products. It is possible that pricing pressures beyond our expectations could intensify as OEMs pursue restructuring and cost-cutting initiatives. If we are unable to generate sufficient production cost savings in the future to offset such price reductions, our gross margin and cash flows could be adversely affected. In addition, changes in OEMs purchasing policies or payment practices could have an adverse effect on our business. Our OEM customers typically attempt to qualify more than one supplier for the programs we participate on and for programs we may bid on in the future. As such, our OEM customers are able to negotiate favorable pricing or may decrease wheel orders from us. Such actions may result in decreased sales volumes and unit price reductions for the Company, resulting in lower revenues, gross profit, operating income and cash flows.

We may be unable to successfully implement cost-saving measures or achieve expected benefits under our plans to improve operations.

As part of our ongoing focus to provide high quality products, we continually analyze our business to further improve our operations and identify cost-cutting measures. We may be unable to successfully identify or implement plans targeting these initiatives, or fail to realize the benefits of the plans we have already implemented, as a result of operational difficulties, a weakening of the economy or other factors. Cost reductions may not fully offset decreases in the prices of our products due to the time required to develop and implement cost reduction initiatives. Additional factors such as inconsistent customer ordering patterns, increasing product complexity and heightened quality standards are making it increasingly more difficult to reduce our costs. It is possible that the costs we incur to implement improvement strategies may negatively impact our financial position, results of operations and cash flow.

We may be unable to successfully launch new products and/or achieve technological advances.

In order to compete effectively in the automotive supply industry, we must be able to launch new products and adopt technology to meet our customers demands in a timely manner. However, we cannot ensure that we will be able to install and certify the equipment needed for new product programs in time for the start of production, or that the transitioning of our manufacturing facilities and resources under new product programs will not impact production rates or other operational efficiency measures at our facilities. In addition, we cannot ensure that our customers will execute the launch of their new product programs on schedule. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and customer approvals. For example, we recently completed the construction of a Physical Vapor Deposition (PVD) finishing facility. PVD is a wheel coating process that creates a bright chrome-like surface in a more environmentally friendly manner than traditional chrome plating. Various commercial opportunities are being evaluated, while at the same time this facility continues to undergo trial testing to meet customer quality criteria. As a result, existing purchase orders for the PVD process will continue to be satisfied using alternative finishing processes. The global automotive industry is experiencing a period of significant technological change. As a result, the success of our business requires us to develop and/or incorporate leading technologies, including PVD and other finishing capabilities such as surface printing, laser etching, and 5-Axis milling. Such technologies are subject to rapid obsolescence and may not be proven feasible on a volume production basis, have a demand with our customers, meet our customer s specifications or prove profitable to us. Our failure to satisfy any of these criteria with respect to a particular technology could result in our not pursuing the development of that technology, expensing any unamortized investment costs and abandoning or seeking an alternative use for any impacted technology. Our inability to maintain access to these technologies (either through development or licensing) may adversely affect our ability to compete. If we are unable to successfully develop new technologies, differentiate our products, maintain a low-cost footprint or compete effectively with technology-focused new market entrants, we may lose market share or be forced to reduce prices, thereby lowering our margins. Any such occurrences could adversely affect our financial condition, operating results and cash flows.

International trade agreements and our international operations make us vulnerable to risks associated with doing business in foreign countries that can affect our business, financial condition and results of operations.

We manufacture a substantial portion of our products in Mexico, Germany and Poland and we sell our products internationally. Accordingly, unfavorable changes in foreign cost structures, trade protection laws, tariffs on aluminum, regulations and policies affecting trade and investments and social, political, labor or economic conditions in a specific country or region, among other factors, could have a negative effect on our business and results of operations. Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines, criminal sanctions, prohibitions on the conduct of our business and damage to our reputation. Although we have policies, controls and procedures designed to ensure compliance with these laws, our employees, contractors, or agents may violate our policies.

As a result of changes to U.S. administrative policy, among other possible changes, there may be (i) changes to existing trade agreements, such as the North American Free Trade Agreement (NAFTA) and its anticipated successor agreement, the U.S.-Mexico-Canada Agreement (USMCA), which is still subject to approval by the United States, Mexico and Canada; (ii) greater restrictions on free trade generally; and (iii) significant increases in tariffs on goods imported into the United States, particularly tariffs on products manufactured in Mexico. It remains unclear what the U.S. administration or foreign governments, including China, will or will not do with respect to tariffs, NAFTA, USMCA or other international trade agreements and policies. A trade war, other governmental action related to tariffs or international trade agreements, changes in United States social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently manufacture and sell products, and any resulting negative sentiments towards the United States as a result of such changes, likely would have an adverse effect on our business, financial condition, results of operations and cash flows.

Cost of manufacturing our products in Mexico, Germany and Poland may be affected by tariffs imposed by the United States, trade protection laws, policies and other regulations affecting trade and investments, social, political, labor, or general economic conditions. Other factors that can affect the business and financial results of our Mexican, German, Polish and U.S. operations include, but are not limited to, changes in cost structures, currency effects of the Mexican Peso, Euro and Polish Zloty, availability and competency of personnel and tax regulations.

Fluctuations in foreign currencies may adversely impact our financial results.

Due to our operations outside of the United States, we experience exposure to foreign currency gains and losses in the ordinary course of our business. We settle transactions between currencies - i.e., in particular, Mexican Peso to U.S. dollar, Euro to U.S. dollar and Euro to Polish Zloty. To the extent possible, we attempt to match the timing and magnitude of transaction settlements between currencies to create a natural hedge. Based on our current business model and levels of production and sales activity, the net imbalance between currencies depends on specific circumstances. While changes in the terms of the contracts with our customers will create an imbalance between currencies that we hedge with foreign currency forward or option contracts, there can be no assurances that our hedging program will effectively offset the impact of the imbalance between currencies or that the net transaction balance will not change significantly in the future.

The foreign currency forward or option contracts we enter into with financial institutions are designed to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions and forecasted future cash flows. We have a program to hedge a portion of our material foreign exchange exposures, typically for up to 48 months. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There is no guarantee that our hedge program will effectively mitigate our exposures to foreign exchange changes which could have material adverse effects on our cash flows and results of operations.

Fluctuations in foreign currency exchange rates may also affect the value of our foreign assets as reported in U.S. dollars, and may adversely affect reported earnings and, accordingly, the comparability of period-to-period results of operations. Changes in currency exchange rates may affect the relative prices at which we and our foreign competitors sell products in the same market. In addition, changes in the value of the relevant currencies may affect the cost of certain items required in our operations. We cannot ensure that fluctuations in exchange rates will not otherwise have a material adverse effect on our financial condition or results of operations or cause significant fluctuations in quarterly and annual results of operations.

Our substantial indebtedness could adversely affect our financial condition

We have a significant amount of indebtedness. As of December 31, 2018, our total debt was $684.9 million ($664.5 million, net of unamortized debt issuance costs of $20.4 million), and we had availability of $156.6 million under the Senior Secured Credit Facilities, as well as 30.0 million Euros under a secured European revolving line of credit. The interest expense on indebtedness will remain significantly higher than historical interest expense (in particular, relative to the time prior to the acquisition of the European Operations) and could adversely affect our financial condition.

Subject to the limits contained in the Credit Agreement governing the Senior Secured Credit Facilities and the indenture governing the Notes (the Indenture) and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify.

In addition, the Indenture and the Credit Agreement governing the Senior Secured Credit Facilities and our other debt instruments contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of the maturity of all of our debt.

We may not be able to generate sufficient cash to service all of our indebtedness, including the Notes or our redeemable preferred stock, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations or redeemable preferred stock depends on our financial and operating performance, which is subject to prevailing economic, industry and competitive conditions and to certain financial, business, economic and other factors beyond our control. We may not be able to maintain a sufficient level of cash flow from operating activities to permit us to pay the principal, premium, if any, and interest on the Notes, redeemable preferred stock and our other indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, including payments with respect to our redeemable preferred stock, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or seek to restructure or refinance our indebtedness, including the Notes. Our ability to restructure or refinance our debt will depend on the condition of the capital and credit markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. In addition, any failure to make payments of interest and principal on our outstanding indebtedness and redeemable preferred stock on a timely basis would likely result in a reduction of our credit

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rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations, including (i) redemption of our redeemable preferred stock at a redemption price of $300.0 million (2.0 times stated value) or the product of the number of common shares into which the redeemable preferred stock could be converted (5.3 million shares currently) and the then current market price of our common stock and (ii) the repurchase of the Notes or redemption of the redeemable preferred stock upon a change of control or repurchase of the Notes upon sales of certain assets. In the absence of such cash flows and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The Credit Agreement governing the Senior Secured Credit Facilities and the Indenture restrict our ability to conduct asset sales and/or use the proceeds from asset sales. We may not be able to consummate these asset sales to raise capital or sell assets at prices and on terms that we believe are fair, and any proceeds that we do receive may not be adequate to meet any debt service obligations then due, including payments due with respect to our redeemable preferred stock. If we cannot meet our debt service obligations, the holders of our debt may accelerate our debt and, to the extent such debt is secured, foreclose on our assets. In such an event, we may not have sufficient assets to repay all of our debt.

The terms of the Credit Agreement governing the Senior Secured Credit Facilities, the Indenture, and other debt instruments, as well as the documents governing other debt that we may incur in the future may, restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The Indenture, the Credit Agreement governing the Senior Secured Credit Facilities, and our other debt instruments, and the documents governing other debt that we may incur in the future may, contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- create or incur liens;
- engage in mergers or consolidations or sell all or substantially all of our assets;
- sell, transfer or otherwise dispose of assets;
- make investments, acquisitions, loans or advances or other restricted payments;
- pay dividends or distributions, repurchase our capital stock or make certain other restricted payments;
- prepay, redeem, or repurchase any subordinated indebtedness;
- designate our subsidiaries as unrestricted subsidiaries;

enter into agreements which limit the ability of our non-guarantor subsidiaries to pay dividends or make other payments to us; and enter into certain transactions with our affiliates.

In addition, the restrictive covenants in the Credit Agreement governing the Senior Secured Credit Facilities and other debt instruments require us to maintain specified financial ratios and satisfy other financial condition tests to the extent subject to certain financial covenant conditions. Our ability to meet those financial ratios and tests can be affected by events beyond our control. We may not meet those ratios and tests.

A breach of the covenants or restrictions under the Indenture governing the Notes, under the Credit Agreement governing the Senior Secured Credit Facilities, or under other debt instruments could result in an event of default under the applicable indebtedness. Such a default may allow the creditors under such facility to accelerate the related debt, which may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the Credit Agreement governing our Senior Secured Credit Facilities would permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable

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under the Senior Secured Credit Facilities or under other secured debt instruments, those lenders could proceed against the collateral granted to them to secure that indebtedness. We have pledged substantially all of our assets as collateral under the Senior Secured Credit Facilities. In the event our lenders or holders of the Notes accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness or be able to borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms acceptable to us. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities. These restrictions, along with restrictions that may be contained in agreements evidencing or governing other future indebtedness, may affect our ability to grow or pursue other important initiatives in accordance with our growth strategy.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our Senior Secured Credit Facilities are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. As of December 31, 2018, approximately $382.8 million of our debt was variable rate debt. Our anticipated annual interest expense on $382.8 million variable rate debt at the current rate of 6.3 percent would be $24.1 million. We have entered into interest rate swaps exchanging floating for fixed rate interest payments in order to reduce interest rate volatility. As of December 31, 2018, we have executed interest rate swaps for $90.0 million, maturing $25.0 million March 31, 2019, $30.0 million September 30, 2019, and $35.0 million December 31, 2019. In addition, on January 10, 2019 we entered into additional interest rate swaps for $200 million, maturing $50 million September 30, 2022 and $150 million December 31, 2022. In the future, we may again enter into interest rate swaps to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

In addition, the interest rates under our Senior Secured Credit Facilities are calculated using LIBOR. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021 and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, a comparable or successor reference rate as approved by the Administrative Agent under the Credit Agreement will apply or such other reference rate as may be agreed by the Company and the lenders under the Credit Agreement. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

We are subject to taxation related risks in multiple jurisdictions.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Significant judgment is required in determining our global provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions on a worldwide basis. While we believe our tax positions are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be overturned by jurisdictional tax authorities, which may have a significant impact on our global provision for income taxes. Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. We are also subject to ongoing tax audits. These audits can involve complex issues, which may require an extended period of time to resolve and can be highly subjective. Tax authorities may disagree with certain tax reporting positions taken by us and, as a result, assess additional taxes against us. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision.

In December 2017, the Tax Cuts and Jobs Act (The Act) was signed into law, effective January 1, 2018. The Act, among other things, contains significant changes to corporate taxation, including the reduction of the corporate tax rate from 35 percent to 21 percent, a one-time transition tax on offshore earnings at reduced tax rates regardless of whether earnings are repatriated, the elimination of U.S. tax on foreign dividends (subject to certain important exceptions), new taxes on certain foreign earnings Global Intangible Low-Taxed Income (GILTI), limitations on deductibility of interest expense, immediate deductions for certain new investments and the modification or repeal of many business deductions and credits.

In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. The impact of tax reform in the United States or other foreign tax law changes could result in an overall tax rate increase to our business.

Increases in the costs and restrictions on availability of raw materials could adversely affect our operating margins and cash flow.

Generally, we obtain our raw materials, supplies and energy requirements from various sources. Although we currently maintain alternative sources, our business is subject to the risk of price increases and periodic delays in delivery. Fluctuations in the prices of raw materials may be driven by the supply and demand for that commodity or governmental regulation, including trade laws and tariffs. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of raw materials could be adversely affected.

Although we are able to periodically pass certain aluminum cost increases on to our customers, we may not be able to pass along all changes in aluminum costs, or there may be a delay in passing the aluminum costs onto our customers. Our customers are not obligated to accept energy or other supply cost increases that we may attempt to pass along to them. This inability to pass on these cost increases to our customers could adversely affect our operating margins and cash flow.

Aluminum and alloy pricing may have a material effect on our operating margins and cash flows.

The cost of aluminum is a significant component in the overall cost of a wheel and in our selling prices to customers. The price for aluminum we purchase is adjusted based on changes in certain published market indices, but the timing of price adjustments is based on specific customer agreements and can vary from monthly to quarterly. As a result, the timing of aluminum price adjustments with customers flowing through sales rarely will match the timing of such changes in cost and can result in fluctuations to our gross profit. This is especially true during periods of frequent increases or decreases in the market price of aluminum.

The aluminum we use to manufacture wheels also contains additional alloy materials, including silicon. The cost of alloying materials is also a component of the overall cost of a wheel. The price of the alloys we purchase is also based on certain published market indices; however, most of our customer agreements do not provide price adjustments for changes in market prices of alloying materials. Increases or decreases in the market prices of these alloying materials could have a material effect on our operating margins and cash flows.

There is a risk of discontinuation of the E.U. anti-dumping duty from China which may increase the competitive pressure from Chinese producers, including in the aftermarket.

In 2010, the European Commission imposed provisional anti-dumping duties of 22.3 percent on imports of aluminum road wheels from China after a complaint of unfair competition from European manufacturers. The European Commission argued that the EU manufacturers had suffered a significant decrease in production and sales, and a loss of market share, as well as price depression due to cheaper imports from China. On January 23, 2017, the European Commission decided to maintain the anti-dumping duties (Commission Implementing Regulation (EU) 2017/109) for another five-year period. The anti-dumping duties protect the EU producers until January 24, 2022. After this date, the competitive pressures from Chinese producers, which have cost advantages, primarily in the aftermarket, may adversely affect the Company s financial condition, results of operations and cash flows.

We are subject to various environmental laws.

We incur costs to comply with applicable environmental, health and safety laws and regulations in the ordinary course of our business. We cannot ensure that we have been or will be at all times in complete compliance with such laws and regulations. Failure to be in compliance with such laws and regulations could result in material fines or sanctions. Additionally, changes to such laws or regulations may have a significant impact on our cash flows, financial condition and results of operations.

We are also subject to various foreign, federal, state and local environmental laws, ordinances and regulations, including those governing discharges into the air and water, the storage, handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances or wastes and the health and safety of our employees. The nature of our current and former operations and the history of industrial uses at some of our facilities expose us to the risk of liabilities or claims with respect to environmental and worker health and safety matters which could have a material adverse effect on our financial condition. In addition, some of our properties are subject to indemnification and/or cleanup obligations of third parties with respect to environmental matters. However, in the event of the insolvency or bankruptcy of such third parties, we could be required to assume the liabilities that would otherwise be the responsibility of such third parties.

Further, changes in legislation or regulation imposing reporting obligations on, or limiting emissions of greenhouse gases from, or otherwise impacting or limiting our equipment and operations or from the vehicles that use our products could adversely affect demand for those vehicles or require us to incur costs to become compliant with such regulations.

We are from time to time subject to litigation, which could adversely impact our financial condition or results of operations.

The nature of our business exposes us to litigation in the ordinary course of our business. We are exposed to potential product liability and warranty risks that are inherent in the design, manufacture and sale of automotive products, the failure of which could result in property damage, personal injury or death. Accordingly, individual or class action suits alleging product liability or warranty claims could result. Although we currently maintain what we believe to be suitable and adequate product liability insurance in excess of our self-insured amounts, we cannot guarantee that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against future liabilities. In addition, if any of our products prove to be defective, we may be required to participate in a recall. A successful claim brought against us in excess of available insurance coverage, if any, or a requirement to participate in any product recall, could have a material adverse effect on our results of operations, financial condition or cash flows.

Our business requires extensive product development activities to launch new products. Accordingly, there is a risk that wheels under development may not be ready by the start of production (SOP) or may fail to meet the customer s specifications. In any such case, warranty or compensation claims might be raised, or litigation might

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be commenced, against the Company. Moreover, the Company could lose its reputation of an entrepreneur actively developing new and innovative solutions, which in turn could affect the volume of orders, particularly orders for new designs.

Moreover, there are risks related to civil liability under our customer supply contracts (civil liability clauses in contracts with customers, contractual risks related to civil liability for causing delay in production launch, etc.). If we fail to ensure production launch as and when required by the customer, thus jeopardizing production processes at the customer s facilities, this could lead to increased costs, giving rise to recourse claims against, or causing loss of orders by the Company. This could also have an adverse effect on our financial condition, results of operations or cash flows.

If we do not successfully manage the transition associated with the retirement of our former Chief Executive Officer and the appointment of a new Chief Executive Officer, it could be viewed negatively by our customers and shareholders and could have an adverse impact on our business.

In December 2018, Donald J. Stebbins retired from his position as our President and Chief Executive Officer. Timothy C. McQuay, the Chairman of the Board, is serving as the Executive Chairman. The Board has an active search process underway to select the next Chief Executive Officer from internal and external candidates. If we are unable to attract and retain a qualified candidate to become our Chief Executive Officer in a timely manner, our ability to meet our financial and operational goals and strategic plans, as well as our financial performance, may be adversely impacted. It may also make it more difficult to retain and hire key employees. In addition, such leadership transitions can be inherently difficult to manage, and a poorly executed transition involving our new Chief Executive Officer may cause disruption to our business, including to our relationships with customers, vendors and employees.

Labor-related disruptions involving us or one or more of our customers or suppliers may adversely affect our operations.

Our business is labor-intensive. Although we consider our current relations with our employees to be good, if major work disruptions were to occur, our ability to operate our business could be harmed. A labor dispute involving us or one or more of our customers or our suppliers or our customers suppliers, or that could otherwise affect our operations could reduce our sales and our profitability. A labor dispute involving any of our customers or our customers suppliers that results in a slowdown or a closure of our customers assembly plants where our products are included in the assembled parts or vehicles could also adversely affect our business and harm our profitability.

We may be unable to attract and retain key personnel.

Our success depends, in part, on our ability to attract, hire, train and retain qualified managerial, operational, engineering, sales and marketing personnel. We face significant competition for these types of employees in our industry. We may be unsuccessful in attracting and retaining the personnel we require to conduct our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends, to a significant extent, on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced senior employees could impair our ability to execute our business plans and strategic initiatives, cause us to lose customers and experience reduced net sales, or lead to employee morale problems and/or the loss of other key employees.

A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems, as well as those of our customers, suppliers and other service providers could be breached or damaged by computer viruses, malware, phishing attacks,