STONERIDGE INC
Form 10-Q
May 10, 2010

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

FORM 10-Q

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

For the quarter ended March 31, 2010

OR

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

For the transition period from________to ________

Commission file number: 001-13337

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 April 23, 2010 was 25,968,765.

STONERIDGE, INC. AND SUBSIDIARIES

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PART I–FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 80,048	$ 91,907
Accounts receivable, less reserves of $1,755 and $2,350, respectively	103,172	81,272
Inventories, net	45,632	40,244
Prepaid expenses and other	18,534	17,247
Total current assets	247,386	230,670
Long-Term Assets:		
Property, plant and equipment, net	75,513	76,991
Investments and other, net	52,623	54,864
Total long-term assets	128,136	131,855
Total Assets	$ 375,522	$ 362,525
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 59,482	$ 50,947
Accrued expenses and other liabilities	45,408	36,827
Total current liabilities	104,890	87,774
Long-Term Liabilities:		
Long-term debt	183,362	183,431
Other long-term liabilities	9,610	17,263
Total long-term liabilities	192,972	200,694
Shareholders' Equity:		
Preferred Shares, without par value, authorized 5,000 shares, none issued	-	-
Common Shares, without par value, authorized 60,000 shares, issued 25,969 and 25,301 shares and outstanding 25,475 and 25,000 shares, respectively, with no stated value	-	-
Additional paid-in capital	159,401	158,748
Common Shares held in treasury, 494 and 301 shares, respectively, at cost	(379)	(292)
Accumulated deficit	(90,054)	(91,560)
Accumulated other comprehensive income	4,223	2,669
Total Stoneridge, Inc. and Subsidiaries shareholders' equity	73,191	69,565
Noncontrolling interest	4,469	4,492
Total shareholders' equity	77,660	74,057

Total Liabilities and Shareholders' Equity	$	375,522	$	362,525

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

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Net Sales	$ 148,074	$ 121,085
Costs and Expenses:		
Cost of goods sold	114,547	101,810
Selling, general and administrative	29,487	27,077
Restructuring charges	81	958
Operating Income (Loss)	3,959	(8,760)
Interest expense, net	5,606	5,497
Equity in earnings of investees	(691)	(575)
Other expense (income), net	(950)	6
Loss Before Income Taxes	(6)	(13,688)
Benefit from income taxes	(1,489)	(2,108)
Net Income (Loss)	1,483	(11,580)
Net Loss Attributable to Noncontrolling Interest	(23)	-
Net Income (Loss) Attributable to Stoneridge, Inc. and Subsidiaries	$ 1,506	$ (11,580)
Basic net income (loss) per share	$ 0.06	$ (0.49)
Basic weighted average shares outstanding	23,880	23,464
Diluted net income (loss) per share	$ 0.06	$ (0.49)
Diluted weighted average shares outstanding	24,324	23,464

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

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,483	$ (11,580)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities -		
Depreciation	4,753	5,061
Amortization	279	239
Deferred income taxes	(1,871)	(2,506)
Earnings of equity method investees, less dividends received	(691)	(575)
(Gain) loss on sale of fixed assets	(19)	2
Share-based compensation expense, net	231	564
Changes in operating assets and liabilities -		
Accounts receivable, net	(22,441)	9,424
Inventories, net	(5,811)	6,055
Prepaid expenses and other	899	(399)
Accounts payable	8,709	(7,236)
Accrued expenses and other	7,206	2,149
Net cash provided by (used for) operating activities	(7,273)	1,198
INVESTING ACTIVITIES:		
Capital expenditures	(3,619)	(3,945)
Proceeds from sale of fixed assets	20	92
Net cash used for investing activities	(3,599)	(3,853)
FINANCING ACTIVITIES:		
Share-based compensation activity	294	-
Revolving credit facility borrowings, net	214	-
Repayments of debt	(70)	-
Net cash provided by financing activities	438	-
Effect of exchange rate changes on cash and cash equivalents	(1,425)	(860)
Net change in cash and cash equivalents	(11,859)	(3,515)
Cash and cash equivalents at beginning of period	91,907	92,692
Cash and cash equivalents at end of period	$ 80,048	$ 89,177

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

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

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Stoneridge, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). The information furnished in these 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 months ended March 31, 2010 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, 2009.

(2) Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for approximately 73% and 69% of the Company's inventories at March 31, 2010 and December 31, 2009, respectively, and by the first-in, first-out method for all other inventories. The Company adjusts its excess and obsolescence reserve at least on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines and judgments for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. Inventory cost includes material, labor and overhead. Inventories consist of the following:

	March 31, 2010	December 31, 2009
Raw materials	$ 27,064	$ 26,118
Work-in-progress	9,071	9,137
Finished goods	13,097	8,226
Total inventories	49,232	43,481
Less: LIFO reserve	(3,600)	(3,237)
Inventories, net	$ 45,632	$ 40,244

(3) Fair Value of Financial Instruments

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The estimated fair value of the Company's senior notes (fixed rate debt) at March 31, 2010 and December 31, 2009, per quoted market sources, was $183.2 million and $180.3 million, respectively. The carrying value of the Company's senior notes was $183.0 million as of March 31, 2010 and December 31, 2009.

Derivative Instruments and Hedging Activities

The Company currently has open foreign currency forward contracts. 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 strong credit ratings.

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The Company conducts business internationally and therefore is exposed to foreign currency exchange risk. The Company uses derivative financial instruments as cash flow hedges to mitigate its exposure to fluctuations in foreign currency exchange rates by reducing the 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, Swedish krona and Mexican peso. In certain instances, the foreign currency forward contracts are marked to market, with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other expense (income), net. The Company's foreign currency forward contracts substantially offset gains and losses on the underlying foreign currency denominated transactions. At December 31, 2009, the Company held foreign currency forward contracts to reduce the exposure related to the Company's British pound-denominated intercompany receivables. This contract expired in January 2010. As of March 31, 2010, the Company held foreign currency forward contracts to reduce the exposure related to the Company's Euro-denominated intercompany receivables. This contract expires in July 2010. In addition, at March 31, 2010 the Company held a foreign currency hedge contract to reduce the exposure related to the Company's Swedish krona-denominated intercompany receivables. This contract also expires in July 2010. For the three months ended March 31, 2010, the Company recognized a $1,750 gain related to the Euro and Swedish krona contracts in the condensed consolidated statement of operations as a component of other expense (income), net. The Company also holds contracts intended to reduce exposure to the Mexican peso. These contracts were executed to hedge forecasted transactions, and therefore the contracts are accounted for as cash flow hedges. These Mexican peso-denominated foreign currency option contracts expire monthly throughout 2010. The effective portion of the unrealized gain or loss is deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive income. The Company's expectation is that the cash flow hedges will be highly effective in the future. The effectiveness of these cash flow hedges has been and will be measured on an ongoing basis using regression analysis.

In 2009, to mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company entered into fixed price commodity swaps with a financial institution to fix the cost of copper purchases. In September 2008, the Company entered into a fixed price swap contract for 1.4 million pounds of copper, which expired monthly throughout 2009. Because this contract was executed to hedge forecasted transactions, the contract was accounted for as a cash flow hedge.

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

	Notional amounts1		Prepaid expenses and other assets		Accrued expenses and other liabilities	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Derivatives designated as hedging instruments:						
Forward currency contracts	$ 31,748	$ 43,877	$ 3,539	$ 1,710	$ -	$ -
Derivatives not designated as hedging instruments:						
Forward currency contracts	26,631	8,363	-	34	170	-
Total derivatives	$ 58,379	$ 52,240	$ 3,539	$ 1,744	$ 170	$ -

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Amounts recorded in accumulated other comprehensive income within Shareholders' Equity and in net income for the three months ended March 31, 2010 were as follows:

	Amount of gain recorded in accumulated other comprehensive income	Amount of gain reclassified from accumulated other comprehensive income into net income	Location of gain reclassified from accumulated other comprehensive income into net income
Derivatives designated as cash flow hedges			
Forward currency contracts	$ 2,723	$ 894	Cost of goods sold

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

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.

	March 31, 2010			December 31, 2009
		Fair Value Estimated Using		
	Fair Value	Level 1 inputs(1)	Level 2 inputs(2)	Fair Value
Financial assets carried at fair value				
Available for sale security	$ 256	$ 256	$ -	$ 261
Forward currency contracts	3,539	-	3,539	1,744
Total financial assets carried at fair value	$ 3,795	$ 256	$ 3,539	$ 2,005
Financial liabilities carried at fair value				
Forward currency contracts	$ 170	$ -	$ 170	$ -

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

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

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(4) Share-Based Compensation

Total compensation related expense for share-based compensation arrangements recognized in the condensed consolidated statements of operations as a component of selling, general and administrative expenses was $525 and $564 for the three months ended March 31, 2010 and 2009, respectively. Included within financing activities within the condensed consolidated statement of cash flows for the quarter ended March 31, 2010 is $294 of excess tax benefit expense.

During the quarter ended March 31, 2010, the Company granted 247,950 performance based restricted shares under the Amended and Restated Long-Term Incentive Plan and recognized approximately $81 of expense.

(5) Comprehensive Income (Loss)

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

	Three Months Ended March 31,	
	2010	2009
Net income (loss)		